

**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, 2023

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 27, 2023, there were 23,563,868 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, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 46,981	\$ 31,998
Accounts receivable	35,651	25,143
Real estate inventory	3,056,966	2,898,296
Pre-acquisition costs and deposits	34,661	25,031
Property and equipment, net	41,872	32,997
Other assets	97,238	93,159
Deferred tax assets, net	9,624	6,186
Goodwill	12,018	12,018
Total assets	<u>\$ 3,335,011</u>	<u>\$ 3,124,828</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 67,289	\$ 25,287
Accrued expenses and other liabilities	274,681	340,128
Notes payable	1,190,366	1,117,001
Total liabilities	<u>1,532,336</u>	<u>1,482,416</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 27,503,340 shares issued and 23,563,868 shares outstanding as of September 30, 2023 and 27,245,278 shares issued and 23,305,806 shares outstanding as of December 31, 2022	275	272
Additional paid-in capital	319,795	306,673
Retained earnings	1,837,627	1,690,489
Treasury stock, at cost, 3,939,472 shares as of September 30, 2023 and December 31, 2022	<u>(355,022)</u>	<u>(355,022)</u>
Total equity	<u>1,802,675</u>	<u>1,642,412</u>
Total liabilities and equity	<u>\$ 3,335,011</u>	<u>\$ 3,124,828</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,	
	2023	2022	2023	2022
Home sales revenues	\$ 617,539	\$ 547,074	\$ 1,750,166	\$ 1,816,193
Cost of sales	458,734	391,275	1,350,608	1,270,628
Selling expenses	49,781	33,938	141,811	111,605
General and administrative	26,748	27,284	84,334	84,657
Operating income	82,276	94,577	173,413	349,303
Other income, net	(7,173)	(14,124)	(19,793)	(21,960)
Net income before income taxes	89,449	108,701	193,206	371,263
Income tax provision	22,407	18,311	46,068	78,811
Net income	\$ 67,042	\$ 90,390	\$ 147,138	\$ 292,452
Earnings per share:				
Basic	\$ 2.85	\$ 3.88	\$ 6.24	\$ 12.42
Diluted	\$ 2.84	\$ 3.85	\$ 6.21	\$ 12.29
Weighted average shares outstanding:				
Basic	23,546,061	23,272,811	23,562,374	23,552,211
Diluted	23,640,686	23,488,325	23,696,095	23,805,086

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, 2022	27,245,278	\$ 272	\$ 306,673	\$ 1,690,489	\$ (355,022)	\$ 1,642,412
Net income	—	—	—	26,962	—	26,962
Restricted stock units granted for accrued annual bonuses	—	—	206	—	—	206
Compensation expense for equity awards	—	—	3,103	—	—	3,103
Stock issued under employee incentive plans	226,928	3	1,543	—	—	1,546
BALANCE— March 31, 2023	27,472,206	\$ 275	\$ 311,525	\$ 1,717,451	\$ (355,022)	\$ 1,674,229
Net income	—	—	—	53,134	—	53,134
Compensation expense for equity awards	—	—	2,360	—	—	2,360
Stock issued under employee incentive plans	13,307	—	1,289	—	—	1,289
BALANCE— June 30, 2023	27,485,513	\$ 275	\$ 315,174	\$ 1,770,585	\$ (355,022)	\$ 1,731,012
Net income	—	—	—	67,042	—	67,042
Compensation expense for equity awards	—	—	3,123	—	—	3,123
Stock issued under employee incentive plans	17,827	—	1,498	—	—	1,498
BALANCE— September 30, 2023	27,503,340	\$ 275	\$ 319,795	\$ 1,837,627	\$ (355,022)	\$ 1,802,675

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 CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 147,138	\$ 292,452
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of unconsolidated entities	(8,493)	(3,990)
Distributions of earnings from unconsolidated entities	9,989	3,202
Depreciation and amortization	1,780	1,134
Gain on sale of interest rate cap	—	(7,055)
Gain on disposal of assets	(1,634)	(2,206)
Compensation expense for equity awards	8,586	8,631
Deferred income taxes	(3,438)	(1,439)
Changes in assets and liabilities:		
Accounts receivable	(10,508)	20,459
Real estate inventory	(194,360)	(791,682)
Pre-acquisition costs and deposits	(9,630)	8,592
Other assets	30,873	27,456
Accounts payable	42,002	41,070
Accrued expenses and other liabilities	(34,980)	43,824
Net cash used in operating activities	(22,675)	(359,552)
Cash flows from investing activities:		
Purchases of property and equipment	(848)	(1,057)
Investment in unconsolidated entities	(11,619)	(1,284)
Return of capital from unconsolidated entities	4,871	235
Net cash used in investing activities	(7,596)	(2,106)
Cash flows from financing activities:		
Proceeds from notes payable	335,864	534,876
Payments on notes payable	(260,000)	(110,000)
Proceeds from financing arrangements	50,402	35,858
Payments on financing arrangements	(79,784)	(4,119)
Loan issuance costs	(5,561)	(2,567)
Proceeds from sale of stock, net of offering expenses	4,333	4,858
Stock repurchase	—	(95,102)
Net cash provided by financing activities	45,254	363,804
Net increase in cash and cash equivalents	14,983	2,146
Cash and cash equivalents, beginning of period	31,998	50,514
Cash and cash equivalents, end of period	\$ 46,981	\$ 52,660

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 headquartered in The Woodlands, Texas. We engage in the development of communities and the design, construction and sale of new homes in markets in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, North Carolina, South Carolina, Washington, Tennessee, Minnesota, Oklahoma, Alabama, California, Oregon, Nevada, West Virginia, Virginia, Pennsylvania, Maryland and Utah.

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, 2022. 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, 2023, and for the three and nine months ended September 30, 2023 and 2022, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

2. REAL ESTATE INVENTORY

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

	September 30, 2023	December 31, 2022
Land, land under development and finished lots	\$ 1,965,477	\$ 1,911,307
Information centers	44,276	35,074
Homes in progress	580,802	287,069
Completed homes	347,506	523,054
Total owned inventory	2,938,061	2,756,504
Real estate not owned	118,905	141,792
Total real estate inventory	\$ 3,056,966	\$ 2,898,296

We have 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 as real estate not owned within our inventory and a corresponding obligation was established within our accrued liabilities as discussed in [Note 3](#) to recognize this relationship. While we are not legally obligated to repurchase 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 that we have sold to the land banker and we do not guarantee any of the land banker’s liabilities.

During the nine months ended September 30, 2023, we transferred \$9.8 million of home assets from real estate inventory to rental properties within property and equipment, net. We are lessors of the homes representing these home assets. Our leasing contracts are typically for terms of one year.

3. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2023	December 31, 2022
Land banking financing arrangements	\$ 118,905	\$ 141,792
Real estate inventory development and construction payable	66,052	73,678
Taxes payable	16,321	47,037
Inventory related obligations	12,743	13,039
Accrued compensation, bonuses and benefits	15,935	12,900
Warranty reserve	13,000	10,750
Accrued interest	7,918	10,906
Contract deposits	5,284	5,545
Lease liability	5,311	5,182
Other	13,212	19,299
Total accrued expenses and other liabilities	<u>\$ 274,681</u>	<u>\$ 340,128</u>

Land Banking Financing Arrangements

We have 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 one to three 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,	
	2023	2022	2023	2022
Warranty reserves, beginning of period	\$ 12,150	\$ 9,350	\$ 10,750	\$ 7,850
Warranty provision	2,220	2,985	6,450	8,092
Warranty expenditures	(1,370)	(2,285)	(4,200)	(5,892)
Warranty reserves, end of period	<u>\$ 13,000</u>	<u>\$ 10,050</u>	<u>\$ 13,000</u>	<u>\$ 10,050</u>

4. NOTES PAYABLE

Revolving Credit Agreement

On April 28, 2023, we entered into a Third Amendment to Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Third Amendment"), which amends the 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 (as amended by an amendment dated as of April 29, 2022, the "2022 Credit Agreement" and as further amended by the Third Amendment, the "Credit Agreement"). The Credit

Agreement provides for a \$1.13 billion revolving credit facility, which can be increased at the request of the Company by up to \$170.0 million, subject to the terms and conditions of the Credit Agreement. The Credit Agreement matures on April 28, 2027 with respect to \$775.0 million, or 68.6%, of the \$1.13 billion of commitments thereunder and on April 28, 2025 with respect to 31.4% of the commitments thereunder. The Credit Agreement also permits our subsidiaries that solely own and operate single family rental homes to incur secured indebtedness not to exceed 6% of our tangible net worth, and allows such subsidiaries to not guarantee the obligations under the Credit Agreement. The Credit Agreement otherwise has substantially similar terms and provisions to the 2022 Credit Agreement.

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, other than subsidiaries whose sole purpose is to own and operate single-family rental homes.

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, 2023, the borrowing base under the Credit Agreement is \$1.8 billion of which the maximum available to borrow is \$1.4 billion. As of September 30, 2023, borrowings under the Credit Agreement and the outstanding principal amount of the 2029 Senior Notes totaled \$1.2 billion, \$28.1 million of letters of credit were outstanding and \$196.2 million was available to borrow under the Credit Agreement.

Borrowings under the Credit Agreement bear interest, payable monthly in arrears, at the Company's option, at either (1) the Adjusted Term SOFR (defined as a term SOFR that is based on a fixed 1, 3 or 6 month interest period, 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, or (2) the Base Rate (defined as a term SOFR that is based on a daily variable 1 month interest period plus a 10 basis point adjustment), subject to a 50 basis point floor, plus the Applicable Margin. At September 30, 2023, the Applicable Margin was 1.70%, and SOFR was 5.32%, 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, 2023, 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, 2023	December 31, 2022
Notes payable under the Credit Agreement (\$1.13 billion revolving credit facility at September 30, 2023) maturing in part on April 28, 2025 and in part on April 28, 2027; interest paid monthly at SOFR plus 1.70%	\$ 904,215	\$ 828,350
4.000% Senior Notes due July 15, 2029; interest paid semi-annually at 4.000%	300,000	300,000
Net debt issuance costs	(13,849)	(11,349)
Total notes payable	\$ 1,190,366	\$ 1,117,001

Capitalized Interest

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest incurred	\$ 21,578	\$ 14,583	\$ 62,865	\$ 31,048
Less: Amounts capitalized	(21,578)	(14,583)	(62,865)	(31,048)
Interest expense	\$ —	\$ —	\$ —	\$ —
Cash paid for interest	\$ 23,358	\$ 14,874	\$ 63,114	\$ 29,080

Included in interest incurred was amortization of deferred financing costs and applicable discounts for notes payable and financing arrangements of \$2.4 million and \$0.9 million for the three months ended September 30, 2023 and 2022, respectively, and \$10.6 million and \$2.5 million for the nine months ended September 30, 2023 and 2022, 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, 2023, our effective tax rate of 25.1% is higher than the Federal statutory rate primarily as a result of 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, offset by the federal energy efficient homes tax credits.

For the nine months ended September 30, 2023, our effective tax rate of 23.8% is higher than the Federal statutory rate primarily as a result of 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, offset by a decrease in the rate for the deductions in excess of compensation cost for share-based payments and the federal energy efficient homes tax credits.

Income taxes paid were \$20.2 million and \$3.8 million for the three months ended September 30, 2023 and 2022, respectively. Income taxes paid were \$80.0 million and \$56.2 million for the nine months ended September 30, 2023 and 2022, 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 and nine months ended September 30, 2023, we did not repurchase any shares of our common stock. 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, 2023, 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, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator (in thousands):				
Net income (Numerator for basic and dilutive earnings per share)	\$ 67,042	\$ 90,390	\$ 147,138	\$ 292,452
Denominator:				
Basic weighted average shares outstanding	23,546,061	23,272,811	23,562,374	23,552,211
Effect of dilutive securities:				
Stock-based compensation units	94,625	215,514	133,721	252,875
Diluted weighted average shares outstanding	23,640,686	23,488,325	23,696,095	23,805,086
Basic earnings per share	\$ 2.85	\$ 3.88	\$ 6.24	\$ 12.42
Diluted earnings per share	\$ 2.84	\$ 3.85	\$ 6.21	\$ 12.29
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	1,749	2,396	4,735	10,797

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,			
	2023		2022	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning balance	146,239	\$ 100.93	113,782	\$ 101.42
Granted	40,435	\$ 105.78	1,664	\$ 84.39
Vested	(44,303)	\$ 64.82	(1,006)	\$ 79.84
Forfeited	(6,802)	\$ 114.23	(1,353)	\$ 92.64
Ending balance	135,569	\$ 113.52	113,087	\$ 101.47

We recognized \$1.2 million and \$0.9 million of stock-based compensation expense related to outstanding RSUs for the three months ended September 30, 2023 and 2022, respectively. We recognized \$3.6 million and \$2.8 million of stock-based compensation expense related to outstanding RSUs for the nine months ended September 30, 2023 and 2022, 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, 2023, we had unrecognized compensation cost of \$8.1 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.0 years.

Performance-Based Restricted Stock Units

The Compensation Committee of the Board has granted awards of performance-based RSUs ("PSUs") under the Amended and Restated LGI Homes, Inc. 2013 Equity Incentive Plan to certain members of senior management based on three-year performance cycles. The PSUs provide for shares of our common stock to be issued based on the attainment of certain performance metrics over the applicable three-year periods. The number of shares of our common stock that may be issued to the recipients for the PSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The terms of the PSUs provide that the payouts will be capped at 100% of the target number of PSUs granted if absolute total stockholder return is negative during the performance period, regardless of EPS performance; this market condition applies for amounts recorded above target. The compensation expense associated with the PSU grants is

determined using the derived grant date fair value, based on a third-party valuation analysis, and expensed over the applicable period. The PSUs vest upon the determination date for the actual results at the end of the three-year period and require that the recipients continue to be employed by us through the determination date. The PSUs can only be settled in shares of our common stock.

The following table summarizes the activity of our PSUs for the nine months ended September 30, 2023:

Period Granted	Performance Period	Target PSUs Outstanding at December 31, 2022	Target PSUs Granted	Target PSUs Forfeited	Target PSUs Vested	Target PSUs Outstanding at September 30, 2023	Weighted Average Grant Date Fair Value
2020	2020 - 2022	84,435	—	—	(84,435)	—	\$ 59.81
2021	2021 - 2023	44,011	—	(852)	—	43,159	\$ 141.00
2022	2022 - 2024	64,382	—	(1,078)	—	63,304	\$ 118.80
2023	2023 - 2025	—	72,443	—	—	72,443	\$ 104.36
Total		192,828	72,443	(1,930)	(84,435)	178,906	

At September 30, 2023, management estimates that the recipients will receive approximately 125.0%, 50.0% and 80.7% of the 2023, 2022 and 2021 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 \$1.7 million and \$0.4 million of total stock-based compensation expense related to outstanding PSUs for the three months ended September 30, 2023 and 2022, respectively. We recognized \$4.0 million and \$4.9 million of total stock-based compensation expense related to outstanding PSUs for the nine months ended September 30, 2023 and 2022, respectively. The 2020 - 2022 performance period PSUs vested and issued on February 27, 2023, at 200% of the target number. At September 30, 2023, we had unrecognized compensation cost of \$10.0 million, based on the probable amount, related to unvested PSUs, which is expected to be recognized over a weighted average period of 2.1 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 most significant 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, 2023, 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, 2023 and December 31, 2022 (in thousands):

	Fair Value Hierarchy	September 30, 2023		December 31, 2022	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2029 Senior Notes ⁽¹⁾	Level 2	\$ 300,000	\$ 249,367	\$ 300,000	\$ 246,969

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

10. 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 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, 2023	December 31, 2022
Land deposits and option payments ⁽¹⁾	\$ 32,427	\$ 22,406
Commitments under the land purchase contracts if the purchases are consummated ⁽¹⁾	\$ 620,591	\$ 411,776
Lots under land purchase contracts ⁽¹⁾	15,808	13,184

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

As of September 30, 2023 and December 31, 2022, approximately \$13.0 million and \$12.8 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 \$4.9 million at September 30, 2023 and December 31, 2022, respectively. Lease obligations, as included in accrued expenses and other liabilities on the consolidated balance sheets, were \$5.3 million and \$5.2 million at September 30, 2023 and December 31, 2022, respectively.

Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$0.7 million and \$0.5 million for the three months ended September 30, 2023 and 2022, respectively. Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$1.9 million and \$1.6 million for the nine months ended September 30, 2023 and 2022, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating leases during the nine months ended September 30, 2023 and 2022 was \$1.4 million and \$1.3 million, respectively. As of September 30, 2023, the weighted-average discount rate was 5.8% and our weighted-average remaining life was 2.4 years. We do not have any significant lease contracts that have not yet commenced at September 30, 2023.

The table below shows the future minimum payments under non-cancelable operating leases at September 30, 2023 (in thousands):

Year Ending December 31,	Operating leases
2023	439
2024	1,535
2025	1,307
2026	1,145
2027	1,022
Thereafter	596
Total	6,044
Lease amount representing interest	(733)
Present value of lease liabilities	\$ 5,311

Bonding and Letters of Credit

We have outstanding letters of credit and performance and surety bonds totaling \$382.9 million (including \$28.1 million of letters of credit issued under the Credit Agreement) and \$368.1 million (including \$33.4 million of letters of credit issued under the 2022 Credit Agreement) at September 30, 2023 and December 31, 2022, 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

As of September 30, 2023, we had one equity-method land joint venture and two additional joint ventures engaged in mortgage and insurance activities that primarily provide services to our homebuyers. As of September 30, 2023 and December 31, 2022, we have a total of \$16.5 million and \$11.2 million, respectively, within other assets on the balance sheet relating to our investment in joint ventures associated with our operations. 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, 2023 was \$3.2 million and \$8.5 million, 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.

11. 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 move-up and 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,	
	2023	2022	2023	2022
Retail home sales revenues	\$ 574,246	\$ 419,213	\$ 1,633,826	\$ 1,599,570
Wholesale home sales revenues	43,293	127,861	116,340	216,623
Total home sales revenues	\$ 617,539	\$ 547,074	\$ 1,750,166	\$ 1,816,193

Our home sales revenues are disaggregated by geography, based on our determined reportable segments. See [Note 12](#) for tabular presentation of this information.

12. 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, 2023: 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 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Central	\$ 183,615	\$ 228,448	\$ 564,580	\$ 807,400
Southeast	149,593	138,478	397,618	328,510
Northwest	67,666	46,774	212,885	220,440
West	94,950	65,064	256,575	244,603
Florida	121,715	68,310	318,508	215,240
Total home sales revenues	\$ 617,539	\$ 547,074	\$ 1,750,166	\$ 1,816,193
Net income (loss) before income taxes:				
Central	\$ 32,172	\$ 46,413	\$ 69,521	\$ 189,004
Southeast	26,786	31,593	54,166	70,358
Northwest	9,432	6,379	23,194	49,693
West	9,368	8,342	15,162	27,282
Florida	15,579	9,770	37,077	30,914
Corporate ⁽¹⁾	(3,888)	6,204	(5,914)	4,012
Total net income before income taxes	\$ 89,449	\$ 108,701	\$ 193,206	\$ 371,263

(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.

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Assets:		
Central	\$ 1,016,130	\$ 986,779
Southeast	658,020	633,542
Northwest	505,304	485,086
West	650,489	599,714
Florida	420,056	334,824
Corporate ⁽¹⁾	85,012	84,883
Total assets	<u>\$ 3,335,011</u>	<u>\$ 3,124,828</u>

(1) The Corporate balance consists primarily of cash and investments in unconsolidated entities as of September 30, 2023. Additionally, the Corporate balance consists of cash, investments in unconsolidated entities and tax receivables as of December 31, 2022.

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

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 65,000 homes.

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	
Salt Lake City, UT				Sarasota, FL	Greenville, SC	
					Birmingham, AL	
					Nashville, TN	

We delivered strong financial results during the three months ended September 30, 2023. We attribute our success during the third quarter to several factors, including our ability to drive leads to our information centers through targeted marketing, our ability to partially offset affordability pressures through a combination of mortgage buy-down programs and other sales incentives, and our decision to build smaller, lower-priced homes. Although we are encouraged by our recent results, interest rates continue to move higher, creating the potential for a slowing demand for new homes. As a result, we continue to closely monitor demand trends at each active community and remain focused on balancing levels of vertical and completed inventory with current sales activity.

During the three months ended September 30, 2023, we had 1,751 home closings, compared to 1,547 home closings during the three months ended September 30, 2022. The increase in home closings for the three months ended September 30, 2023 was primarily due to an increase in the community count and the relative strength of the demand environment experienced during the three months ended September 30, 2023 compared to the three months ended September 30, 2022. During the nine months ended September 30, 2023, we had 4,971 home closings, compared to 5,173 home closings during the nine months ended September 30, 2022.

At September 30, 2023, we had 106 active communities, including 11 Terrata Homes communities. At September 30, 2022, we had 93 active communities, including 11 Terrata Homes communities.

Demand for our homes is dependent on a variety of macroeconomic factors, such as employment levels, mortgage rates, inflation, financial market stability, consumer confidence, housing demand, availability of financing for homebuyers, 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.

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 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, 2022. 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, 2022 and Item 1A. Risk Factors in Part II of this Quarterly Report on Form 10-Q.

Key Results

Key financial results as of and for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, were as follows:

- Home sales revenues increased 12.9% to \$617.5 million from \$547.1 million.
- Homes closed increased 13.2% to 1,751 homes from 1,547 homes.
- Average sales price per home closed decreased 0.3% to \$352,678 from \$353,635.
- Gross margin as a percentage of home sales revenues decreased to 25.7% from 28.5%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 27.2% from 29.5%.
- Net income before income taxes decreased 17.7% to \$89.4 million from \$108.7 million.
- Net income decreased 25.8% to \$67.0 million from \$90.4 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 16.0% from 20.8%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 15.0% from 18.4%.

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, 2023, as compared to the nine months ended September 30, 2022, were as follows:

- Home sales revenues decreased 3.6% to \$1.75 billion from \$1.82 billion.
- Homes closed decreased 3.9% to 4,971 homes from 5,173 homes.
- Average sales price per home closed increased 0.3% to \$352,075 from \$351,091.
- Gross margin as a percentage of home sales revenues decreased to 22.8% from 30.0%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 24.5% from 31.2%.
- Net income before income taxes decreased 48.0% to \$193.2 million from \$371.3 million.
- Net income decreased 49.7% to \$147.1 million from \$292.5 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 12.5% from 21.3%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 11.7% from 20.4%.

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 72,109 lots at September 30, 2023 as compared to 69,226 lots at June 30, 2023 and 71,904 lots at December 31, 2022.

Results of Operations

The following table sets forth our results of operations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(dollars in thousands, except per share data and average home sales price)				
Statement of Income Data:				
Home sales revenues	\$ 617,539	\$ 547,074	\$ 1,750,166	\$ 1,816,193
Expenses:				
Cost of sales	458,734	391,275	1,350,608	1,270,628
Selling expenses	49,781	33,938	141,811	111,605
General and administrative	26,748	27,284	84,334	84,657
Operating income	82,276	94,577	173,413	349,303
Other income, net	(7,173)	(14,124)	(19,793)	(21,960)
Net income before income taxes	89,449	108,701	193,206	371,263
Income tax provision	22,407	18,311	46,068	78,811
Net income	\$ 67,042	\$ 90,390	\$ 147,138	\$ 292,452
Basic earnings per share	\$ 2.85	\$ 3.88	\$ 6.24	\$ 12.42
Diluted earnings per share	\$ 2.84	\$ 3.85	\$ 6.21	\$ 12.29
Other Financial and Operating Data:				
Average community count	103.7	93.0	101.1	91.1
Community count at end of period	106	93	106	93
Home closings	1,751	1,547	4,971	5,173
Average sales price per home closed	\$ 352,678	\$ 353,635	\$ 352,075	\$ 351,091
Gross margin ⁽¹⁾	\$ 158,805	\$ 155,799	\$ 399,558	\$ 545,565
Gross margin % ⁽²⁾	25.7 %	28.5 %	22.8 %	30.0 %
Adjusted gross margin ⁽³⁾	\$ 168,152	\$ 161,578	\$ 429,544	\$ 565,900
Adjusted gross margin % ⁽²⁾⁽³⁾	27.2 %	29.5 %	24.5 %	31.2 %
EBITDA ⁽⁴⁾	\$ 98,822	\$ 113,722	\$ 219,461	\$ 387,262
EBITDA margin % ⁽²⁾⁽⁴⁾	16.0 %	20.8 %	12.5 %	21.3 %
Adjusted EBITDA ⁽⁴⁾	\$ 92,416	\$ 100,760	\$ 205,179	\$ 370,772
Adjusted EBITDA margin % ⁽²⁾⁽⁴⁾	15.0 %	18.4 %	11.7 %	20.4 %

(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, 2023 Compared to Three Months Ended September 30, 2022

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 three months ended September 30, 2023 and 2022, and our community count as of September 30, 2023 and 2022, were as follows (revenues in thousands):

	Three Months Ended September 30, 2023					As of September 30, 2023
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	Community Count at End of Period
Central	\$ 183,615	561	\$ 327,299	34.7	5.4	34
Southeast	149,593	452	330,958	23.7	6.4	24
Northwest	67,666	131	516,534	11.0	4.0	11
West	94,950	249	381,325	14.3	5.8	15
Florida	121,715	358	339,986	20.0	6.0	22
Total	\$ 617,539	1,751	\$ 352,678	103.7	5.6	106

	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

Home sales revenues for the three months ended September 30, 2023 were \$617.5 million, an increase of \$70.5 million, or 12.9%, from \$547.1 million for the three months ended September 30, 2022. The increase in home sales revenues was primarily due to a 13.2% increase in homes closed, partially offset by a slight decrease in the average sales price per home closed during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. The overall increase in home closings was a result of a higher average community count during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Our community count at September 30, 2023 increased to 106 from 93 at September 30, 2022. The average sales price per home closed during the three months ended September 30, 2023 was \$352,678, a decrease of \$957, or 0.3%, from the average sales price per home closed of \$353,635 for the three months ended September 30, 2022. The decrease in the average sales price per home closed was primarily due to geographic mix and our focus on starting smaller square foot homes to meet the current demand environment and address interest rate driven affordability constraints.

Included within our home sales revenues for the three months ended September 30, 2023 was \$43.3 million in wholesale revenues resulting from 139 home closings, representing 7.9% of the 1,751 total homes closed during the three months ended September 30, 2023. Included within our home sales revenues for the three months ended September 30, 2022 was \$127.9 million in wholesale revenues resulting from 443 home closings, representing 28.6% of the 1,547 total homes closed during the three months ended September 30, 2022.

- Home sales revenues in our Central reportable segment decreased by \$44.8 million, or 19.6%, during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, due to a 17.6% decrease in the number of homes closed and a 2.4% decrease in the average sales price per home closed. The decrease in home closings was the result of a lower absorption rate, partially offset by an increase in the average community count.

- Home sales revenues in our Southeast reportable segment increased by \$11.1 million, or 8.0%, during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, primarily due to a 7.9% increase in the number of homes closed and a slight increase in the average sales price per home closed. The increase in home closings was the result of a higher absorption rate and an increase in the average community count.
- Home sales revenues in our Northwest reportable segment increased by \$20.9 million, or 44.7%, during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, primarily due to a 37.9% increase in the number of homes closed and a 4.9% increase in the average sales price per home closed. The increase in home closings was the result of an increase in the average community count, partially offset by a lower absorption rate.
- Home sales revenues in our West reportable segment increased by \$29.9 million, or 45.9%, during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, primarily due to a 60.6% increase in the number of homes closed, partially offset by a 9.2% decrease in the average sales price per home closed. The increase in home closings was the result of an increase in the average community count and a higher absorption rate.
- Home sales revenues in our Florida reportable segment increased by \$53.4 million, or 78.2%, during the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, primarily due to a 81.7% increase in the number of homes closed, partially offset by a 2.0% decrease in the average sales price per home closed. The increase in home closings was the result of a higher absorption rate and a higher average community count.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the three months ended September 30, 2023 to \$458.7 million, an increase of \$67.5 million, or 17.2%, from \$391.3 million for the three months ended September 30, 2022, primarily due to a 13.2% increase in homes closed. Gross margin for the three months ended September 30, 2023 was \$158.8 million, an increase of \$3.0 million, or 1.9%, from \$155.8 million for the three months ended September 30, 2022. Gross margin as a percentage of home sales revenues was 25.7% for the three months ended September 30, 2023 and 28.5% for the three months ended September 30, 2022. This decrease in gross margin was due to a combination of higher construction costs as a percentage of home sales revenues, higher capitalized interest charged to cost of sales and the impact of sales incentives offered during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

Selling Expenses. Selling expenses for the three months ended September 30, 2023 were \$49.8 million, an increase of \$15.8 million, or 46.7%, from \$33.9 million for the three months ended September 30, 2022. The increase in selling expenses was primarily due to increased sales commissions, advertising expense and personnel costs for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Sales commissions increased to \$27.9 million for the three months ended September 30, 2023 from \$17.9 million for the three months ended September 30, 2022, due to a 12.9% increase in home sales revenues and an increase in outside commissions during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. Selling expenses as a percentage of home sales revenues were 8.1% and 6.2% for the three months ended September 30, 2023 and 2022, respectively. The increase in selling expenses as a percentage of home sales revenues was primarily due to higher advertising, fewer wholesale home closings and other expenses incurred during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

General and Administrative. General and administrative expenses for the three months ended September 30, 2023 were \$26.7 million, a decrease of \$0.5 million, or 2.0%, from \$27.3 million for the three months ended September 30, 2022. The decrease in the amount of general and administrative expenses was primarily due to lower costs related to the termination of land purchase agreements during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, partially offset by increased personnel costs and professional fees during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. General and administrative expenses as a percentage of home sales revenues were 4.3% and 5.0% for the three months ended September 30, 2023 and 2022, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues was primarily due to the 12.9% increase in homes sales revenues during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

Other Income. Other income, net of other expenses was \$7.2 million for the three months ended September 30, 2023, a decrease of \$7.0 million from \$14.1 million for the three months ended September 30, 2022. The decrease in other income, net of other expenses, primarily reflects the gain resulting from the sale of a three-year interest rate cap of LIBOR prior to its expiration during the three months ended September 30, 2022.

Operating Income and Net Income before Income Taxes. Operating income for the three months ended September 30, 2023 was \$82.3 million, a decrease of \$12.3 million, or 13.0%, from \$94.6 million for the three months ended September 30, 2022. Net income before income taxes for the three months ended September 30, 2023 was \$89.4 million, a decrease of \$19.3

million, or 17.7%, from \$108.7 million for the three months ended September 30, 2022. All reportable segments contributed to net income before income taxes during the three months ended September 30, 2023 as follows: Central - \$32.2 million, or 36.0%; Southeast - \$26.8 million, or 29.9%; Northwest - \$9.4 million, or 10.5%; West - \$9.4 million, or 10.5%; and Florida - \$15.6 million, or 17.4%. The overall decreases in operating income and net income before income taxes were primarily due to overall lower gross margin and higher advertising and other selling expenses incurred during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

Income Taxes. Income tax provision for the three months ended September 30, 2023 was \$22.4 million, an increase of \$4.1 million, or 22.4%, from income tax provision of \$18.3 million for the three months ended September 30, 2022. The increase in our effective tax rate to 25.1% for the three months ended September 30, 2023 from 16.8% for the three months ended September 30, 2022 was primarily due to an increase in the rate for the state income taxes, net of the federal benefit, the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, and the impact of the retroactive extension in the third quarter of the federal energy efficient homes tax credits for the nine months ended September 30, 2022.

Net Income. Net income for the three months ended September 30, 2023 was \$67.0 million, a decrease of \$23.3 million, or 25.8%, from \$90.4 million for the three months ended September 30, 2022. The decrease in net income was primarily attributed to lower gross margin and higher selling expenses as a percentage of revenues during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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, 2023 and 2022 were as follows (revenues in thousands):

Nine Months Ended September 30, 2023						
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	
Central	\$ 564,580	1,724	\$ 327,483	35.3	5.4	
Southeast	397,618	1,216	326,988	24.1	5.6	
Northwest	212,885	433	491,651	10.1	4.8	
West	256,575	672	381,808	13.3	5.6	
Florida	318,508	926	343,961	18.3	5.6	
Total	\$ 1,750,166	4,971	\$ 352,075	101.1	5.5	

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	

Home sales revenues for the nine months ended September 30, 2023 were \$1.75 billion, a decrease of \$0.1 billion, or 3.6%, from \$1.82 billion for the nine months ended September 30, 2022. The decrease in home sales revenues was primarily due to a 3.9% decrease in homes closed, partially offset by an increase in the average sales price per home closed during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. The overall decrease in home closings was a result of an overall lower absorption rate, partially offset by a higher average community count, during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. The average sales price per home closed during the nine months ended September 30, 2023 was \$352,075, an increase of \$984, or 0.3%, from the average sales price per home closed of \$351,091 for the nine months ended September 30, 2022. The increase in the average sales price per home closed was primarily due to our ability to increase prices in certain markets and the impact of fewer home closings in our wholesale channel. The overall decrease in absorption rate relates to the normalization of demand primarily resulting from higher mortgage rates.

Included within our home sales revenues for the nine months ended September 30, 2023 was \$116.3 million in wholesale revenues resulting from 381 home closings, representing 7.7% of the 4,971 total homes closed during the nine months ended September 30, 2023. Included within our home sales revenues for the nine months ended September 30, 2022 was \$216.6 million in wholesale revenues resulting from 802 home closings, representing 15.5% of the 5,173 total homes closed during the nine months ended September 30, 2022. The decrease in home closings as a percentage of revenues through our wholesale channel was primarily related to lower demand from our wholesale channel customers during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

- Home sales revenues in our Central reportable segment decreased by \$242.8 million, or 30.1%, during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, primarily due to a 29.9% decrease in the number of homes closed and a slight decrease in the average sales price per home closed. The decrease

in home closings was the result of a lower absorption rate, partially offset by an increase in the average community count.

- Home sales revenues in our Southeast reportable segment increased by \$69.1 million, or 21.0%, during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, primarily due to a 19.4% increase in the number of homes closed and a 1.3% increase in the average sales price per home closed. The increase in home closings was the result of an increase in the average community count and a higher absorption rate.
- Home sales revenues in our Northwest reportable segment decreased by \$7.6 million, or 3.4%, during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, primarily due to a 4.3% decrease in the average sales price per home closed, partially offset by a 0.9% increase in the number of homes closed. The increase in home closings was the result of an increase in the average community count, partially offset by a lower absorption rate.
- Home sales revenues in our West reportable segment increased by \$12.0 million, or 4.9%, during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, primarily due to a 12.4% increase in the number of homes closed, partially offset by a 6.7% decrease in the average sales price per home closed. The increase in home closings was the result of an increase in the average community count, partially offset by a lower absorption rate.
- Home sales revenues in our Florida reportable segment increased by \$103.3 million, or 48.0%, during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, primarily due to a 38.6% increase in the number of homes closed and a 6.7% increase in the average sales price per home closed. The increase in home closings was the result of a higher absorption rate, partially offset by a decrease in the average community count.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the nine months ended September 30, 2023 to \$1.4 billion, an increase of \$0.1 billion, or 6.3%, from \$1.3 billion for the nine months ended September 30, 2022. This overall increase was primarily due to higher construction costs and capitalized interest, partially offset by a 3.9% decrease in homes closed. Gross margin for the nine months ended September 30, 2023 was \$399.6 million, a decrease of \$146.0 million, or 26.8%, from \$545.6 million for the nine months ended September 30, 2022. Gross margin as a percentage of home sales revenues was 22.8% for the nine months ended September 30, 2023 and 30.0% for the nine months ended September 30, 2022. The decrease in gross margin as a percentage of home sales revenues during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 was primarily due to a combination of higher construction costs, capitalized interest and the impact of sales incentives offered during the nine months ended September 30, 2023.

Selling Expenses. Selling expenses for the nine months ended September 30, 2023 were \$141.8 million, an increase of \$30.2 million, or 27.1%, from \$111.6 million for the nine months ended September 30, 2022. The increase in selling expenses was primarily due to increased advertising expense, sales commissions and personnel costs for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022. Sales commissions increased to \$77.1 million primarily due to an increase in outside commissions during the nine months ended September 30, 2023 from \$68.5 million for the nine months ended September 30, 2022. Selling expenses as a percentage of home sales revenues were 8.1% and 6.1% for the nine months ended September 30, 2023 and 2022, respectively. The increase in selling expenses as a percentage of home sales revenues was driven primarily by increased advertising expense, sales commissions and other expenses incurred during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

General and Administrative. General and administrative expenses for the nine months ended September 30, 2023 were \$84.3 million, a decrease of \$0.3 million, or 0.4%, from \$84.7 million for the nine months ended September 30, 2022. General and administrative expenses as a percentage of home sales revenues were 4.8% and 4.7% for the nine months ended September 30, 2023 and 2022, respectively.

Other Income. Other income, net of other expenses was \$19.8 million for the nine months ended September 30, 2023, a decrease of \$2.2 million from \$22.0 million for the nine months ended September 30, 2022. The decrease in other income, net of other expenses, primarily reflects the proceeds resulting from the sale of a three-year interest rate cap of LIBOR prior to its expiration, offset by the increase in income associated with our investment in unconsolidated entities for the nine months ended September 30, 2023 and 2022, respectively.

Operating Income and Net Income before Income Taxes. Operating income for the nine months ended September 30, 2023 was \$173.4 million, a decrease of \$175.9 million, or 50.4%, from \$349.3 million for the nine months ended September 30, 2022. Net income before income taxes for the nine months ended September 30, 2023 was \$193.2 million, a decrease of \$178.1 million, or 48.0%, from \$371.3 million for the nine months ended September 30, 2022. The following reportable segments contributed to net income before income taxes during the nine months ended September 30, 2023 as follows: Central - \$69.5

million, or 36.0%; Southeast - \$54.2 million, or 28.0%; Northwest - \$23.2 million, or 12.0%; West - \$15.2 million, or 7.8%; and Florida - \$37.1 million, or 19.2%. The overall decreases in operating income and net income before income taxes were primarily due to overall lower home closings at a lower absorption pace at a lower gross margin, higher advertising and other selling expenses incurred, partially offset by a higher average community count during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

Income Taxes. Income tax provision for the nine months ended September 30, 2023 was \$46.1 million, a decrease of \$32.7 million, or 41.5%, from income tax provision of \$78.8 million for the nine months ended September 30, 2022. The increase in our effective tax rate to 23.8% for the nine months ended September 30, 2023 from 21.2% for the nine months ended September 30, 2022 was primarily due to an increase in the rate for the state income taxes, net of the federal benefit, the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, and the retroactive extension of the federal energy efficient homes tax credits for the nine months ended September 30, 2022, offset by a decrease in the rate for the deductions in excess of compensation cost for share-based payments.

Net Income. Net income for the nine months ended September 30, 2023 was \$147.1 million, a decrease of \$145.3 million, or 49.7%, from \$292.5 million for the nine months ended September 30, 2022. The decrease in net income was primarily attributed to a lower gross margin and higher selling expenses as a percentage of revenues during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

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,	
	2023	2022	2023	2022
Home sales revenues	\$ 617,539	\$ 547,074	\$ 1,750,166	\$ 1,816,193
Cost of sales	458,734	391,275	1,350,608	1,270,628
Gross margin	158,805	155,799	399,558	545,565
Capitalized interest charged to cost of sales	8,580	4,617	24,475	14,865
Purchase accounting adjustments ⁽¹⁾	767	1,162	5,511	5,470
Adjusted gross margin	\$ 168,152	\$ 161,578	\$ 429,544	\$ 565,900
Gross margin % ⁽²⁾	25.7 %	28.5 %	22.8 %	30.0 %
Adjusted gross margin % ⁽²⁾	27.2 %	29.5 %	24.5 %	31.2 %

(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,	
	2023	2022	2023	2022
Net income	\$ 67,042	\$ 90,390	\$ 147,138	\$ 292,452
Income tax provision (benefit)	22,407	18,311	46,068	78,811
Depreciation and amortization	793	404	1,780	1,134
Capitalized interest charged to cost of sales	8,580	4,617	24,475	14,865
EBITDA	98,822	113,722	219,461	387,262
Purchase accounting adjustments ⁽¹⁾	767	1,162	5,511	5,470
Other income, net	(7,173)	(14,124)	(19,793)	(21,960)
Adjusted EBITDA	\$ 92,416	\$ 100,760	\$ 205,179	\$ 370,772
EBITDA margin % ⁽²⁾	16.0 %	20.8 %	12.5 %	21.3 %
Adjusted EBITDA margin % ⁽²⁾	15.0 %	18.4 %	11.7 %	20.4 %

- (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.

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 \$10,000). 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 with varying terms. 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. 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 increased for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to an increase in average community count.

The number of homes in our backlog at September 30, 2023 increased 9.7% compared to September 30, 2022. The increase in ending backlog relates to the normalization in demand for new homes experienced in the third quarter of 2023 as compared to the third quarter of 2022.

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,	
	2023 ⁽⁴⁾	2022 ⁽⁵⁾
Net orders ⁽¹⁾	5,646	4,373
Cancellation rate ⁽²⁾	22.8 %	21.0 %
Ending backlog – homes ⁽³⁾	1,377	1,255
Ending backlog – value ⁽³⁾	\$ 509,932	\$ 428,293

- (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 with varying terms. Ending backlog is valued at the contract amount.
- (4) As of September 30, 2023, we had 273 units related to bulk sales agreements associated with our wholesale business.
- (5) As of September 30, 2022, we had 591 units related to bulk sales agreements associated with our wholesale business.

Land Acquisition Policies and Development

We had 106 and 99 active communities as of September 30, 2023 and December 31, 2022, respectively. 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 increased to 72,109 owned or controlled lots as of September 30, 2023 from 71,904 owned or controlled lots as of December 31, 2022, primarily related to our discipline in the evaluation of and selective approval of new land deals.

We have 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 as real estate not owned within our inventory and a corresponding obligation was established within our accrued liabilities, as discussed in [Note 3](#), "Accrued Expenses and Other Liabilities" to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, to recognize this relationship. While we are not legally obligated to repurchase 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 that we have sold to the land banker and we do not guarantee any of the land banker's liabilities.

The table below shows (i) home closings by reportable segment for the nine months ended September 30, 2023 and (ii) our owned or controlled lots by reportable segment as of September 30, 2023.

Reportable Segment	Nine Months Ended September 30, 2023	As of September 30, 2023		
	Home Closings	Owned ⁽¹⁾	Controlled	Total
Central	1,724	21,048	3,624	24,672
Southeast	1,216	14,756	4,907	19,663
Northwest	433	5,981	2,138	8,119
West	672	9,176	2,195	11,371
Florida	926	5,340	2,944	8,284
Total	4,971	56,301	15,808	72,109

(1) Of the 56,301 owned lots as of September 30, 2023, 42,618 were raw/under development lots and 13,683 were finished lots.

Homes in Inventory

When entering a new community, we intend to 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, 2023, we had a total of 1,471 completed homes, including information centers, and 3,009 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. We purchase some components and materials centrally to achieve volume discounts, reducing costs and helping to ensure timely deliveries. We typically do not store significant inventories of construction materials, except for work in progress materials for homes under construction. 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. Our construction work is performed 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.

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, 2023, we had \$47.0 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 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, 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, repurchases of shares of our common stock, other capital expenditures, and principal and interest payments on our debt obligations maturing between 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 28, 2023, we entered into a Third Amendment to Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Third Amendment"), which amends the 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 (as amended by an amendment dated as of April 29,

2022 and as further amended by the Third Amendment, the “Credit Agreement”). The Credit Agreement provides for a \$1.13 billion revolving credit facility, which can be increased at the request of the Company by up to \$170.0 million, subject to the terms and conditions of the Credit Agreement.

The Credit Agreement matures on April 28, 2027 with respect to \$775.0 million, or 68.6%, of the \$1.13 billion of commitments thereunder and on April 28, 2025 with respect to 31.4% of the commitments thereunder. 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, other than subsidiaries whose sole purpose is to own and operate single-family rental homes.

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, 2023, the borrowing base under the Credit Agreement is \$1.8 billion of which the maximum available to borrow is \$1.4 billion. As of September 30, 2023, borrowings under the Credit Agreement and the outstanding principal amount of the 2029 Senior Notes totaled \$1.2 billion, \$28.1 million of letters of credit were outstanding and \$196.2 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 \$382.9 million as of September 30, 2023. 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, 2023 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 nine months ended September 30, 2023, 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, 2023, 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 \$22.7 million for the nine months ended September 30, 2023. 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, 2023 was primarily driven by cash outflow from the \$194.4 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 \$147.1 million.

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 the \$43.8 million increase in the net change in accounts payable and accrued expenses and other liabilities, respectively.

Investing Activities

Net cash used in investing activities was \$7.6 million for the nine months ended September 30, 2023, primarily due to additional investment in unconsolidated entities.

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.

Financing Activities

Net cash provided by financing activities was \$45.3 million for the nine months ended September 30, 2023, primarily driven by net borrowings of \$75.9 million on the Credit Agreement, partially offset by net payments of \$29.4 million related to a financing arrangement with a third-party land banker.

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 our credit agreement then in effect and the 2022 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 our credit agreement then in effect and the 2022 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.

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, 2023, we continued to experience pressure on costs due to high levels of inflation, which we expect will continue throughout 2023. 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, 2022.

Material Cash Requirements

As of September 30, 2023, 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, 2022.

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, 2023 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, 2022.

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 and the conflict in the Middle East), inflation, the possibility of recession and decreases in housing prices;
- a slowdown in the homebuilding industry or changes in population growth rates in our markets;
- volatility and uncertainty in the credit markets and broader financial markets;
- disruption in the terms or availability of mortgage financing or increase in the number of foreclosures in our markets;
- the cyclical and seasonal nature of our business;
- our future operating results and financial condition;
- our business operations;
- changes in our business and investment strategy;
- the success of our operations in recently opened new markets and our ability to expand into additional new markets;
- our ability to successfully extend our business model to building homes with higher price points, developing larger communities and producing and selling multi-unit products, townhouses, wholesale products, and acreage home sites;
- our ability to develop our projects successfully or within expected timeframes;
- our ability to identify potential acquisition targets, close such acquisitions and realize the benefits of such acquisitions;
- increases in taxes or government fees;
- decline in the market value of our land portfolio;
- 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;
- the cost and availability of insurance and surety bonds;
- 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;

- our leverage and future debt service obligations;
- 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;
- information system failures, cyber incidents or breaches in security;
- 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;
- our ability to retain our key personnel;
- the impact of the COVID-19 pandemic and its effect on us, our business, customers, subcontractors and suppliers (including associated supply chain disruptions);
- 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;
- 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 Part II of 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, 2022.

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 \$1.13 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. We 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, 2023, we had \$904.2 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, 2023 was SOFR plus 1.70%. At September 30, 2023, SOFR was 5.32%, 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 \$9.0 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, 2023. 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, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as updated by our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023.

ITEM 5. OTHER INFORMATION

On August 22, 2023, Michael Snider, Chief Operating Officer of the Company, adopted a “Rule 10b5-1 trading arrangement,” as defined in Item 408(a) of Regulation S-K, that is intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. Subject to meeting the stock price conditions set forth therein and pursuant to the terms thereof, Mr. Snider’s Rule 10b5-1 trading arrangement provides for the sale, between November 20, 2023 and November 20, 2024, of a maximum number of shares of the Company’s common stock that would generate proceeds of up to \$4.0 million. Mr. Snider’s Rule 10b5-1 trading arrangement will be in effect until the earlier of (i) November 20, 2024 and (ii) the completion of all sales contemplated thereunder.

Except as set forth above, during the three months ended September 30, 2023, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

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**	Certificate of Amendment of Certificate of Incorporation of LGI Homes, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-36126) of LGI Homes, Inc. filed with the SEC on May 1, 2023).
3.3**	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: October 31, 2023

/s/ Eric Lipar

Eric Lipar

Chief Executive Officer and Chairman of the Board

October 31, 2023

/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, 2023 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.

October 31, 2023

/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, 2023 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.

October 31, 2023

/s/ Charles Merdian

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