UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from to

Commission file number 001-38761

Legacy Housing Corporation

(Exact name of registrant as specified in its charter)

Texas	**20-2897516**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 Airport Freeway, #100
Bedford, Texas 76022
(Address of principal executive offices)
(Zip Code)

(817) 799-4900
(Registrant's telephone number, including area code)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

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

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock ($0.001 par value)	LEGH	NASDAQ Global Market

There were 24,406,020 shares of Common Stock ($0.001 par value) outstanding as of September 18, 2022.

LEGACY HOUSING CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LEGACY HOUSING CORPORATION

CONDENSED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 14,267	$ 1,042
Accounts receivable, net	5,688	5,118
Accounts receivable - dealer financed	10,394	3,496
Current portion of consumer loans receivable	5,759	6,080
Current portion of notes receivable from mobile home parks (“MHP”)	10,310	10,049
Current portion of other notes receivable	16,791	21,070
Inventories	46,770	41,230
Prepaid expenses and other current assets	4,284	4,456
Total current assets	114,263	92,541
Consumer loans receivable, net	125,172	119,543
Notes receivable from mobile home parks (“MHP”)	111,972	92,943
Other notes receivable, net	14,090	20,930
Inventories, net	4,603	2,678
Other assets - leased mobile homes	9,943	9,419
ROU assets - operating leases	3,083	—
Other assets	1,406	1,097
Property, plant and equipment, net	28,497	27,516
Total assets	$ 413,029	$ 366,667
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,505	$ 4,155
Accrued liabilities	14,980	20,686
Customer deposits	11,934	7,749
Escrow liability	9,771	9,350
Operating lease obligation	662	—
Total current liabilities	42,852	41,940
Long-term liabilities:		
Operating lease obligation, less current portion	2,525	—
Lines of credit	12,614	7,993
Deferred income taxes, net	3,004	3,004
Dealer incentive liability	4,974	4,336
Total liabilities	65,969	57,273
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $.001 par value, 10,000,000 shares authorized: no shares issued or outstanding	—	—
Common stock, $.001 par value, 90,000,000 shares authorized; 24,851,085 and 24,654,621 issued and 24,406,020 and 24,209,556 outstanding at June 30, 2022 and December 31, 2021, respectively	29	25
Treasury stock at cost, 445,065 shares at June 30, 2022 and December 31, 2021	(4,477)	(4,477)
Additional paid-in-capital	179,932	175,623
Retained earnings	171,576	138,223
Total stockholders' equity	347,060	309,394
Total liabilities and stockholders' equity	$ 413,029	$ 366,667

See accompanying notes to condensed financial statements.

LEGACY HOUSING CORPORATION

CONDENSED STATEMENTS OF INCOME
(in thousands, except share and per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net revenue:		(restated)		(restated)
Product sales	$ 55,098	$ 41,115	$ 106,885	$ 73,389
Consumer and MHP loans interest	7,497	6,734	14,262	13,372
Other	1,616	740	2,992	1,767
Total net revenue	64,211	48,589	124,139	88,528
Operating expenses:				
Cost of product sales	37,411	28,343	71,138	50,344
Selling, general and administrative expenses	5,901	5,165	13,560	9,958
Dealer incentive	439	114	713	576
Income from operations	20,460	14,967	38,728	27,650
Other income (expense):				
Non-operating interest income	783	429	1,635	677
Miscellaneous, net	17	34	603	238
Interest expense	(183)	(283)	(239)	(509)
Total other	617	180	1,999	406
Income before income tax expense	21,077	15,147	40,727	28,056
Income tax expense	(3,816)	(2,498)	(7,375)	(4,707)
Net income	$ 17,261	$ 12,649	$ 33,352	$ 23,349
Weighted average shares outstanding:				
Basic	24,406,020	24,202,631	24,355,412	24,200,879
Diluted	24,922,125	24,234,913	24,773,345	24,229,265
Net income per share:				
Basic	$ 0.71	$ 0.52	$ 1.37	$ 0.96
Diluted	$ 0.69	$ 0.52	$ 1.35	$ 0.96

See accompanying notes to condensed financial statements.

LEGACY HOUSING CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Operating activities:		(restated)
Net income	$ 33,352	$ 23,349
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	880	754
Amortization of deferred revenue	(727)	267
Provision for accounts and notes receivable	29	558
Provision for long term inventory	(117)	—
Share based payment expense	4,313	108
Changes in operating assets and liabilities:		
Accounts receivable	(684)	(2,040)
Consumer loans activity, net	(5,205)	(5,337)
Notes receivable MHP activity, net	(19,169)	(10,221)
Dealer inventory loan activity, net	(6,937)	—
Inventories	(7,122)	(8,864)
Prepaid expenses and other current assets	146	(358)
Other assets	(4,265)	(1,208)
Accounts payable and accrued liabilities	(3,939)	(4,694)
Customer deposits	4,185	2,125
Escrow liability	666	1,008
Dealer incentive liability	638	(222)
Net cash used in operating activities	(3,956)	(4,775)
Investing activities:		
Purchases of property, plant and equipment	(1,506)	(2,330)
Issuance of notes receivable	(2,423)	(13,554)
Notes receivable collections	13,731	5,940
Collections from purchased loans	270	1,462
Net cash provided by (used in) investing activities	10,072	(8,482)
Financing activities:		
Proceeds from other liabilities	2,525	—
Proceeds from lines of credit	62,863	46,109
Payments on lines of credit	(58,279)	(32,811)
Net cash provided by financing activities	7,109	13,298
Net increase in cash and cash equivalents	13,225	41
Cash and cash equivalents at beginning of period	1,042	768
Cash and cash equivalents at end of period	$ 14,267	$ 809
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 204	$ 464
Cash paid for taxes	$ 9,601	$ 5,700

See accompanying notes to condensed financial statements.

LEGACY HOUSING CORPORATION

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock Shares	Common Stock Amount	Treasury stock	Additional paid-in-capital	Retained earnings	Total
Balances, December 31, 2020	24,639,125	$ 25	$ (4,477)	$ 175,293	$ 88,352	$ 259,193
Share based compensation expense and stock units vested	8,571	—	—	44	—	44
Net income (restated)	—	—	—	—	10,700	10,700
Balances, March 31, 2021 (restated)	24,647,696	25	(4,477)	175,337	99,052	269,937
Share based compensation expense and stock units vested	—	—	—	64	—	64
Net income (restated)	—	—	—	—	12,649	12,649
Balances, June 30, 2021 (restated)	24,647,696	25	(4,477)	175,401	111,701	282,650

	Common Stock Shares	Common Stock Amount	Treasury stock	Additional paid-in-capital	Retained earnings	Total
Balances, December 31, 2021	24,654,621	$ 25	$ (4,477)	$ 175,623	$ 138,223	$ 309,394
Share based compensation expense and stock units vested	158,571	4	—	4,003	—	4,007
Net income	—	—	—	—	16,092	16,092
Balances, March 31, 2022	24,813,192	29	(4,477)	179,626	154,315	329,493
Share based compensation expense and stock units vested	—	—	—	306	—	306
Net income	—	—	—	—	17,261	17,261
Balances, June 30, 2022	24,813,192	29	(4,477)	179,932	171,576	347,060

See accompanying notes to condensed financial statements.

LEGACY HOUSING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands)

1. NATURE OF OPERATIONS

Legacy Housing Corporation (referred herein as ”Legacy”, “we”, “our”, “us”, or the “Company”) was formed on January 1, 2018 as a Delaware corporation through a corporate conversion of Legacy Housing, Ltd. (the “Partnership”), a Texas limited partnership formed in May 2005. Effective December 31, 2019, the Company reincorporated from a Delaware corporation to a Texas corporation. The Company is headquartered in Bedford, Texas.

The Company (1) manufactures and provides for the transport of mobile homes, (2) provides wholesale financing to dealers and mobile home parks, (3) provides retail financing to consumers and (4) is involved in financing and developing new manufactured home communities. The Company manufactures its mobile homes at plants located in Fort Worth, Texas, Commerce, Texas and Eatonton, Georgia. The Company relies on a network of dealers to market and sell its mobile homes. The Company also sells homes directly to dealers and mobile home parks.

In December 2018, the Company sold 4,000,000 shares of its common stock through an initial public offering (“IPO”) at $12.00 per share. Proceeds from the IPO, net of $4,504 of underwriting discounts and offering expenses paid by the Company, were $43,492. In January 2019, the Company sold an additional 600,000 shares of its common stock as part of the IPO at $12.00 per share. Proceeds from the January 2019 issuance, net of $505 of underwriting discounts and offering expenses paid by the Company, were $6,695.

On April 17, 2019, the Company purchased 300,000 shares of its common stock at the price of $10.20 per share, pursuant to the Company’s repurchase program. During the year ended December 31, 2020, the Company purchased 145,065 shares of its common stock at an average price of $9.77 per share, pursuant to the Company’s repurchase program. Under the repurchase program, the Company may purchase up to $10,000 of its common stock. Share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

Corporate Conversion

Effective January 1, 2018, the Partnership converted into a Delaware corporation pursuant to a statutory conversion and changed its name to Legacy Housing Corporation. In order to consummate the corporate conversion completed on January 1, 2018, a certificate of conversion was filed with the Secretary of State of the State of Delaware and with the Secretary of State of the State of Texas. Holders of partnership interests in Legacy Housing, Ltd. received an initial allocation, on a proportional basis, of 20,000,000 shares of common stock of Legacy Housing Corporation.

Following the corporate conversion, Legacy Housing Corporation continues to hold all property and assets of Legacy Housing, Ltd. and all of the debts and obligations of Legacy Housing, Ltd. On the effective date of the corporate conversion, the officers of Legacy Housing, Ltd. became the officers of Legacy Housing Corporation. As a result of the corporate conversion, the Company is now a federal corporate taxpayer.

Basis of Presentation

The accompanying unaudited interim condensed financial statements as of June 30, 2022 and for the three and six months ended June 30, 2022 and 2021, respectively, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") as required by Regulation S-X, Rule 8-03. In the opinion of management, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's financial position for the periods presented. The results for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022, or any other period. The accompanying balance sheet as of December 31, 2021 was derived from audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2021 (the "Form 10-K"). The accompanying financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto included in the Form 10-K. Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net income.

(dollars in thousands)

Restatement of Previously Issued Condensed Financial Statements (unaudited)

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, the Company has restated its interim financial statements for the period ended June 30, 2021 to correct (i) an overstatement of costs errantly assigned to accounts payable for inventory received but not invoiced, (ii) a reclassification between prepaid expenses and other current assets and other assets, (iii) a reclassification between prepaid expenses and other current assets and lines of credit, and (iv) a change in accrued liabilities and income tax expense.

The effects of the restatement on the line items within the Company's condensed statement of income for the three months ended June 30, 2021 were as follows:

	Three Months Ended June 30, 2021		
	As Originally Reported	Adjustments	As Restated
Operating expenses:			
Cost of product sale	$ 28,608	$ (265)	$ 28,343
Income from operations	$ 14,702	$ 265	$ 14,967
Income before income tax expense	$ 14,882	$ 265	$ 15,147
Income tax expense	$ (2,454)	$ (44)	$ (2,498)
Net income	$ 12,428	$ 221	$ 12,649
Net income per share:			
Basic	$ 0.51	$ 0.01	$ 0.52
Diluted	$ 0.51	$ 0.01	$ 0.52

The effects of the restatement on the line items within the Company's condensed statement of income for the six months ended June 30, 2021 were as follows:

	Six Months Ended June 30, 2021		
	As Originally Reported	Adjustments	As Restated
Operating expenses:			
Cost of product sale	$ 52,632	$ (2,288)	$ 50,344
Income from operations	$ 25,362	$ 2,288	$ 27,650
Income before income tax expense	$ 25,768	$ 2,288	$ 28,056
Income tax expense	$ (4,317)	$ (390)	$ (4,707)
Net income	$ 21,451	$ 1,898	$ 23,349
Net income per share:			
Basic	$ 0.89	$ 0.07	$ 0.96
Diluted	$ 0.89	$ 0.07	$ 0.96

LEGACY HOUSING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands)

The effects of the restatement on the line items within the Company's condensed statement of cash flows for the six months ended June 30, 2021 were as follows:

	Six months June 30, 2021		
	As Originally Reported	Adjustments	As Restated
Operating activities:			
Net income	$ 21,451	$ 1,898	$ 23,349
Inventories	$ (8,864)	$ —	$ (8,864)
Prepaid expenses and other current assets	$ (893)	$ 535	$ (358)
Other assets	$ (876)	$ (332)	$ (1,208)
Accounts payable	$ (2,004)	$ (2,288)	$ (4,292)
Accrued liabilities	$ (792)	$ 390	$ (402)
Net cash used in operating activities	$ (4,978)	$ 203	$ (4,775)
Investing activities:			
Purchases of property, plant and equipment	$ (2,330)	$ —	$ (2,330)
Net cash used in investing activities	$ (8,482)	$ —	$ (8,482)
Financing activities:			
Payments on lines of credit	$ (32,608)	$ (203)	$ (32,811)
Net cash provided by financing activities	$ 13,501	$ (203)	$ 13,298

Use of Estimates

The preparation of our financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Material estimates that are susceptible to significant change in the near term primarily relate to the determination of accounts receivable, loans to mobile home parks, consumer loans, other notes receivable, inventory obsolescence, income taxes, fair value of financial instruments and contingent liabilities. Actual results could differ from these estimates.

Revenue Recognition

Product sales primarily consist of sales of mobile homes to consumers and mobile home parks through various sales channels, which include Direct Sales, Commercial Sales, Consignment Sales, and Retail Store Sales. Direct Sales include homes sold directly to independent retailers or customers that are not financed by the Company and are not sold under a consignment arrangement. These types of homes are generally paid for prior to shipment. Commercial Sales include homes sold to mobile home parks under commercial loan programs or paid for upfront. The Company provides floor plan financing for independent retailers, which takes the form of a consignment arrangement. Consignment Sales are considered sales of consigned homes from independent dealers to individual customers. Retail Store Sales are homes sold through Company-owned retail locations. Consignment Sales and Retail Sales of homes may be financed by the Company, by a third party, or paid in cash.

Revenue from product sales is recognized at a point in time when the performance obligation under the terms of a contract with our customer is satisfied, which typically occurs upon delivery and transfer of title of the home, as this depicts when control of the promised good is transferred to our customer. For financed sales by the Company, the individual customer enters into a sales and financing contract and is required to make a down payment. These financed sales contain a significant financing component and any interest income is separately recorded in the statement of operations.

Revenue is measured as the amount of consideration expected to be received in exchange for transferring the homes to the customers. Sales and other similar taxes collected concurrently with revenue-producing activities are excluded from revenue.

The Company made an accounting policy election to account for any shipping and handling costs that occur after the transfer of control as a fulfillment cost that is accrued when control is transferred. Warranty obligations associated with the sale of a unit are assurance-type warranties for a period of twelve months that are a guarantee of the home's intended functionality and, therefore, do not represent a distinct performance obligation within the context of the contract. The Company has elected to use the practical expedient to expense the incremental costs of obtaining a contract if the amortization period of the asset that the Company would have otherwise recognized is one year or less. Contract costs, which include commissions incurred related to the sale of homes, are expensed at the point-in-time when the related revenue is recognized. Warranty costs and contract costs are included in selling, general and administrative expenses in the statements of income.

For the three months ended June 30, 2022 and 2021, sales to an independent third-party and its affiliates accounted for $3,296 or 6.0% and $2,643 or 6.4% of our product sales, respectively. For the six months ended June 30, 2022 and 2021, sales to an independent third-party and its affiliates accounted for $6,194 or 5.8% and $4,948 or 6.7% of our product sales, respectively.

For the three months ended June 30, 2022 and 2021, total cost of product sales included $3,253 and $3,206 of costs relating to subcontracted production for commercial sales, reimbursed dealer expenses for consignment sales, and certain other similar costs incurred for retail store and commercial sales. For the six months ended June 30, 2022 and 2021, total cost of product sales included $6,252 and $5,407 of costs relating to subcontracted production for commercial sales, reimbursed dealer expenses for consignment sales, and certain other similar costs incurred for retail store and commercial sales.

Other revenue consists of consignment fees, commercial lease rents, service fees and other miscellaneous income. Consignment fees are charged to independent retailers on a monthly basis for homes held by the independent retailers pursuant to a consignment arrangement until the home is sold to an individual customer. Consignment fees are determined as a percentage of the home's wholesale price to the independent dealer. Revenue recognition for consignment fees is recognized over time using the output method as it provides a faithful depiction of the Company's performance toward completion of the performance obligation under the contract and the value transferred to the independent retailer for the time the home is held under consignment. Revenue for commercial leases is recognized as earned monthly over a contractual period of 96 or 120 months. Revenue for service fees and miscellaneous income is recognized at a point in time when the performance obligation is satisfied.

(dollars in thousands)

Disaggregation of Revenue. The following table summarizes customer contract revenues disaggregated by source of the revenue for the three and six months ended June 30, 2022 and 2021:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Product sales:				
Direct sales	$ 11,745	$ 5,493	$ 22,608	$ 8,915
Commercial sales	14,305	13,050	28,364	25,368
Consignment sales	20,247	13,889	40,287	24,488
Retail store sales	5,657	6,183	9,816	9,504
Other (1)	3,144	2,500	5,810	5,114
Total product sales	55,098	41,115	106,885	73,389
Consumer and MHP loans interest:				
Interest - consumer installment notes	4,701	4,046	9,158	8,189
Interest - MHP notes	2,796	2,688	5,104	5,183
Total consumer and MHP loans interest	7,497	6,734	14,262	13,372
Other	1,616	740	2,992	1,767
Total net revenue	$ 64,211	$ 48,589	$ 124,139	$ 88,528

(1) Other product sales revenue from ancillary products and services including parts, freight and other services

Share-Based Compensation

The Company accounts for share-based compensation in accordance with the provisions of Accounting Standards Codification ("ASC") 718, *Compensation—Stock Compensation*. Share-based compensation expense is recognized based on the award's estimated grant date fair value in order to recognize compensation cost for those shares expected to vest. The Company has elected to record forfeitures as they occur. Compensation cost is recognized on a straight-line basis over the vesting period of the awards and adjusted as forfeitures occur.

The fair value of each option grant with only service-based conditions is estimated using the Black-Scholes pricing model. The fair value of each restricted stock unit (the "RSU") with only service-based conditions is calculated based on the closing price of the Company's common stock on the grant date. The fair value of each RSU with market based conditions is estimated using the Monte-Carlo Simulation valuation model.

The fair value of stock option awards on the date of grant is estimated using the Black-Scholes option pricing model, which requires the Company to make certain predictive assumptions. The risk-free interest rate is based on the implied yield of U.S. Treasury zero-coupon securities that correspond to the expected life of the award. As a recently formed public entity with a small public float and limited trading of its common shares on the NASDAQ Global Market, it was not practicable for the Company to estimate the volatility of its common shares; therefore, management estimated volatility based on the historical volatilities of a small group of companies considered as close to comparable to the Company as available, all equally weighted, over the expected life of the option. Management concluded that this group is more characteristic of the Company's business than a broad industry index. The expected life of awards granted represents the period of time that the awards are expected to be outstanding based on the "simplified" method, which is allowed for companies that cannot reasonably estimate the expected life of options based on its historical award exercise experience. The Company does not expect to pay dividends on its common stock.

The fair value of RSU awards with market based conditions on the date of grant is estimated using the Monte-Carlo Simulation valuation model, and the Company uses the following methods to determine its underlying assumptions: expected volatilities are based on the Company’s historic stock price volatility; the expected term of the awards is based on performance measurement period; the risk-free interest rate is based on the U.S. Treasury bond yield issued with similar life terms to the expected life of the grant.

Accounts Receivable

Included in accounts receivable “net” are receivables from direct sales of mobile homes, sales of parts and supplies to customers, consignment fees and interest. Accounts receivable “dealer financed” are receivables for interest, fees and curtailments owed from dealers under their inventory finance agreements.

Accounts receivables “net” are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts receivables “dealer financed” are due upon receipt and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines the allowance by considering several factors, including the aging of the past due balance, the customer’s payment history, and the Company’s previous loss history. The Company establishes an allowance for doubtful accounts for amounts that are deemed to be uncollectible. On June 30, 2022 and December 31, 2021, the allowance for doubtful accounts totaled $456 and $343, respectively.

Leased Property

The Company offers mobile home park operators the opportunity to lease mobile homes for rent in lieu of purchasing the homes for cash or under a longer-term financing agreement. In this arrangement title for the mobile homes remains with the Company.

The standard lease agreement is typically for 96 months or 120 months. Under the lease arrangement, the lessee (mobile home park operator) uses the mobile homes as personal property to be rented as a residence at the lessee's mobile home park. The lessee makes monthly, periodic lease payments to the Company over the term of the lease. The lessee is responsible for maintaining the homes during the term of the lease. The lessee is also responsible for repairing all damages caused by force majeure events even in cases of total or partial loss of the property. At the end of the lease term or in the event of default, the lessee is required to deliver to the Company the homes with all improvements in good repair and condition in substantially the same condition as existed at the commencement of the lease. The lessee may terminate the lease with 30 days written notice to the Company and pay a lease termination fee equal to 10% of the remaining lease payments or six month’s rent, whichever is greater. The lessee has an option to purchase the homes at the end of the lease term for fair market value based on an agreed upon determination of fair market value by both parties using comparable sales, recent appraisal, or NADA official guidance. The lessee must provide the Company with 30 days written notice prior to expiration of the lease of intent to purchase the property for fair market value. The lease also includes a renewal option whereby the lessee has the option to extend the lease for an additional 48 months (the extended term) at the same terms and conditions as the original lease. The lessee must notify the Company of the intent to exercise the renewal extension option not less than six months prior to expiration of the lease term. The leased mobile homes are included in other assets on the Company’s balance sheet, capitalized at manufactured cost and depreciated over a 15 year useful life. Homes returned to the Company upon expiration of the lease or in the event of default will be sold by the Company through its standard sales and distribution channels. Depreciation expense for the leased property was $180 and $132 for the three months ended June 30, 2022 and 2021, respectively, and $340 and $230 for the six months ended June 30, 2022 and 2021, respectively.

LEGACY HOUSING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands)

Future minimum lease income under all operating leases for each of the next five years at June 30, 2022, are as follows:

2022	$	1,082
2023		2,163
2024		2,163
2025		2,163
2026		2,163
Thereafter		4,929
Total	$	14,663

Recent Accounting Pronouncements

The Company has elected to use longer phase-in periods for the adoption of new or revised financial accounting standards under the JOBS Act as an emerging growth company.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and an asset representing its right to use the underlying asset for the lease term. As an emerging growth company, ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, and interim periods within those years. The Company adopted this standard in the first quarter of fiscal 2022 and elected certain practical expedients permitted under the transition guidance, including the package of practical expedients; however, the Company did not elect the hindsight practical expedient. Additionally, the Company elected the optional transition method that allowed for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. The adoption of ASU 2016-02 resulted in an increase in total assets and total liabilities of $3,258 at transition. However, this standard did not have a material impact on the consolidated statement of income or the consolidated statement of cash flows. See Note 5 for further discussion on leases.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down and affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The Company plans to use the longer phase-in period for adoption, and accordingly this ASU is effective for the Company's fiscal year beginning January 1, 2023. The Company is continuing to evaluate the impact of the adoption of this ASU and is uncertain of the impact on the financial statements and disclosures at this point in time.

From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

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(dollars in thousands)

2. CONSUMER LOANS

Consumer loans result from financing transactions entered into with retail consumers of mobile homes sold through independent retailers and company-owned retail locations. Consumer loans receivable generally consist of the sales price and any additional financing fees, less the buyer's down payment. Interest income is recognized monthly per the terms of the financing agreements. The average contractual interest rate per loan was approximately 13.5% as of June 30, 2022 and December 31, 2021, respectively. Consumer loans receivable have maturities that range from 3 to 30 years.

Loan applications go through an underwriting process that considers credit history to evaluate credit risk of the consumer. Interest rates on approved loans are determined based on consumer credit score, payment ability and down payment amount.

The Company uses payment history to monitor the credit quality of the consumer loans on an ongoing basis.

The Company may also receive escrow payments for property taxes and insurance included in its consumer loan collections. The liabilities associated with these escrow collections totaled $9,771 and $9,350 as of June 30, 2022 and December 31, 2021, respectively, and are included in escrow liability in the condensed balance sheets.

Allowance for Loan Losses—Consumer Loans Receivable

The allowance for loan losses reflects management's estimate of losses inherent in the consumer loans that may be uncollectible based upon review and evaluation of the consumer loan portfolio as of the date of the condensed balance sheet. An allowance for loan losses is determined after giving consideration to, among other things, the loan characteristics, including the financial condition of borrowers, the value and liquidity of collateral, delinquency and historical loss experience.

The allowance for loan losses is comprised of two components: the general reserve and specific reserves. The Company's calculation of the general reserve considers the historical loss rate for the last three years, adjusted for the estimated loss discovery period and any qualitative factors both internal and external to the Company. Specific reserves are determined based on probable losses on specific classified impaired loans.

The Company's policy is to place a loan on nonaccrual status when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is when either principal or interest is past due and remains unpaid for more than 90 days or other indications of distress. Management implemented this policy based on an analysis of historical data, current performance of loans and the likelihood of recovery once principal or interest payments became delinquent and were aged more than 90 days. Payments received on nonaccrual loans are accounted for on a cash basis, first to interest and then to principal, as long as the remaining book balance of the asset is deemed to be collectible. The accrual of interest resumes when the past due principal or interest payments are brought within 90 days of being current.

Impaired loans are those loans where it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impaired loans, or portions thereof, are charged off when deemed uncollectible. A loan is generally deemed impaired if it is more than 90 days past due on principal or interest, is in bankruptcy proceedings, or is in the process of repossession. A specific reserve is created for impaired loans based on fair value of underlying collateral value, less estimated selling costs. The Company uses various factors to determine the value of the underlying collateral for impaired loans. These factors are: (1) the length of time the unit was unsold after construction; (2) the amount of time the house was occupied; (3) the cooperation level of the borrowers, i.e., loans requiring legal action or extensive field collection efforts; (4) units located on private property as opposed to a manufactured home park; (5) the length of time the borrower has lived in the house without making payments; (6) location, size, and market conditions; and (7) the experience and expertise of the particular dealer assisting in collection efforts.

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Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the estimated fair value of the home, less the costs to sell. At repossession, the fair value of the collateral is computed based on the historical recovery rates of previously charged off loans; the loan is charged off and the loss is charged to the allowance for loan losses. At each reporting period, the fair value of the collateral is adjusted to the lower of the amount recorded at repossession or the estimated sales price less estimated costs to sell, based on current information. Repossessed homes totaled $725 and $517 as of June 30, 2022 and December 31, 2021, respectively, and are included in other assets in the condensed balance sheets.

Consumer loans receivable, net of allowance for loan losses and deferred financing fees, consists of the following:

	As of June 30, 2022	As of December 31, 2021
Consumer loans receivable	$ 134,215	$ 129,119
Loan discount and deferred financing fees	(2,522)	(2,612)
Allowance for loan losses	(763)	(884)
Consumer loans receivable, net	$ 130,930	$ 125,623

The following table presents a detail of the activity in the allowance for loan losses:

	Three months ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Allowance for loan losses, beginning of period	$ 724	$ 927	$ 884	$ 905
Provision for loan losses	55	23	(257)	558
Charge offs (recoveries)	(16)	(136)	136	(649)
Allowance for loan losses	$ 763	$ 814	$ 763	$ 814

The reserve for loan losses consists of the following:

	As of June 30, 2022	As of December 31, 2021
Total consumer loans	$ 134,215	$ 129,119
Allowance for loan losses	$ 763	$ 884
Impaired loans individually evaluated for impairment	$ 1,180	$ 1,239
Specific reserve against impaired loans	$ 502	$ 533
Other loans collectively evaluated for allowance	$ 133,035	$ 127,880
General allowance for loan losses	$ 261	$ 351

(dollars in thousands)

As of June 30, 2022 and December 31, 2021, the total principal outstanding for consumer loans on nonaccrual status was $1,180 and $1,239, respectively. A detailed aging of consumer loans receivable that are past due as of June 30, 2022 and December 31, 2021 were as follows:

	As of June 30, 2022	%	As of December 31, 2021	%
Total consumer loans receivable	$ 134,215	100.0	$ 129,119	100.0
Past due consumer loans:				
31 - 60 days past due	$ 191	0.1	$ 594	0.5
61 - 90 days past due	402	0.3	407	0.3
91 - 120 days past due	94	0.1	114	0.1
Greater than 120 days past due	1,105	0.8	967	0.7
Total past due	$ 1,792	1.3	$ 2,082	1.6

3. NOTES RECEIVABLE FROM MOBILE HOME PARKS

The notes receivable from mobile home parks ("MHP Notes") relate to mobile homes sold to mobile home parks and financed through notes receivable. The MHP Notes have varying maturity dates and call for monthly principal and interest payments. The interest rate on the MHP Notes can be fixed or variable. Approximately $102 million of the MHP Notes have a fixed interest rate ranging from 6.9% to 8.9%. The remaining MHP Notes have a variable rate typically set at 4.0% above prime with a minimum of 8.0%. The average interest rate per loan was approximately 7.6% and 7.6% as of June 30, 2022 and December 31, 2021, respectively, with maturities that range from 1 to 18 years. The collateral underlying the MHP Notes are individual mobile homes which can be repossessed and resold. The MHP Notes are generally guaranteed by the borrowers personally.

The Company had concentrations of MHP Notes with an independent third-party and its affiliates that equaled 29.1% and 52.1% of the principal balance outstanding, all of which was secured by the mobile homes, as of June 30, 2022 and December 31, 2021, respectively.

MHP Notes are stated at amounts due from customers, net of allowance for loan losses. The Company determines the allowance by considering several factors including the aging of the past due balance, the customer's payment history, and the Company's previous loss history. The Company establishes an allowance reserve composed of specific and general reserve amounts. As of June 30, 2022 and December 31, 2021, the MHP Note balance is presented net of unamortized finance fees of $771 and $445, respectively. The finance fees are amortized over the life of the MHP Notes.

There were minimal past due balances on the MHP Notes as of June 30, 2022 and December 31, 2021 and no charge offs were recorded for MHP Notes during the three and six months ended June 30, 2022 and 2021, respectively. Allowance for loan loss is considered immaterial and accordingly no loss is recorded against the MHP Notes as of June 30, 2022 and December 31, 2021.

There were no impaired MHP Notes as of June 30, 2022 and December 31, 2021, respectively, and there were no repossessed homes balances as of June 30, 2022 and December 31, 2021, respectively. Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the estimated fair value of the home, less the costs to sell.

4. OTHER NOTES RECEIVABLE

Other notes receivable relate to various notes issued to mobile home park owners and dealers, which are not directly tied to sales of mobile homes. The other notes have varying maturity dates and call for monthly principal and interest payments. The other notes are collateralized by mortgages on real estate, units being financed and used as offices, as well as vehicles, and are typically guaranteed by the borrowers personally. The interest rate on the other notes are fixed and range from 5.00% to 12.00%. The Company reserves for estimated losses on the other notes based on current economic conditions that may affect the borrower's ability to pay, the borrower's financial strength, and historical loss experience. There were no past due balances for other notes as of June 30, 2022 and December 31, 2021, respectively, and there were no impaired balances for other notes as of June 30, 2022 and December 31, 2021, respectively.

(dollars in thousands)

The balance outstanding on the other notes receivable were as follows:

	As of June 30, 2022	As of December 31, 2021
Outstanding principal balance	$ 30,934	$ 42,074
Allowance for loan losses	(53)	(74)
Total	$ 30,881	$ 42,000

5. LEASES

The Company currently has 13 operating leases, eight of which are for the Company's Heritage Housing and Tiny Homes retail locations, three which are subleased by the Company and two are for corporate and administrative offices in Bedford, TX and Norcross, GA. These leases typically have initial terms ranging from 5 to 10 years and include one or more options to renew.

Under ASC 842, a modified retrospective transition is required, applying the new standard to all leases at the date of initial application. The Company chose to use the adoption date of January 1, 2022 for ASC 842. As such, all periods presented after January 1, 2022, are under ASC 842 whereas periods presented prior to January 1, 2022, are in accordance with prior lease accounting of ASC 840. Financial information was not updated and the disclosures required under ASC 842 were not provided for dates and periods before January 1, 2022.

We determine if an arrangement is a lease at inception. Operating leases are right-of-use ("ROU") assets and are shown as ROU assets – operating leases on our Condensed Balance Sheet. The lease liabilities are shown as Operating lease obligation and Operating lease obligation, less current portion on our Condensed Balance Sheet. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. We have elected the practical expedient to not separate lease and non-lease components. Therefore, lease payments included in the measurement of the lease liability include all fixed payments in the lease arrangement. We record a ROU asset for an amount equal to the lease liability, increased for any prepaid lease costs and initial direct costs and reduced by any lease incentives. We remeasure the lease liability and ROU asset when a change to our future minimum lease payments occurs. Key assumptions and judgments included in the determination of the lease liability include the discount rate used in the present value calculation and the exercise of renewal options.

Many of our leases contain renewal options. As the exercise of the renewal options is not certain at commencement of a lease, we generally do not include the option periods in the lease term when determining the lease liabilities and ROU assets. We remeasure the lease liability and ROU asset when we are reasonably certain that we will exercise a renewal option.

Our leases do not provide information about the rate implicit in the lease. Therefore, we utilize an incremental borrowing rate to calculate the present value of our future lease obligations. The incremental borrowing rate represents the rate of interest we would have to pay on a collateralized borrowing, for an amount equal to the lease payments, over a similar term and in a similar economic environment. The remaining weighted-average lease term is 5.0 years and the weighted-average discount rate is 2.12%.

(dollars in thousands)

We consider lease payments that cannot be predicted with reasonable certainty upon lease commencement to be variable lease payments, which are recorded as incurred each period and are excluded from our calculation of lease liabilities. There were no variable lease costs for the three months ended June 30, 2022.

Short-term leases, those with a term of 12 months or less, are not recorded on our Condensed Balance Sheet. Our short-term lease costs were not material for the three months ended June 30, 2022.

As of June 30, 2022, future minimum lease payments under our operating lease liabilities were as follows:

2022	$	350
2023		709
2024		644
2025		608
2026		546
Thereafter		429
Total lease payments	$	3,286
Less amount representing interest		(99)
Total lease liability	$	3,187
Less current lease liability		(662)
Total non-current lease liability	$	2,525

6. INVENTORIES

Inventories consists of the following:

	As of June 30, 2022	As of December 31, 2021
Raw materials	$ 17,833	$ 15,431
Work in progress	783	714
Finished goods (1)	33,072	28,195
Allowance for obsolescence	(315)	(432)
Total	$ 51,373	$ 43,908

(1) Finished goods includes $4,603 and $2,678 as of June 30, 2022 and December 31, 2021, respectively, held for more than twelve months and classified as long-term.

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(dollars in thousands)

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	As of June 30, 2022	As of December 31, 2021
Land	$ 14,953	$ 14,949
Buildings and leasehold improvements	14,936	13,722
Vehicles	1,702	1,682
Machinery and equipment	5,515	5,058
Furniture and fixtures	300	298
Total	37,406	35,709
Less accumulated depreciation	(8,909)	(8,193)
Total property, plant and equipment	$ 28,497	$ 27,516

Depreciation expense was $286 with $127 included as a component of cost of product sales for the three months ended June 30, 2022 and $261 with $109 included as a component of cost of product sales for the three months ended June 30, 2021. Depreciation expense was $ 563 with $248 included as a component of cost of product sales for the six months ended June 30, 2022 and $524 with $214 included as a component of cost of product sales for the six months ended June 30, 2021.

8. OTHER ASSETS

Other assets consists of the following:

	As of June 30, 2022	As of December 31, 2021
Prepaid rent	$ 349	$ 248
Other	332	332
Repossessed homes	725	517
Total	$ 1,406	$ 1,097

(dollars in thousands)

9. ACCRUED LIABILITIES

Accrued liabilities consists of the following:

	As of June 30, 2022	As of December 31, 2021
Warranty reserve	$ 2,240	$ 2,876
Litigation reserve	1,402	2,764
Payroll	2,280	1,685
Portfolio taxes and title	2,283	2,467
Property tax	466	546
Dealer rebates	1,224	1,160
Sales tax	47	310
Federal and state income taxes	3,170	7,445
Other	1,868	1,433
Total accrued liabilities	$ 14,980	$ 20,686

10. DEBT

Lines of Credit

Revolver 1

At December 31, 2019, the Company had a revolving line of credit (“Revolver 1”) with Capital One, N.A. with a maximum credit limit of $45,000 and a maturity date of May 11, 2020. On March 30, 2020, the Company entered into an agreement with Capital One, N.A. to replace Revolver 1 with a new revolving line of credit (“New Revolver”). The New Revolver has a maximum credit limit of $70,000 and a maturity date of March 30, 2024. For the period January 1, 2020 through March 30, 2020, Revolver 1 accrued interest at one-month LIBOR plus 2.40%. Amounts available under Revolver 1 were subject to a formula based on eligible consumer loans and MHP Notes and were secured by all accounts receivable, consumer loans and MHP Notes.

The New Revolver accrues interest at one-month LIBOR plus 2.00%. The interest rate in effect as of June 30, 2022 and December 31, 2021 was 3.06% and 2.10%, respectively. As with Revolver 1, amounts available under the New Revolver are subject to a formula based on eligible consumer loans and MHP Notes and are secured by all accounts receivable, consumer loans and MHP Notes. The amount of available credit under the New Revolver was $57,386 and $61,841 as of June 30, 2022 and December 31, 2021, respectively. In connection with the New Revolver, the Company paid certain arrangement fees and other fees of approximately $295, which were capitalized as unamortized debt issuance costs and will be amortized to interest expense over the life of the New Revolver.

For the three months ended June 30, 2022 and 2021, interest expense under the New Revolver was $182 and $283, respectively. For the six months ended June 30, 2022 and 2021, interest expense under the New Revolver was $239 and $509, respectively. The outstanding balance as of June 30, 2022 and December 31, 2021 was $12,614 and $7,993, respectively. The New Revolver requires the Company to comply with certain financial and non-financial covenants. As of June 30, 2022, the Company was in compliance with all financial covenants, including that it maintain a tangible net worth of at least $120,000 and that it maintain a ratio of debt to EBITDA of 4 to 1, or less.

On June 21, 2022, the Company received a Reservation of Rights notice from Capital One, N.A. The letter stated that the Company’s New Revolver was in default. The default condition occurred due to the Company’s failure to timely file the Form 10-K and deliver certain financial statement to Capital One, N.A. On July 28, 2022, the Company executed a forbearance agreement with Capital One, N.A.

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PILOT Agreement

In December 2016, the Company entered into a Payment in Lieu of Taxes ("PILOT") agreement commonly offered in Georgia by local community development programs to encourage industry development. The net effect of the PILOT agreement is to provide the Company with incentives through the abatement of local, city and county property taxes and to provide financing for improvements to the Company's Georgia plant (the "Project"). In connection with the PILOT agreement, the Putman County Development Authority provides a credit facility for up to $10,000, which can be drawn upon to fund Project improvements and capital expenditures as defined in the agreement. If funds are drawn, the Company would pay transaction costs and debt service payments. The PILOT agreement requires interest payments of 6.00% per annum on outstanding balances, which are due each December 1st through maturity on December 1, 2021, at which time all unpaid principal and interest are due. The PILOT agreement is collateralized by the assets of the Project. As of June 30, 2022, the Company had not drawn on this credit facility.

11. SHARE-BASED COMPENSATION

Pursuant to the Legacy Housing Corporation 2018 Incentive Compensation Plan (the "Compensation Plan"), the Company may issue up to 10.0 million equity awards to employees, directors, consultants and nonemployee service providers in the form of stock options, stock and stock appreciation rights. Stock options may be granted with a contractual life of up to ten years. At June 30, 2022, the Company had 8.1 million shares available for grant under the Compensation Plan.

In February 2019, the Company granted 120,000 restricted shares of its common stock to members of senior management. The shares were granted on February 7, 2019 and had a grant date fair value of $1,636. The shares vest at a rate of 14.3% annually, beginning on February 7, 2019, and becoming fully vested on February 7, 2025. During the second quarter of 2020, 42,857 of these restricted shares were forfeited due to the departure of a member of senior management.

In December 2020, the Company granted 2,022 restricted shares of its common stock to the independent directors on the Company's Board of Directors. The shares were granted on December 2, 2020 and had a grant date fair value of $30. The shares become fully vested on October 4, 2021.

In November 2021, the Company granted 1,202 restricted shares of its common stock to the independent directors on the Company's Board of Directors. The shares were granted on November 30, 2021 and had a grant date fair value of $30. The shares become fully vested on October 24, 2022.

In January 2022, the Company granted 150,000 restricted shares of its common stock to the Executive Chairman of the Company pursuant to an amended and restated employment agreement. The shares were granted on January 6, 2022 and had a grant date fair value of $3,741. The shares became fully vested upon grant.

On January 6, 2022, the Company gave contingent equity awards of 350,000 shares of the Company's restricted stock to the Executive Chairman of the Company pursuant to an amended and restated employment agreement. An equity award of 175,000 shares will be granted if the Company's stock price reaches and remains for a period of fifteen consecutive market days at a closing price of $36 per share (the "$36 Equity Award"). The $36 Equity Awards had a grant date fair value of $1,412 and fifty percent of the shares shall be vested at grant and fifty percent shall vest on June 16, 2024, so long as the Executive Chairman is employed by the Company on that date. An additional equity award of 175,000 shares of the Company's restricted stock will be granted if the Company's stock price reaches and remains for a period of fifteen consecutive market days at a closing price of $48 per share (the "$48 Equity Award"). The $48 Equity Awards had a grant date fair value of $683 and fifty percent of the shares shall be vested at grant and fifty percent shall vest on June 16, 2024, so long as the Executive Chairman is employed by the Company on that date. As of June 30, 2022, none of the conditions have been met for the vesting of the $36 Equity Awards or the $48 Equity Awards.

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(dollars in thousands)

On June 7, 2022, the Company granted 14,700 restricted shares of its common stock to the Chief Executive Officer of the Company pursuant to an employment agreement. The shares were granted on June 7, 2022 and had a grant date fair value of $235. One-half of the shares vest on June 7, 2023 and the remaining half vest on June 7, 2024.

The following is a summary of restricted stock units (the "RSU") activity (in thousands, except per unit data):

	Number of Units		Weighted Average Grant Date Fair Value Per Unit
Nonvested, January 1, 2022	35	$	14.01
Granted	515	$	11.80
Vested	(158)	$	24.33
Nonvested, June 30, 2022	392	$	6.92

As of June 30, 2022, approximately 392,000 RSUs remained unvested. Unrecognized compensation expense related to these RSUs at June 30, 2022 was $2,219 and is expected to be recognized over 2.04 years.

The Company granted 34,626 incentive stock options to a member of senior management. The options were granted on August 10, 2020 at an exercise price of $14.44 per share. The options vest at a rate of 20.0% annually, beginning on August 10, 2021, and becoming fully vested on August 10, 2025. All options expire ten years after the date of grant. Weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted were as follows: risk free interest rate of 0.24%; dividend yield of 0.00%; expected volatility of common stock of 75.0% and expected life of options of 6.5 years. During the first quarter of 2022, 27,701 of these options were forfeited due to the departure of the senior manager.

The Company granted 55,490 incentive stock options to a member of management. The options were granted on September 23, 2021 at an exercise price of $18.02 per share. The options vest at a rate of 10.0% annually, beginning on September 23, 2022, and becoming fully vested on September 23, 2031. All options expire ten years after the date of grant. Weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted were as follows: risk free interest rate of 1.41%; dividend yield of 0.00%; expected volatility of common stock of 75.0% and expected life of options of 7.8 years.

The Company granted 62,460 incentive stock options to the Chief Executive Officer. The options were granted on June 7, 2022 at an exercise price of $16.01 per share. The options vest at a rate of 10.0% annually, beginning on June 7, 2023, and becoming fully vested on June 7, 2032. All options expire ten years after the date of grant. Weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted were as follows: risk free interest rate of 2.98%; dividend yield of 0.00%; expected volatility of common stock of 45.7% and expected life of options of 7.8 years.

The Company granted options to purchase 900,000 shares of the Company's stock to the Chief Executive Officer. An option to purchase 300,000 shares of the Company's stock was granted on June 7, 2022 at an exercise price of $36.00 per share and an option to purchase 600,000 shares of the Company's stock was granted on June 7, 2022 at an exercise price of $48.00 per share. The options vest at a rate of 10.0% annually, beginning on June 7, 2023, and becoming fully vested on June 7, 2032. All options expire ten years after the date of grant. Weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted were as follows: risk free interest rate of 2.98%; dividend yield of 0.00%; expected volatility of common stock of 45.7% and expected life of options of 7.8 years.

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The Company granted 62,460 incentive stock options to the Chief Financial Officer. The options were granted on June 7, 2022 at an exercise price of $16.01 per share. The options vest at a rate of 10.0% annually, beginning on June 7, 2023, and becoming fully vested on June 7, 2032. All options expire ten years after the date of grant. Weighted-average assumptions used in the Black-Scholes option pricing model for stock options granted were as follows: risk free interest rate of 2.98%; dividend yield of 0.00%; expected volatility of common stock of 45.7% and expected life of options of 7.8 years.

The following is a summary of option activity (in thousands, except per unit data):

	Number of Units	Weighted Average Exercise Price Per Unit	Weighted Average Grant Date Fair Value Per Unit	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2022, nonvested	83	$ 16.83	$ 12.27	9.36	
Granted	1,025	$ 40.59	$ 4.99	10	
Exercised	—	$ —	$ —	—	
Forfeited	(28)	14.44	8.67	—	
Outstanding, June 30, 2022, nonvested	1,080	$ 39.43	$ 5.46	9.91	$ —
Exercisable, June 30, 2022	—	$ —	$ —	—	$ —

As of June 30, 2022, approximately 1,080,000 options remained nonvested. Unrecognized compensation expense related to these options at June 30, 2022 was $5,804 and is expected to be recognized over 9.91 years.

On March 31, 2020, the Company filed a registration statement on Form S-8 to register with the SEC approximately 2.3 million shares of Legacy common stock available for issuance under the 2018 Incentive Compensation Plan. The registration statement became effective upon filing.

12. INCOME TAXES

The provision for income tax expense for the six months ended June 30, 2022 and 2021 was $7,375 and $4,707, respectively. The effective tax rate for the six months ended June 30, 2022 was 18.1% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes. The effective tax rate for the six months ended June 30, 2021 was 16.8% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes.

13. COMMITMENTS AND CONTINGENCIES

As of January 1, 2020, the Company instituted a self-insured health benefits plan with a stop-loss policy, which provides medical benefits to employees electing coverage under the plan. The Company estimates and records costs for incurred but not reported medical claims and claim development. This reserve is based on historical experience and other assumptions, some of which are subjective. The Company will adjust its self-insured medical benefits reserve based on actual experience, estimated costs and changes to assumptions. At June 30, 2022 and December 31, 2021, the Company accrued a $280 and $373, respectively, liability for incurred but not reported claims.

The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The Company's obligation under these repurchase agreements ceases upon the purchase of the home by the retail customer. The maximum amount for which the Company was liable under such agreements totaled $11,400 and $4,908 at June 30, 2022 and December 31, 2021, respectively, without reduction for the resale value of the homes. The Company considers its obligations on current contracts to be insignificant and accordingly have not recorded any reserve for repurchase commitment as of June 30, 2022 and December 31, 2021.

(dollars in thousands)

Leases. The Company leases facilities under operating leases that typically have 10-year terms. These leases usually offer the Company a right of first refusal that affords the Company the option to purchase the leased premises under certain terms in the event the landlord attempts to sell the leased premises to a third party. Rent expense was $176 and $146 for the three months ended June 30, 2022 and 2021, respectively, and $339 and $402 for the six months ended June 30, 2022 and 2021, respectively. The Company also subleases properties to third parties, ranging from 3-year to 11-year terms with various renewal options. Rental income from the subleased property was approximately $55 and $91 for the three months ended June 30, 2022 and 2021, respectively, and approximately $110 and $182 for the six months ended June 30, 2022 and 2021, respectively. See Note 5 – Leases, for a schedule of the Company's future minimum lease commitments.

Legal Matters

The Company is party to certain legal proceedings that arise in the ordinary course and are incidental to its business. Certain of the claims pending against the Company in these proceedings allege, among other things, breach of contract and warranty, product liability and personal injury. The Company has determined that it is probable that it has some liability related to the claims. The Company has included legal reserves of $1,402 and $2,764 as of June 30, 2022 and December 31, 2021, respectively, in accrued liabilities on the accompanying condensed balance sheets. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company's financial position, liquidity or results of operations. However, future events or circumstances currently unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on the Company's financial position, liquidity or results of operations in any future reporting periods.

14. FAIR VALUE MEASUREMENTS

The Company accounts for its investments and derivative instruments in accordance with ASC 820-10, *Fair Value Measurement,* which among other things provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurement) and the lowest priority to unobservable inputs (Level III measurements). The three levels of fair value hierarchy under ASC 820-10, *Fair Value Measurement*, are as follows:

Level I	Quoted prices are available in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level II	Significant observable inputs other than quoted prices in active markets for which inputs to the valuation methodology include: (1) Quoted prices for similar assets or liabilities in active markets; (2) Quoted prices for identical or similar assets or liabilities in inactive markets; (3) Inputs other than quoted prices that are observable; (4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the full term of the asset or liability.
Level III	Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

The asset or liability fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company has used derivatives to manage risks related to interest rate movements. The Company does not enter into derivative contracts for speculative purposes. Interest rate swap contracts are recognized as assets or liabilities on the balance sheets and are measured at fair value. The fair value was calculated and provided by the lender, a Level II valuation technique. Management reviewed the fair values for the instruments as provided by the lender and determined the related asset and liability to be an accurate estimate of future gains and losses to the Company. The Company is not a party to any interest rate swaps as of June 30, 2022.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, consumer loans, MHP Notes, other note receivables, accounts payable, lines of credit, notes payable, and dealer portion of consumer loans.

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their respective fair values because of the short-term maturities or expected settlement dates of these instruments. This is considered a Level I valuation technique. The lines of credit, notes payable, part of the MHP Notes and part of the other note receivables have variable interest rates that reflect market rates and their fair value approximates their carrying value. This is considered a Level II valuation technique. The Company also assessed the fair value of the consumer loans receivable, the fixed rate MHP Notes and the portion of other note receivables with fixed rates based on the discounted value of the remaining principal and interest cash flows. The Company determined that the fair value of the consumer loan portfolio was approximately $131,300 compared to the book value of $130,932 as of June 30, 2022, and a fair value of approximately $125,600 compared to the book value of $125,623 as of December 31, 2021. The Company determined that the fair value of the fixed rate MHP Notes was approximately $100,500 compared to the book value of $101,850 as of June 30, 2022, and a fair value of approximately $83,000 compared to the book value of $83,773 as of December 31, 2021. The Company determined that the fair value of the other notes was approximately $29,400 compared to the book value of $30,321 as of June 30, 2022, and a fair value of approximately $38,500 compared to the book value of $38,886 as of December 31, 2021. This is a Level III valuation technique.

LEGACY HOUSING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands)

15. EARNINGS PER SHARE

Basic earnings per common share ("EPS") is computed based on the weighted-average number of common shares outstanding during each reporting period. Diluted EPS is based on the weighted-average number of common shares outstanding plus the number of additional shares that would have been outstanding had the dilutive common shares been issued. The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Numerator:				
Net income (in 000's)	$ 17,261	$ 12,649	$ 33,352	$ 23,349
Denominator:				
Basic weighted-average common shares outstanding	24,406,020	24,202,631	24,355,412	24,200,879
Effect of dilutive securities:				
Restricted stock grants	254,403	11,819	266,358	8,951
Stock options	261,702	20,463	151,575	19,435
Diluted weighted-average common shares outstanding	24,922,125	24,234,913	24,773,345	24,229,265
Earnings per share attributable to Legacy Housing Corporation				
Basic	$ 0.71	$ 0.52	$ 1.37	$ 0.96
Diluted	$ 0.69	$ 0.52	$ 1.35	$ 0.96

16. RELATED PARTY TRANSACTIONS

Bell Mobile Homes, a retailer owned by one of the Company's significant owners, purchases manufactured homes from the Company. Accounts receivable balances due from Bell Mobile Homes were $2 and $1 as of June 30, 2022 and December 31, 2021, respectively. Accounts payable balances due to Bell Mobile Homes for maintenance and related services were $116 and $49 as of June 30, 2022 and December 31, 2021, respectively. Home sales to Bell Mobile Homes were $1,223 and $695 for the three months ended June 30, 2022 and 2021, respectively, and $1,855 and $1,393 for the six months ended June 30, 2022 and 2021, respectively.

Shipley Bros., Ltd. ("Shipley Bros."), a retailer owned by one of the Company's significant shareholders, purchases manufactured homes from the Company. Home sales to Shipley Bros. were $1,018 and $524 for the three months ended June 30, 2022 and 2021, respectively, and $1,711 and $1,438 for the six months ended June 30, 2022 and 2021, respectively. There were no accounts receivable balances or accounts payable balances due from/to Shipley Bros. as of June 30, 2022 and December 31, 2021, respectively.

17. SUBSEQUENT EVENTS

On July 28, 2022, the Company entered into a Limited Waiver and First Amendment to Credit Agreement (the "Amendment") with Capital One, N.A. The Amendment replaces the LIBOR borrowing rate with a secured overnight financing rate and waives a default arising out of a monetary judgement against the Company that exceeded the amount allowed in the New Revolver.

LEGACY HOUSING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands)

On August 11, 2022, the Company received notice from Nasdaq regarding the Company's failure to file timely Form 10-Q for the period ending June 30, 2022. As a result of this delinquency, the Company submitted an update to its original plan to regain compliance with the Rule. The updated plan was submitted to Nasdaq on September 12, 2022.

On August 24, 2022, the Company received a Notice of Default and Partial Suspension of Loan Commitments from Capital One, N.A. The notice stated that the July 28, 2022 forbearance agreement had been terminated and that Capital One, N.A. was permitted to suspend $50,000 of the $70,000 loan commitment under the New Revolver. As a result, the available line of credit in the New Revolver has been limited to $20,000.

In connection with the preparation of these financial statements, an evaluation of subsequent events was performed through the date of filing.

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

The following discussion should be read in conjunction with the financial statements and accompanying notes and the information contained in other sections of this Form 10-Q. It contains forward-looking statements that involve risks and uncertainties, and is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those anticipated by our management in these forward-looking statements as a result of various factors, including those discussed in this Form 10-Q and in our Registration Statement on Form S-1, particularly under the heading "Risk Factors."

Overview

Legacy Housing Corporation builds, sells and finances manufactured homes and "tiny houses" that are distributed through a network of independent retailers and company-owned stores and are sold directly to manufactured housing communities. We are the sixth largest producer of manufactured homes in the United States as ranked by number of homes manufactured based on information available from the Manufactured Housing Institute and IBTS for the twelve month period ending March 31, 2022. With current operations focused primarily in the southern United States, we offer our customers an array of quality homes ranging in size from approximately 390 to 2,667 square feet consisting of 1 to 5 bedrooms, with 1 to $3_{1}/_{2}$ bathrooms. Our homes range in price, at retail, from approximately $22,000 to $140,000. For the three and six months ended June 30, 2022, we sold 999 and 2,003 home sections, respectively (which are entire homes or single floors that are combined to create complete homes). For the three and six months ended June 30, 2021, we sold 945 and 1,665 home sections, respectively.

The Company has one reportable segment. All of our activities are interrelated, and each activity is dependent and assessed based on how each of the activities of Company supports the others. For example, the sale of manufactured homes includes providing transportation and consignment arrangements with dealers. We also provide financing options to the customers to facilitate such sale of homes. In addition, the sale of homes is directly related to financing provided by us. Accordingly, all significant operating and strategic decisions by the chief operating decision-maker, the Executive Chairman of the Board, are based upon analyses of our company as one segment or unit.

We believe our company is one of the most vertically integrated in the manufactured housing industry, allowing us to offer a complete solution to our customers, from manufacturing custom-made homes using quality materials and distributing those homes through our expansive network of independent retailers and company-owned distribution locations, to providing tailored financing solutions for our customers. Our homes are constructed in the United States at one of our three manufacturing facilities in accordance with the construction and safety standards of the U.S. Department of Housing and Urban Development ("HUD"). Our factories employ high-volume production techniques that allow us to produce, on average, approximately 75 home sections, or 62 fully-completed homes depending on product mix, in total per week. We use quality materials and operate our own component manufacturing facilities for many of the items used in the construction of our homes. Each home can be configured according to a variety of floor plans and equipped with such features as fireplaces, central air conditioning and state-of-the-art kitchens.

Our homes are marketed under our premier "Legacy" brand name and currently are sold primarily across 15 states through a network of 71 independent retail locations, 13 company-owned retail locations and through direct sales to owners of manufactured home communities. Our 13 company-owned retail locations, including 11 Heritage Housing stores and two Tiny House Outlet stores exclusively sell our homes. For the six months ended June 30, 2022, approximately 50% of our manufactured homes were sold in Texas, followed by 11% in Georgia, 8% in Florida, 5% in Louisiana and 5% in Alabama. For the six months ended June 30, 2021, approximately 50% of our manufactured homes were sold in Texas, followed by 13% in Georgia, 9% in Louisiana and 4% in Alabama. We plan to deepen our distribution channel by using cash from operations and borrowings from our lines of credit to expand our company-owned retail locations in new and existing markets.

We offer three types of financing solutions to our customers. We provide floor plan financing for our independent retailers, which takes the form of a consignment arrangement between the retailer and us. We also provide consumer financing for our products which are sold to end-users through both independent and company-owned retail locations, and we provide financing solutions to manufactured housing community owners that buy our products for use in their manufactured housing communities. Our ability to offer competitive financing options at our retail locations provides us with several competitive advantages and allows us to capture sales which may not have otherwise occurred without our ability to offer consumer financing.

Corporate Conversion

Prior to January 1, 2018, we were a Texas limited partnership named Legacy Housing, Ltd. Effective January 1, 2018, we converted into a Delaware corporation pursuant to a statutory conversion, or the Corporate Conversion, and changed our name to Legacy Housing Corporation. All of our outstanding partnership interests were converted on a proportional basis into shares of common stock of Legacy Housing Corporation. Effective December 31, 2019, the Company reincorporated from a Delaware corporation to a Texas corporation. For more information, see "Corporate Conversion" in Note 1.

Following the Corporate Conversion, Legacy Housing Corporation continues to hold all of the property and assets of Legacy Housing, Ltd. and all of the debts and obligations of Legacy Housing, Ltd. continue as the debts and obligations of Legacy Housing Corporation. The purpose of the Corporate Conversion was to reorganize our corporate structure so that the top-tier entity in our corporate structure is a corporation rather than a limited partnership and so that our existing owners own shares of our common stock rather than partnership interests in a limited partnership. Except as otherwise noted, the financial statements included in this Form 10-Q are those of Legacy Housing Corporation.

Factors Affecting Our Performance

We believe that the growth of our business and our future success depend on various opportunities, challenges, trends and other factors, including the following:

- We have purchased several properties in our market area for the purpose of developing manufactured housing communities and subdivisions. As of June 30, 2022, these properties include the following (dollars in 000's):

Location	Description	Date of Acquisition	Land	Improvements	Total
Bastrop County, Texas	400 Acres	April 2018	$ 4,400	$ 1,564	$ 5,964
Bexar County, Texas	100 Acres	November 2018	1,300	114	1,414
Horseshoe Bay, Texas	133 Acres	Various 2018-2019	2,431	2,079	4,510
Johnson County, Texas	91.5 Acres	July 2019	445	16	461
Venus, Texas	50 Acres	August 2019	422	7	429
Wise County, Texas	81.5 Acres	September 2020	889	-	889
Bexar County, Texas	233 Acres	February 2021	1,550	129	1,679
			$ 11,437	$ 3,909	$ 15,346

- We also expect to provide financing solutions to a select group of our manufactured housing community-owner customers in a manner that includes developing new sites for products in or near urban locations where there is a shortage of sites to place our products. These solutions will be structured to give us an attractive return on investment when coupled with the gross margin we expect to make on products specifically targeted for sale to these new manufactured housing communities.

- Finally, our financial performance will be impacted by our ability to fulfill current orders for our manufactured homes from dealers and customers. Currently, our two Texas manufacturing facilities are operating at near peak capacity, with limited ability to increase the volume of homes produced at those plants. Our Georgia manufacturing facility has unutilized square footage available and with additional investment can add capacity to increase the number of homes that can be manufactured. We intend to increase production at the Georgia facility over time, particularly in response to orders increasingly being generated from new markets in Florida and the Carolinas. In order to maintain our growth, we will need to be able to continue to properly estimate anticipated future volumes when making commitments regarding the level of business that we will seek and accept, the mix of products that we intend to manufacture, the timing of production schedules and the levels and utilization of inventory, equipment and personnel.

- The coronavirus pandemic is an evolving threat to the economy and all businesses. At this time both the duration of the pandemic and the magnitude of the economic consequences are unknown. Risks to the Company include but are not limited to:

  - increased loan losses or deferred loan payments as loan obligors suffer cash flow issues resulting from reduced employment, reduced rental income or unit sales, or other factors;

  - reduced sales volume as potential customers are unable to shop for new homes or cannot qualify for a home purchase, retail dealers or company stores reduce or stop operations, or MHP owners reduce their future home purchases;

  - reduced production resulting from factors such as the spread of the illness through the Company's workforce or the impact of government interventions on labor force participation, reduced product demand, or government-mandated closures of our factories, company-owned stores, or retail lots of independent dealers who carry our products;

  - delays in development projects as zoning, regulatory, and permitting decisions are likely to be postponed and the expected negative impact of the pandemic on the construction industry;

  - reduced raw material availability related to global supply chain disruption from the pandemic, including possible border closures;

  - decreased cash flow from operations which could negatively affect our liquidity;

  - an outbreak of illness among our management and accounting staff could negatively affect our ability to maintain operations, operate our financial systems, delay our statutory reporting, and reduce our internal control of financial reporting.

  We continue to monitor government responses to support the economy and evaluate how those actions might mitigate the risks noted above. At this time, we believe that the pandemic will have a negative effect on our financial results that could range from minor to material.

Results of Operations

The following discussion should be read in conjunction with the information set forth in the financial statements and the accompanying notes appearing elsewhere in this Form 10-Q.

Comparison of Three Months ended June 30, 2022 and 2021 (in thousands)

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ change	% change
Net revenue:				
Product sales	$ 55,098	$ 41,115	$ 13,983	34.0 %
Consumer and MHP loans interest	7,497	6,734	763	11.3 %
Other	1,616	740	876	118.4 %
Total net revenue	64,211	48,589	15,622	32.2 %
Operating expenses:				
Cost of product sales	37,411	28,343	9,068	32.0 %
Selling, general administrative expenses	5,901	5,165	736	14.2 %
Dealer incentive	439	114	325	285.1 %
Income from operations	20,460	14,967	5,493	36.7 %
Other income (expense)				
Non-operating interest income	783	429	354	82.5 %
Miscellaneous, net	17	34	(17)	(50.0)%
Interest expense	(183)	(283)	100	(35.3)%
Total other	617	180	437	242.8 %
Income before income tax expense	21,077	15,147	5,930	39.1 %
Income tax expense	(3,816)	(2,498)	(1,318)	52.8 %
Net income	$ 17,261	$ 12,649	$ 4,612	36.5 %

Product sales primarily consist of direct sales, commercial sales, consignment sales and retail store sales. Product sales increased $14.0 million, or 34.0%, during the three months ended June 30, 2022 as compared to the same period in 2021. This increase was driven by higher average sales price and a slight increase in unit volumes.

Net revenue attributable to our factory-built housing consisted of the following during the three months of 2022 and 2021:

	Three months ended June 30, (in thousands) 2022	Three months ended June 30, (in thousands) 2021	$ Change	% Change
Net revenue:				
Products sold	$ 55,098	$ 41,115	$ 13,983	34.0 %
Total products sold	794	783	11	1.4 %
Net revenue per product sold	$ 69.4	$ 52.5	$ 17	32.2 %

For the three months ended June 30, 2022, our net revenue per product sold increased because of the increase in units sold and increases to our product prices in the second quarter of 2022 due to rising material and labor costs, which resulted in higher home sales prices and more revenue generated per home sold. We had increases in consignment sales, direct sales, commercial sales and other product sales partially offset by a decline in retail store sales. Sales through our company-owned retail stores have higher margins than our direct sales and consignment sales. For the three months ending September 30, 2022, we expect a decrease in net revenue attributable to product sales because of the Company and the State of Georgia's efforts to evaluate and improve the quality and consistency of homes manufactured in our Eatonton facility. These efforts have resulted in a temporary decrease in the rate of issuing HUD Labels of Certification and shipping finished homes from our Eatonton facility.

Consumer and MHP loans interest income grew $0.8 million, or 11.3%, during the three months ended June 30, 2022 as compared to the same period in 2021 and is primarily related to our increase in outstanding consumer loan portfolio partially offset by a decrease in outstanding MHP Note portfolio. The consumer loan portfolio has a higher average contractual interest rate compared to the MHP Note portfolio average contractual interest rate. Between June 30, 2022 and June 30, 2021 our MHP Note portfolio decreased by $23.5 million and the consumer loan portfolio increased by $14.9 million. On September 30, 2021, we collected $44.9 million in principal payment from one of our borrowers. As a result of this payment, MHP loan interest income is expected to decrease during 2022 as compared to 2021.

Other revenue primarily consists of consignment fees, commercial lease rents and servicer fee revenue and increased $0.9 million, or 118.4% during the three months ended June 30, 2022 as compared to the same period in 2021.

The cost of product sales increased $9.1 million, or 32.0%, during the three months ended June 30, 2022 as compared to the same period in 2021. The increase in costs is primarily related to a slight increase in units sold and increases in the cost of materials and labor in 2022 which was materially passed along to our end-customer.

Selling, general and administrative expenses increased $0.7 million, or 14.2%, during the three months ended June 30, 2022 as compared to the same period in 2021. This increase was primarily due to a $0.5 million increase in salaries and incentive costs, a $0.3 million increase in consulting and professional fees, a $0.2 million increase in title fees & expenses and a $0.2 million increase in loan losses partially offset by a net $0.5 million decrease in other miscellaneous costs.

Dealer incentive expense increased $0.3 million during the three months ended June 30, 2022 as compared to the same period in 2021.

Other income (expense), net increased $0.4 million during the three months ended June 30, 2022 as compared to the same period in 2021. This increase was primarily due to a $0.4 million increase in non-operating interest income and a decrease of $0.1 million in interest expense.

Income tax expense was $3.8 million during the three months ended June 30, 2022 compared to $2.5 million for the same period in 2021. The effective tax rate for the three months ended June 30, 2022 was 18.1% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes. The effective tax rate for the three months ended June 30, 2021 was 16.5% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes.

Comparison of Six Months ended June 30, 2022 and 2021 (in thousands)

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ change	% change
Net revenue:				
Product sales	$ 106,885	$ 73,389	$ 33,496	45.6 %
Consumer and MHP loans interest	14,262	13,372	890	6.7 %
Other	2,992	1,767	1,225	69.3 %
Total net revenue	124,139	88,528	35,611	40.2 %
Operating expenses:				
Cost of product sales	71,138	50,344	20,794	41.3 %
Selling, general administrative expenses	13,560	9,958	3,602	36.2 %
Dealer incentive	713	576	137	23.8 %
Income from operations	38,728	27,650	11,078	40.1 %
Other income (expense)				
Non-operating interest income	1,635	677	958	141.5 %
Miscellaneous, net	603	238	365	153.4 %
Interest expense	(239)	(509)	270	(53.0)%
Total other	1,999	406	1,593	392.4 %
Income before income tax expense	40,727	28,056	12,671	45.2 %
Income tax expense	(7,375)	(4,707)	(2,668)	56.7 %
Net income	$ 33,352	$ 23,349	$ 10,003	42.8 %

Product sales primarily consist of direct sales, commercial sales, consignment sales and retail store sales. Product sales increased $33.5 million, or 45.6%, during the six months ended June 30, 2022 as compared to the same period in 2021. This increase was driven by higher average sales price and an increase in unit volumes.

Net revenue attributable to our factory-built housing consisted of the following during the six months of 2022 and 2021:

	Six Months Ended June 30, (in thousands)			
	2022	2021	$ Change	% Change
Net revenue:				
Products sold	$ 106,885	$ 73,389	$ 33,496	45.6 %
Total products sold	1,596	1,410	186	13.2 %
Net revenue per product sold	$ 67.0	$ 52.0	$ 14.9	28.7 %

For the six months ended June 30, 2022, our net revenue per product sold increased because of the increase in units sold and increases to our product prices in the first half of 2022 due to rising material and labor costs, which resulted in higher home sales prices and more revenue generated per home sold. We had increases in consignment sales, direct sales, commercial sales, other product sales and retail store sales. Sales through our company-owned retail stores have higher margins than our direct sales and consignment sales. For the three months ending September 30, 2022, we expect a decrease in net revenue attributable to product sales because of the Company and the State of Georgia’s efforts to evaluate and improve the quality and consistency of homes manufactured in our Eatonton facility. These efforts have resulted in a temporary decrease in the rate of issuing HUD Labels of Certification and shipping finished homes from our Eatonton facility.

Consumer and MHP loans interest income grew $0.9 million, or 6.7%, during the six months ended June 30, 2022 as compared to the same period in 2021 and is primarily related to our increase in outstanding consumer loan portfolio partially offset by a decrease in outstanding MHP Note portfolio. The consumer loan portfolio has a higher average contractual interest rate compared to the MHP Note portfolio average contractual interest rate. Between June 30, 2022 and June 30, 2021 our MHP Note portfolio decreased by $23.5 million and the consumer loan portfolio increased by $14.9 million. On September 30, 2021, we collected $44.9 million in principal payment from one of our borrowers. As a result of this payment, MHP loan interest income is expected to decrease during 2022 as compared to 2021.

Other revenue primarily consists of consignment fees, commercial lease rents and servicer fee revenue and increased $1.2 million, or 69.3% during the six months ended June 30, 2022 as compared to the same period in 2021.

The cost of product sales increased $20.1 million, or 41.3%, during the six months ended June 30, 2022 as compared to the same period in 2021. The increase in costs is primarily related to an increase in units sold and increases in the cost of materials and labor in 2022 which was materially passed along to our end-customer.

Selling, general and administrative expenses increased $3.6 million, or 36.2%, during the six months ended June 30, 2022 as compared to the same period in 2021. This increase was primarily due to a $4.7 million increase in salaries and incentive costs and a $0.5 million increase in legal expense, a $0.1 million increase in consulting and professional fees, a $0.2 million increase in title fees & expenses partially offset by a $0.4 million decrease in loan losses, a $0.3 million decrease in warranty costs and a net $1.2 million decrease in other miscellaneous costs.

Dealer incentive expense increased $0.1 million, or 23.8%, during the six months ended June 30, 2022 as compared to the same period in 2021.

Other income (expense), net increased $1.6 million during the six months ended June 30, 2022 as compared to the same period in 2021. This increase was primarily due to a $0.9 million increase in non-operating interest income, an increase of $0.4 million in miscellaneous income, net and a decrease of $0.3 million in interest expense.

Income tax expense was $7.4 million during the six months ended June 30, 2022 compared to $4.7 million for the same period in 2021. The effective tax rate for the six months ended June 30, 2022 was 18.1% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes. The effective tax rate for the six months ended June 30, 2021 was 16.8% and differs from the federal statutory rate of 21% primarily due to a federal tax credit for energy efficient construction and partially offset by state income taxes.

Liquidity and Capital Resources

Cash and Cash Equivalents

We consider all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. We maintain cash balances in bank accounts that may, at times, exceed federally insured limits. We have not incurred any losses from such accounts and management considers the risk of loss to be minimal. We believe that cash flow from operations, cash and cash equivalents at June 30, 2022, and availability on our lines of credit will be sufficient to fund our operations and provide for growth for the next 12 to 18 months and into the foreseeable future. In 2020, we negotiated a new credit agreement with Capital One, N.A. that expanded and extended our credit availability (see ***Indebtedness* – Capital One Revolver**, below). As of June 30, 2022, we had approximately $14.3 million in cash and cash equivalents, compared to $1.0 million as of December 31, 2021.

Cash Flow Activities

	Six Months Ended June 30, (in thousands)	
	2022	2021
Net cash used in operating activities	$ (3,956)	$ (4,775)
Net cash provided by (used in) investing activities	$ 10,072	$ (8,482)
Net cash provided by financing activities	$ 7,109	$ 13,298
Net change in cash and cash equivalents	$ 13,225	$ 41
Cash and cash equivalents at beginning of period	$ 1,042	$ 768
Cash and cash equivalents at end of period	$ 14,267	$ 809

Comparison of Cash Flow Activities from June 30, 2022 to June 30, 2021

Net cash used in operating activities decreased $0.8 million during the six months ended June 30, 2022, compared to the comparable period in 2021, primarily as a result of increased MHP originations net of collections, increased dealer inventory loan originations net of collections, increased volume of consumer loan originations net of principal collections, increased inventories, increased accounts receivable, increase in other assets and a decrease in accounts payable. The increase in cash used in operating activities was partially offset by an increase in customer deposits, an increase in escrow liability and increased dealer incentive liability.

Net cash provided by investing activities of $10.1 million in 2022 was primarily attributable to $13.7 million of collections related to loans we made to third parties for the development of manufactured housing parks and collections of $0.3 million from our purchased consumer loans. These were offset by $2.4 million used for loans to third parties for the development of manufactured housing parks and $1.5 million used for the acquisition of property plant and equipment.

Net cash provided by financing activities of $7.1 million in 2022 was attributable to net proceeds of $4.6 million on our lines of credit and $2.5 million of proceeds from other liabilities. Net cash provided by financing activities of $13.5 million in 2021 was attributable to net proceeds of $13.5 million on our lines of credit.

Indebtedness

Capital One Revolver. At December 31, 2019, we had a revolving line of credit ("Revolver 1") with Capital One, N.A. with a maximum credit limit of $45,000 and a maturity date of May 11, 2020. On March 30, 2020, we entered into an agreement with Capital One, N.A. to replace Revolver 1 with a new revolving line of credit ("New Revolver"). The New Revolver has a maximum credit limit of $70,000 and a maturity date of March 30, 2024. For the period January 1, 2020 through March 30, 2020, Revolver 1 accrued interest at one-month LIBOR plus 2.40%. Amounts available under Revolver 1 were subject to a formula based on eligible consumer loans and MHP Notes and were secured by all accounts receivable, consumer loans and MHP Notes.

The New Revolver accrues interest at one-month LIBOR plus 2.00%. The interest rate in effect as of June 30, 2022 was 3.06%. As with Revolver 1, amounts available under the New Revolver are subject to a formula based on eligible consumer loans and MHP Notes and are secured by all accounts receivable, consumer loans and MHP Notes. The amount of available credit under the New Revolver was $57,386 as of June 30, 2022. In connection with the New Revolver, we paid certain arrangement fees and other fees of approximately $295, which were capitalized as unamortized debt issuance costs and will be amortized to interest expense over the life of the New Revolver.

For the six months ended June 30, 2022 and 2021, interest expense under the New Revolver was $239 and $509, respectively. The outstanding balance as of June 30, 2022 and December 31, 2021 was $12,614 and $7,993 respectively. The New Revolver requires the Company to comply with certain financial and non-financial covenants. As of June 30, 2022, the Company was in compliance with all financial covenants, including that it maintain a tangible net worth of at least $120,000 and that it maintain a ratio of debt to EBITDA of 4 to 1, or less.

On June 21, 2022, we received a Reservation of Rights notice from Capital One, N.A. The letter stated that our New Revolver was in default. The default condition occurred due to our failure to timely file the Form 10-K and deliver certain financial statement to Capital One, N.A. On July 28, 2022, we executed a forbearance agreement with Capital One, N.A.

On August 24, 2022, we received a Notice of Default and Partial Suspension of Loan Commitments from Capital One, N.A. The notice stated that the July 28, 2022 forbearance agreement had been terminated and that Capital One, N.A. was permitted to suspend $50,000 of the $70,000 loan commitment under the New Revolver. As a result, the available line of credit in the New Revolver has been limited to $20,000.

PILOT Agreement. In December 2016, we entered into a Payment in Lieu of Taxes (“PILOT”) agreement commonly offered in Georgia by local community development programs to encourage industry development. The net effect of the PILOT agreement is to provide us with incentives through the abatement of local, city and county property taxes and to provide financing for improvements to our Georgia plant (the “Project”). In connection with the PILOT agreement, the Putman County Development Authority provides a credit facility for up to $10,000, which can be drawn upon to fund Project improvements and capital expenditures as defined in the agreement. If funds are drawn, we would pay transaction costs and debt service payments. The PILOT agreement requires interest payments of 6.00% per annum on outstanding balances, which are due each December 1 through maturity on December 1, 2021, at which time all unpaid principal and interest are due. The PILOT agreement is collateralized by the assets of the Project. As of June 30, 2022, we had not drawn down on this credit facility.

Contractual Obligations

The following table is a summary of contractual cash obligations as of June 30, 2022:

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**2022**	**2023 - 2024**	**2025 - 2026**	**After 2026**
Lines of credit	$ 12,743	—	12,743	—	—
Operating lease obligations	$ 3,286	350	1,353	1,154	429

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, results of operations, liquidity or capital expenditures. However, we do have a repurchase agreement with a financial institution providing inventory financing for independent retailers of our products. Under this agreement, we have agreed to repurchase homes at declining prices over the term of the agreement (24 months). Our obligation under this repurchase agreement ceases upon the purchase of the home by the retail customer. The maximum amount of our contingent obligations under such repurchase agreements was approximately $11,400 and $4,908 as of June 30, 2022 and December 31, 2021, respectively, without reduction for the resale value of the homes. We may be required to honor contingent repurchase obligations in the future and may incur additional expense as a consequence of these repurchase agreements. We consider our obligations on current contracts to be immaterial and accordingly we have not recorded any reserve for repurchase commitment as of June 30, 2022.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. Our critical accounting estimates are identified and described in our Annual Report on Form 10-K for the year ended December 31, 2021. Subsequent to the filing of our Annual Report, there have been no material changes to our critical accounting estimates.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 1 – Nature of Operations, Recent Accounting Pronouncements to our June 30, 2022 Condensed Financial Statements, included in Part I, Item 1, Financial Statements (Unaudited), of this Quarterly Report.

Emerging Growth Company Status

We are an "emerging growth company," as defined in the JOBS Act. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of these exemptions until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of this exemption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable for smaller reporting companies

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We are subject to the periodic reporting requirements of the Exchange Act that requires designing disclosure controls and procedures to provide reasonable assurance that information we disclose in reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded, as of the end of the period, our disclosure controls and procedures were not effective as of June 30, 2022, due to material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and as described below.

Material Weaknesses in Internal Control Over Financial Reporting

As previously disclosed in our Annual report on Form 10-K filed with the SEC on August 3, 2022, we identified material weaknesses in our internal control over financial reporting during the preparation of our financial statements for the year ended December 31, 2021. Under standards established by the PCAOB, a material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

The material weaknesses in financial reporting as of June 30, 2022 are summarized as follows:

- We determined that we did not have sufficient accounting systems and procedures in place, particularly in the areas of revenue recognition; processing of accounts payable; prepaid expenses; and inventory costing and management.

- We determined that we did not have sufficient systems and processes to support timely preparation of financial statements for compliance with U.S. GAAP and SEC.

- We determined that we did not have sufficient policies and procedures to ensure the appropriate review and approval of user access rights to our accounting system; and lack of approval of journal entries and segregation of duties in our financial reporting process.

- We determined that our information technology infrastructure does not provide sufficient safeguards required by the COBIT framework.

Remediation Efforts to Address Previously-Identified Material Weaknesses

As previously described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2021, we began implementing remediation plans to address the material weaknesses. The weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the majority of the remediation of these material weaknesses will be completed by the end of fiscal 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the second quarter of fiscal 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 13 - Commitments and Contingencies in our June 30, 2022 Condensed Financial Statements, included in Part I, Item 1, Financial Statements (Unaudited), of this Quarterly Report.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information

None

Item 6. Exhibits.

Exhibit No.	Description
EXHIBIT 10.1	Employment Agreement, effective as of June 7, 2022, between Legacy Housing Corporation and Duncan Bates (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on June 13, 2022)
EXHIBIT 10.2 *	Limited Waiver and First Amendment to Credit Agreement, dated July 28, 2022, between Legacy Housing Corporation and Capital One, N.A.
EXHIBIT 31.1 *	-Rule 13a—14(a) / 15d—14(a) Certifications — Chief Executive Officer.
EXHIBIT 31.2 *	-Rule 13a—14(a) / 15d—14(a) Certifications — Chief Financial Officer.
EXHIBIT 32.1 *	-Section 1350 Certification.
EXHIBIT 32.2 *	-Section 1350 Certification.
EXHIBIT 101.INS *	-XBRL Instance Document.
EXHIBIT 101.SCH *	-Inline XBRL Taxonomy Extension Schema Document.
EXHIBIT 101.CAL *	-Inline XBRL Taxonomy Extension Calculation Linkbase Document.
EXHIBIT 101.DEF *	-Inline XBRL Taxonomy Extension Definition Linkbase Document.
EXHIBIT 101.LAB *	-Inline XBRL Taxonomy Extension Label Linkbase Document.
EXHIBIT 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

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.

LEGACY HOUSING CORPORATION

Dated: September 23, 2022

By: /s/ Ronald Arrington
Name: Ronald Arrington
Title: Chief Financial Officer
(On behalf of Registrant and as Principal Financial Officer)

Exhibit 10.2

LIMITED WAIVER AND FIRST AMENDMENT TO CREDIT AGREEMENT

THIS LIMITED WAIVER AND FIRST AMENDMENT TO CREDIT AGREEMENT (this "***Amendment***") is entered into as of July 28, 2022, by and among LEGACY HOUSING CORPORATION, a Texas corporation ("***LHC***") (together with each other entity that from time to time becomes a borrower under the Credit Agreement (defined below) in accordance with the terms thereof, collectively, the "***Borrowers***" and individually a "***Borrower***"), and the other Persons party thereto that are designated as a "***Credit Party***", CAPITAL ONE, NATIONAL ASSOCIATION, a national banking association (in its individual capacity, "***Capital One***") as Agent for the several financial institutions from time to time party to the Credit Agreement (collectively, the "***Lenders***" and individually each a "***Lender***") and for itself as a Lender and such Lenders.

RECITALS

A. The Borrowers, the other Credit Parties, the Lenders, and Capital One are parties to a certain Credit Agreement, dated as of March 30, 2020 (as amended on and prior to the date hereof and as may be further amended, restated, supplemented or otherwise modified from time to time, the "***Credit Agreement***"; capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement), pursuant to which the Lenders have made certain financial accommodations available to the Borrowers.

B. The Borrowers have advised Agent and the Lenders that the Default(s) and Event(s) of Default identified on ***Exhibit A*** hereto have occurred and are continuing (the "***Specified Defaults***"). The Borrowers have requested that Agent and the Required Lenders waive the Specified Defaults, and subject to the terms and conditions hereof, Agent and the Required Lenders are willing to do so.

C. The Borrowers have requested that Agent and the Required Lenders agree to amend certain other terms and provisions under the Credit Agreement, and subject to the terms and conditions hereof, Agent and the Required Lenders are willing to do so.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and intending to be legally bound, the parties hereto agree as follows:

A. LIMITED WAIVER

Subject to the terms and conditions set forth below, and in reliance on the representations, warranties, covenants and other agreements contained herein, effective on the date hereof, Agent and the Lenders party hereto (which Lenders constitute the Required Lenders) hereby waive the Specified Defaults. The foregoing waiver is a limited waiver, shall be limited precisely as written, and shall not be deemed or otherwise construed to constitute a waiver of any Default or Event of Default or future breach of the Credit Agreement or any of the other Loan Documents. Except as specifically set forth herein, Agent and the Lenders hereby reserve their rights under the Loan Documents and applicable law in respect of any Defaults or Events of Default and future breaches of the Credit Agreement or any of the other Loan Documents.

B. AMENDMENTS

1. Section 1.1 of the Credit Agreement is hereby amended by adding the following new definitions in the appropriate alphabetical order:

> "**Available Tenor**" means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (x) if the then-current Benchmark is a term rate, any tenor for such Benchmark that is or may be used for determining the length of an Interest Period or (y) otherwise, any payment period for interest calculated with reference to such Benchmark, as applicable, pursuant to this Agreement as of such date.
>
> "**Benchmark**" means, initially, LIBOR; provided that if a replacement of the Benchmark has occurred pursuant to Section 11.6, then "Benchmark" means the applicable Benchmark

Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate. Any reference to "Benchmark" shall include, as applicable, the published component used in the calculation thereof.

"**Benchmark Replacement**" means, for any Available Tenor:

(1) For purposes of Section 11.6(a), the first alternative set forth below that can be determined by the Agent:

(a) the sum of: (i) Term SOFR and (ii) 0.11448% (11.448 basis points) for an Available Tenor of one-month's duration, 0.26161% (26.161 basis points) for an Available Tenor of three-months' duration, and 0.42826% (42.826 basis points) for an Available Tenor of six-months' duration, or

(b) the sum of: (i) Daily Simple SOFR and (ii) the spread adjustment selected or recommended by the Relevant Governmental Body for the replacement of the tenor of LIBOR with a SOFR-based rate having approximately the same length as the interest payment period specified in Section 11.6(a); and

(2) For purposes of Section 11.6(b), the sum of (a) the alternate benchmark rate and (b) an adjustment (which may be a positive or negative value or zero), in each case, that has been selected by the Agent and the Borrowers as the replacement for such Available Tenor of such Benchmark giving due consideration to any evolving or then-prevailing market convention, including any applicable recommendations made by the Relevant Governmental Body, for U.S. dollar-denominated syndicated credit facilities at such time;

provided that, if the Benchmark Replacement as determined pursuant to clause (1) or (2) above would be less than the Floor, the Benchmark Replacement will be deemed to be the Floor for the purposes of this Agreement and the other Loan Documents..

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Base Rate," the definition of "Business Day," the definition of "Interest Period," timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, the applicability of breakage provisions, and other technical, administrative or operational matters) that the Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by the Agent in a manner substantially consistent with market practice (or, if the Agent decides that adoption of any portion of such market practice is not administratively feasible or if the Agent determines that no market practice for the administration of such Benchmark Replacement exists, in such other manner of administration as the Agent decides is reasonably necessary in connection with the administration of this Agreement and the other Loan Documents).

"**Benchmark Transition Event**" means, with respect to any then-current Benchmark other than LIBOR, the occurrence of a public statement or publication of information by or on behalf of the administrator of the then-current Benchmark, the regulatory supervisor for the administrator of such Benchmark, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, an insolvency official with jurisdiction over the administrator for such Benchmark, a resolution authority with jurisdiction over the administrator for such Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark, announcing or stating that (a) such administrator has ceased or will cease on a specified date to provide all Available Tenors of such Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark or (b) all Available Tenors of such Benchmark are or will no longer be representative of the underlying market and economic reality that such Benchmark is intended to measure and that representativeness will not be restored.

"**Daily Simple SOFR**" means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by the Agent in accordance with the conventions for this rate recommended by the Relevant Governmental Body for determining "Daily Simple SOFR" for syndicated business loans; provided, that if the Agent decides that any such convention is not administratively feasible for the Agent, then the Agent may establish another convention in its reasonable discretion.

"**Early Opt-in Effective Date**" means, with respect to any Early Opt-in Election, the sixth (6^{th}) Business Day after the date notice of such Early Opt-in Election is provided to the Lenders, so long as the Agent has not received, by 5:00 p.m. (New York City time) on the fifth (5^{th}) Business Day after the date notice of such Early Opt-in Election is provided to the Lenders, written notice of objection to such Early Opt-in Election from Lenders comprising the Required Lenders.

"**Early Opt-in Election**" means the occurrence of:

(1) a notification by the Agent to (or the request by the Borrowers to the Agent to notify) each of the other parties hereto that at least five currently outstanding U.S. dollar-denominated syndicated credit facilities at such time contain (as a result of amendment or as originally executed) a SOFR-based rate (including SOFR, a term SOFR or any other rate based upon SOFR) as a benchmark rate (and such syndicated credit facilities are identified in such notice and are publicly available for review), and

(2) the joint election by the Agent and the Borrowers to trigger a fallback from LIBOR and the provision by the Agent of written notice of such election to the Lenders.

"**Erroneous Payment**" as defined in Section 2.11(d)(iii)(A).

"**Floor**" means the greater of zero percent (0%) or the benchmark rate floor, if any, provided in this Agreement initially (as of the execution of this Agreement, the modification, amendment or renewal of this Agreement or otherwise) with respect to LIBOR.

"**Payment Notice**" as defined in Section 2.11(d)(iii)(B).

"**Payment Recipient**" as defined in Section 2.11(d)(iii)(A).

"**Relevant Governmental Body**" means the Federal Reserve System Board or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve System Board or the Federal Reserve Bank of New York, or any successor thereto.

"**SOFR**" means a rate per annum equal to the secured overnight financing rate for such Business Day published by the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate) on the website of the Federal Reserve Bank of New York, currently at http://www.newyorkfed.org (or any successor source for the secured overnight financing rate identified as such by the administrator of the secured overnight financing rate from time to time).

"**Term SOFR**" means, for the applicable corresponding tenor, the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

2. Section 2.11(d) of the Credit Agreement is hereby amended by (1) inserting "defense," immediately following "counterclaim," in clause (i) and (2) adding the following as new clause (iii) immediately after clause (ii):

(iii) (A) If the Agent notifies a Lender, L/C Issuer, or other Secured Party, or any Person who has received funds on behalf of a Lender, L/C Issuer, or other Secured Party (any such Lender, L/C Issuer Bank, other Secured Party or other recipient, a "**Payment Recipient**"), that the Agent has determined in its sole discretion that any funds received by such Payment Recipient from the Agent or any of its Affiliates were erroneously transmitted to, or otherwise erroneously or mistakenly received by, such Payment Recipient (whether or not known to such Lender, L/C Issuer, other Secured Party or other Payment Recipient on its behalf) (any such funds, whether received as a payment, prepayment or repayment of principal, interest, fees, distribution or otherwise, individually and collectively, an "**Erroneous Payment**") and demands the return of such Erroneous Payment (or a portion thereof), such Erroneous Payment shall at all times remain the property of the Agent and held in trust for the benefit of the Agent, and such Lender, L/C Issuer, or other Secured Party shall (or, with respect to any Payment Recipient who received such funds on its behalf, shall cause such Payment Recipient to) promptly, but in no event later than two (2) Business Days thereafter, return to the Agent the amount of any such Erroneous Payment (or portion thereof) as to which such a demand was made, in same day funds (in the currency so received), together with interest thereon in respect of each day from and including the date such Erroneous Payment (or portion thereof) was received by such Payment Recipient to the date such amount is repaid to the Agent in same day funds at the greater of the Federal Funds Rate and a rate determined by the Agent in accordance with banking industry rules on interbank compensation from time to time in effect. A notice of the Agent to any Payment Recipient under this Section 2.11(d)(iii) shall be conclusive, absent manifest error.

(B) Without limiting immediately preceding Section 2.11(d)(iii)(A), each Payment Recipient hereby further agrees that if it receives a payment, prepayment or repayment (whether received as a payment, prepayment or repayment of principal, interest, fees, distribution or otherwise) from the Agent (or any of its Affiliates) (x) that is in a different amount than, or on a different date from, that specified in a notice of payment, prepayment or repayment sent by the Agent (or any of its Affiliates) with respect to such payment, prepayment or repayment (a "**Payment Notice**"), (y) that was not preceded or accompanied by a Payment Notice, or (z) that such Payment Recipient otherwise becomes aware was transmitted, or received, in error or by mistake (in whole or in part) in each case, then (1) in the case of immediately preceding clauses (x) or (y), an error shall be presumed to have been made (absent written confirmation from the Agent to the contrary) or (2) an error has been made (in the case of immediately preceding clause (z)), in each case, with respect to such payment, prepayment or repayment.

(C) Each Lender, Issuing Bank and Secured Party hereby authorizes the Agent to set off, net and apply any and all amounts at any time owing to such Lender, Issuing Bank or Secured Party under any Loan Document, or otherwise payable or distributable by the Agent to such Lender, Issuing Bank or Secured Party from any source, against any amount due to the Agent under Section 2.11(d)(iii)(A) above or under the indemnification provisions of this Agreement.

(D) The Borrowers and each other Credit Party hereby agree that (x) in the event an Erroneous Payment (or portion thereof) is not recovered from any Payment Recipient that has received such Erroneous Payment (or portion thereof) for any reason, the Agent shall be contractually subrogated (irrespective of whether the Agent may be equitably subrogated) to all the rights of such Lender, L/C Issuer, or other Secured Party under the Loan Documents with respect to such amount, (y) an Erroneous Payment shall not pay, prepay, repay, discharge or otherwise satisfy any Obligations owed by the Borrower or any other Credit Party, except, in each case, to the extent such Erroneous Payment is, and solely with respect to the amount of such Erroneous Payment that is, comprised of funds received by the Agent from the Borrower or any other Credit Party for the purpose of making such Erroneous Payment, and (z) to the extent that an Erroneous Payment was in any way or at any time credited as a payment or satisfaction of any of the Obligations, the Obligations or part thereof that were so credited, and all rights of the applicable Lender, L/C Issuer, other Secured Party or Agent, as the case may be, shall be reinstated and continue in full force and effect as if such payment or satisfaction had never been received; provided, however, the amount of such Erroneous Payment that is comprised of funds received by the Agent from the Borrower or any other Credit Party for the purpose of making such Erroneous Payment shall be credited as a payment or satisfaction of the Obligations and the Obligations or part thereof that were so credited shall not be reinstated.

(E) To the extent permitted by Applicable Law, no Payment Recipient shall assert any right or claim to an Erroneous Payment, and hereby waives, and is deemed to waive, any claim, counterclaim, defense or right of set-off or recoupment with respect to any demand, claim or counterclaim by the Agent for the return of any Erroneous Payment received, including without limitation waiver of any defense based on "discharge for value" or any similar doctrine.

(F) Each party's obligations, agreements and waivers under this Section 2.11(d)(iii) shall survive the resignation or replacement of the Agent or any transfer of rights or obligations by, or the replacement of, a Lender, L/C Issuer, or other Secured Party, the termination of any Commitment or the repayment, satisfaction or discharge of all Obligations (or any portion thereof) under any Loan Document.

3. Section 5.12 of the Credit Agreement is hereby amended by replacing such section in its entirety with the following:

5.12 Servicing of Collateral Loans. Each Credit Party shall (at the sole cost and expense of the Credit Parties) (i) on or before October 26, 2022, enter into an agreement, in form and substance satisfactory to Agent, with a backup third party ("**Third Party Servicer**") satisfactory to Agent to service the Collateral Loans, (ii) hold, or ensure that a Third Party Servicer holds, the Collateral Loan Documents for the benefit of Agent, and (iii) cause each Collateral Loan to be (at the sole cost and expense of the Credit Parties) serviced in accordance with the Guidelines. Each Credit Party shall service, or cause the Third Party Servicer to service, the Collateral Loans in compliance with the Collateral Loan Documents and all applicable laws, rules and regulations.

4. Section 8.2(d) of the Credit Agreement is hereby amended by replacing such clause in its entirety with the following:

(d) replace any Credit Party or Third Party Servicer as the servicer of the Collateral Loans and appoint a replacement servicer to service the Collateral Loans;

5. Section 9.5(a) of the Credit Agreement is hereby amended by (1) deleting "and" at the end of clause (iv), (2) replacing the "." at the end of clause (v) with "; and" and (3) adding the following as new clauses (vi) and (vii):

(vi) shall not be responsible to any Secured Party, any Borrower, any Credit Party or any other Person, or have any liability for, any incorrect or inaccurate determination of LIBOR or the Base Rate for any purpose under any Loan Document; and

(vii) do not warrant, nor accept responsibility, nor have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "LIBOR" or with respect to any comparable or successor rate thereto, including without limitation whether the composition or characteristics of any such alternative, successor or replacement reference rate, as it may or may not be adjusted pursuant to Section 11.6, will be similar to, or produce the same value or economic equivalence of, LIBOR or have the same volume or liquidity as did LIBOR prior to its discontinuance or unavailability.

6. Section 11.5 of the Credit Agreement is hereby amended by (1) deleting "Alternative Interest Rate Election Event" from the section heading, and (2) deleting clause (b) in its entirety. In connection with such amendments, the references to Section 11.5 in (x) the definition of "LIBOR" (in Section 1.1 of the Credit Agreement) and (y) Section 2.5(a) of the Credit Agreement are hereby amended to reference both Section 11.5 and Section 11.6.

7. The following is hereby added as a new Section 11.6 of the Credit Agreement (and, as a result, (1) the existing Sections 11.6 and 11.7 of the Credit Agreement are hereby renumbered as Sections 11.7 and 11.8, respectively, and (2) the reference to Section 11.6 in the definition of "Eurocurrency liabilities" (in Section 1.1 of the Credit Agreement) is hereby amended to reference Section 11.7):

11.6 Benchmark Replacement Setting.

Notwithstanding anything to the contrary herein or in any other Loan Document:

(a) *Replacing LIBOR*. On March 5, 2021 the Financial Conduct Authority ("**FCA**"), the regulatory supervisor of LIBOR's administrator ("**IBA**"), announced in a public statement the future cessation or loss of representativeness of overnight/Spot Next, 1-month, 3-month, 6-month and 12-month LIBOR tenor settings. On the earlier of (i) the date that all Available Tenors of LIBOR have either permanently or indefinitely ceased to be provided by IBA or have been announced by the FCA pursuant to public statement or publication of information to be no longer representative and (ii) the Early Opt-in Effective Date, if the then-current Benchmark is LIBOR, the Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of any setting of such Benchmark on such day and all subsequent settings without any amendment to, or further action or consent of any other party to this Agreement or any other Loan Document. If the Benchmark Replacement is Daily Simple SOFR, all interest payments will be payable on a monthly basis.

(b) *Replacing Future Benchmarks*. Upon the occurrence of a Benchmark Transition Event, the Benchmark Replacement will replace the then-current Benchmark for all purposes hereunder and under any Loan Document in respect of any Benchmark setting at or after 5:00 p.m. on the fifth (5^{th}) Business Day after the date notice of such Benchmark Replacement is provided to the Lenders without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document so long as the Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Required Lenders. At any time that the administrator of the then-current Benchmark has permanently or indefinitely ceased to provide such Benchmark or such Benchmark has been announced by the regulatory supervisor for the administrator of such Benchmark pursuant to public statement or publication of information to be no longer representative of the underlying market and economic reality that such Benchmark is intended to measure and that representativeness will not be restored, the Borrowers may revoke any request for a borrowing of, conversion to or continuation of Loans to be made, converted or continued that would bear interest by reference to such Benchmark until the Borrowers' receipt of notice from the Agent that a Benchmark Replacement has replaced such Benchmark, and, failing that, the Borrowers will be deemed to have converted any such request into a request for a borrowing of or conversion to Base Rate Loans. During the period referenced in the foregoing sentence, the component of the Base Rate based upon the Benchmark will not be used in any determination of the Base Rate.

(c) *Benchmark Replacement Conforming Changes*. In connection with the implementation and administration of a Benchmark Replacement, the Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(d) *Notices; Standards for Decisions and Determinations*. The Agent will promptly notify the Borrowers and the Lenders of (i) the implementation of any Benchmark Replacement and (ii) the effectiveness of any Benchmark Replacement Conforming Changes. Any determination, decision or election that may be made by the Agent or, if applicable, any Lender (or group of Lenders) pursuant to this Section 11.6, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 11.6.

(e) *Unavailability of Tenor of Benchmark*. At any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including Term SOFR or LIBOR), then the Agent may remove any tenor of such Benchmark that is unavailable or non-representative for Benchmark (including Benchmark Replacement) settings and (ii) the Agent may reinstate any such previously removed tenor for Benchmark (including Benchmark Replacement) settings.

C. CONDITIONS TO EFFECTIVENESS

Notwithstanding any other provision of this Amendment and without affecting in any manner the rights of the Lenders hereunder, it is understood and agreed that this Amendment shall not become effective, and the Borrowers shall have no rights under this Amendment, until Agent shall have received (i) reimbursement or payment of its costs and expenses incurred in connection with this Amendment or the Credit Agreement (including reasonable fees, charges and disbursements of counsel to the Agent) and (ii) each of the following documents:

(a) executed counterparts to this Amendment from the Borrowers, each of the Credit Parties, and the Lenders;

(b) executed counterparts to a reaffirmation agreement in form and substance satisfactory to the Agent delivered by each Credit Party, pursuant to which each Credit Party shall, among other things, reaffirm the granting and continuance of Agent's Liens, on behalf of itself, Agent and the Secured Party, pursuant to the Collateral Documents;

(c) certificates attesting to the good standing of each Credit Party in its jurisdiction of organization; and

(d) a certificate of the secretary of each Credit Party or other officer in charge of maintaining books and records of such Credit Party certifying as to (A) the names and signatures of each officer of such Credit Party authorized to execute and deliver this Amendment, (B) the Organization Documents of such Credit Party attached to such certificate are complete and correct copies of such Organization Documents as in effect on the date of such certification (or confirming that the organizational documents previously provided to the Agent have not been modified, amended, rescinded or revoked and are in full force and effect as of the date hereof) and (C) the resolutions of such Credit Party's board of directors or other appropriate governing body approving and authorizing the execution, delivery and performance of this Amendment.

D. REPRESENTATIONS

To induce the Lenders and Agent to enter into this Amendment, each Credit Party hereby represents and warrants to the Lenders and the Agent that:

1. The execution, delivery and performance by such Credit Party of this Amendment have been duly authorized by all necessary action, and do not and will not: (a) contravene the terms of any of that Person's Organization Documents; (b) conflict with or result in any material breach or contravention of, or result in the creation of any Lien under, any document evidencing any material Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its Property is subject; or (c) violate any material Requirement of Law in any material respect.

2. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Credit Party or any Subsidiary of any Credit Party of this Amendment, the Credit Agreement as amended hereby or any other Loan Document except for (a) recordings and filings in connection with the Liens

granted to Agent under the Collateral Documents, (b) those obtained or made on or prior to the date hereof and (c) actions and filings required in connection with the exercise of remedies by Agent.

3. This Amendment, the Credit Agreement as amended hereby and each other Loan Document to which any Credit Party or any Subsidiary of any Credit Party is a party constitute the legal, valid and binding obligations of each such Person which is a party thereto, enforceable against such Person in accordance with its respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

4. After giving effect to this Amendment, the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects (without duplication of any materiality qualifier contained therein), except to the extent that such representations or warranties expressly relate to an earlier date (in which event such representations and warranties were true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date), and no Default or Event of Default has occurred and is continuing as of the date hereof.

E. OTHER AGREEMENTS

1. Joinder of New Lenders. Each of those Lenders party hereto that were not party to the Credit Agreement immediately prior to the date hereof hereby becomes a party thereto as a Lender thereunder with the same force and effect as if originally named in the Credit Agreement as a Lender, and without limiting the generality of the foregoing, hereby expressly assumes all obligations and liabilities of a Lender hereunder.

2. Continuing Effectiveness of Loan Documents. As amended hereby, all terms of the Credit Agreement and the other Loan Documents shall be and remain in full force and effect and shall constitute the legal, valid, binding and enforceable obligations of the Credit Parties party thereto. To the extent any terms and conditions in any of the other Loan Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby. Upon the effectiveness of this Amendment such terms and conditions are hereby deemed modified and amended accordingly to reflect the terms and conditions of the Credit Agreement as modified and amended hereby.

3. Effect of Agreement. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement.

4. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Texas and all applicable federal laws of the United States of America.

5. No Novation. This Amendment is not intended by the parties to be, and shall not be construed to be, a novation of the Credit Agreement and the other Loan Documents or an accord and satisfaction in regard thereto.

6. Costs and Expenses. Borrower agrees to pay on demand all costs and expenses of Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for Agent with respect thereto.

7. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission, Electronic Transmission or containing an E-Signature shall be as effective as delivery of a manually executed counterpart hereof.

8. Binding Nature. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns. No third party beneficiaries are intended in connection with this Amendment.

9. Entire Understanding. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

10. Release. Each Credit Party hereby releases, acquits, and forever discharges Agent and each of the Lenders, and each and every past and present subsidiary, affiliate, stockholder, officer, director, agent, servant, employee, representative, and attorney of Agent and the Lenders, from any and all claims, causes of action, suits, debts, liens, obligations, liabilities, demands, losses, costs and expenses (including reasonable attorneys' fees) of any kind, character, or nature whatsoever, known or unknown, fixed or contingent, which such Credit Party may have or claim to have now or which may hereafter arise out of or be connected with any act of commission or omission of Agent or the Lenders existing or occurring prior to the date of this Amendment or any instrument executed prior to the date of this Amendment including, without limitation, any claims, liabilities or obligations arising with respect to the Credit Agreement or the other Loan Documents, **OTHER THAN CLAIMS, LIABILITIES OR OBLIGATIONS CAUSED BY AGENT'S OR ANY LENDER'S OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT**. The provisions of this paragraph shall be binding upon each Credit Party and shall inure to the benefit of Agent, the Lenders, and their respective heirs, executors, administrators, successors and assigns.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first written above.

BORROWER(S):

LEGACY HOUSING CORPORATION,
a Texas corporation

By: /s/ CURTIS HODGSON
Name: CURTIS HODGSON
Title: EXEC CHAIRMAN
FEIN: 202897516

BORROWER REPRESENTATIVE:

LEGACY HOUSING CORPORATION,
a Texas corporation

By: /s/ CURTIS HODGSON
Name: CURTIS HODGSON
Title: EXEC CHAIRMAN

CREDIT PARTY:

LEGACY HOUSING OF GEORGIA, LLC,
a Georgia limited liability company

By: /s/ CURTIS HODGSON
Name: CURTIS HODGSON
Title: MGR
FEIN: 371824823

AGENT AND LENDER:

CAPITAL ONE, NATIONAL ASSOCIATION,
as Agent and a Lender

By: /s/ Sallye Cielencki
Name: Sallye Cielencki
Title: Senior Vice President /Lead Underwriter and Portfolio Manager

Exhibit A to Limited Waiver and First Amendment to Credit Agreement

Specified Defaults

1. Event of Default under Section 8.1(h) of the Credit Agreement arising from the judgment entered January 7, 2022, against the Borrowers in the matter of Gina Thompson vs. Great American Insurance Company, Legacy Housing Corporation, Michael Garza, and Louisiana Farm Bureau Casualty Insurance Company, Case No. 2019-477, Div. G, in the 14th Judicial District Court of the Parish of Calcasieu, State of Louisiana.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Duncan Bates, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 23, 2022

/s/ Duncan Bates
Name: Duncan Bates
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald Arrington, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 23, 2022

/s/ Ronald Arrington
Name: Ronald Arrington
Title: Chief Financial Officer

Exhibit 32.1

**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 Legacy Housing Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Duncan Bates, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 23, 2022

/s/ Duncan Bates
Name: Duncan Bates
Title: President and Chief Executive Officer

Exhibit 32.2

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 Legacy Housing Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Arrington, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 23, 2022	/s/ Ronald Arrington
	Name: Ronald Arrington
	Title: Chief Financial Officer