NOT FILED WITH THE SEC

THIS QUARTERLY REPORT IS BEING PREPARED PURSUANT TO REQUIREMENTS CONTAINED IN THE INDENTURE DATED AS OF JANUARY 23, 2020 GOVERNING THE 6.625% SENIOR NOTES DUE 2028 ISSUED BY ASHTON WOODS USA L.L.C., IN THE INDENTURE DATED AS OF AUGUST 2, 2021 GOVERNING THE 4.625% SENIOR NOTES DUE 2029 ISSUED BY ASHTON WOODS USA L.L.C., AND IN THE INDENTURE DATED AS OF SEPTEMBER 23, 2021 GOVERNING THE 4.625% SENIOR NOTES DUE 2030 ISSUED BY ASHTON WOODS USA L.L.C.

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2023

OR

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

For the transition period from ________ to________.

Commission file Number: **N/A**

Ashton Woods USA L.L.C.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**37-1590746**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3820 Mansell Road, Suite 400 Alpharetta, GA	**30022**
(Address of Principal Executive Offices)	(Zip Code)

(770) 998-9663

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

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 [ ] N/A [X]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [ ] No [ ] N/A [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer", “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.: N/A [X]

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 [ ] N/A [X]

ASHTON WOODS USA L.L.C.
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Review Report of Independent Auditors

The Members of Ashton Woods USA L.L.C.

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of Ashton Woods USA L.L.C., which comprise the condensed consolidated balance sheet as of August 31, 2023, and the related condensed consolidated statements of income and cash flows for the three-month periods ended August 31, 2023 and 2022, and the condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2022 to August 31, 2023, and the related notes (collectively referred to as the "interim financial information").

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

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Report on Condensed Balance Sheet as of May 31, 2023

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of May 31, 2023, and the related consolidated statements of income, changes in members' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 11, 2023. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Ernst & Young LLP

October 11, 2023

PART I. FINANCIAL INFORMATION

Item 1. *Consolidated Financial Statements*

ASHTON WOODS USA L.L.C.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	August 31, 2023	May 31, 2023
Assets:		
Cash and cash equivalents	$ 365,152	$ 593,177
Restricted cash	137	8,976
Receivables, net	91,043	84,819
Inventory	1,764,167	1,488,809
Property and equipment, net	13,054	12,272
Investments in unconsolidated entities	8,607	8,463
Deposits on real estate under option or contract	288,111	298,690
Other assets	318,880	288,164
Total assets	$ 2,849,151	$ 2,783,370
Liabilities and Members' equity:		
Liabilities:		
Accounts payable	$ 212,529	$ 181,606
Other liabilities	388,365	418,367
Customer deposits	49,244	43,756
Debt	987,970	987,400
Total liabilities	1,638,108	1,631,129
Commitments and contingencies (Note 13)		
Members' equity:	1,211,043	1,152,241
Total liabilities and Members' equity	$ 2,849,151	$ 2,783,370

See accompanying notes to unaudited condensed consolidated financial statements.

ASHTON WOODS USA L.L.C.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	Three months ended August 31,	
	2023	**2022**
Revenues:		
Home sales	$ 748,863	$ 701,796
Financial services and other revenues	15,935	11,225
	764,798	713,021
Cost of sales:		
Homes	547,221	494,462
Financial services and other revenues	9,271	6,924
	556,492	501,386
Gross profit	208,306	211,635
Other expense (income):		
Selling, general and administrative	102,815	90,604
Interest expense	1,472	151
Depreciation and amortization	2,053	1,501
Other income, net	(3,761)	(1,192)
	102,579	91,064
Equity in earnings of unconsolidated entities	3,476	1,541
Net income	$ 109,203	$ 122,112

See accompanying notes to unaudited condensed consolidated financial statements.

ASHTON WOODS USA L.L.C.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(In thousands)

	Class A interest	Class B interests	Class C interests	Class D interests	Total Members' equity
Members' equity at May 31, 2022	$ 393,374	$ 92,957	$ 540,450	$ 97	$ 1,026,878
Net income	47,517	11,678	62,917	—	122,112
Non-tax distributions	(23,348)	(5,738)	(30,914)	—	(60,000)
Tax distributions	(21,480)	(5,279)	(28,441)	—	(55,200)
Equity-based compensation expense	—	—	—	292	292
Members' equity at August 31, 2022	$ 396,063	$ 93,618	$ 544,012	$ 389	$ 1,034,082
Net income	34,884	8,573	46,189	—	89,646
Non-tax distributions	(11,674)	(2,869)	(15,457)	—	(30,000)
Tax distributions	(18,468)	(4,539)	(24,453)	—	(47,460)
Equity-based compensation expense	—	—	—	292	292
Members' equity at November 30, 2022	$ 400,805	$ 94,783	$ 550,291	$ 681	$ 1,046,560
Net income	31,159	7,658	41,258	—	80,075
Non-tax distributions	(5,837)	(1,434)	(7,729)	—	(15,000)
Tax distributions	(6,654)	(1,635)	(8,811)	—	(17,100)
Equity-based compensation expense	—	—	—	292	292
Members' equity at February 28, 2023	$ 419,473	$ 99,372	$ 575,009	$ 973	$ 1,094,827
Net income	54,992	13,515	72,814	—	141,321
Non-tax distributions	(20,235)	(4,973)	(26,792)	—	(52,000)
Tax distributions	(12,530)	(3,079)	(16,591)	—	(32,200)
Equity-based compensation expense	—	—	—	293	293
Members' equity at May 31, 2023	$ 441,700	$ 104,835	$ 604,440	$ 1,266	$ 1,152,241
Cumulative effect of accounting change (see Note 2)	(36)	(9)	(48)		(93)
Net income	42,494	10,443	56,266		109,203
Non-tax distributions	(15,954)	(3,921)	(21,125)		(41,000)
Tax distributions	(3,736)	(918)	(4,946)		(9,600)
Equity-based compensation expense	—	—	—	292	292
Members' equity at August 31, 2023	$ 464,468	$ 110,430	$ 634,587	$ 1,558	$ 1,211,043

See accompanying notes to unaudited condensed consolidated financial statements.

ASHTON WOODS USA L.L.C.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended August 31, 2023	Three months ended August 31, 2022
Cash flows used in operating activities:		
Net income	$ 109,203	$ 122,112
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(3,476)	(1,541)
Returns on investments in unconsolidated entities	3,822	2,494
Long-term and equity-based compensation expense	16,752	15,470
Inventory impairments	48	—
Land deposit and pre-acquisition cost write-offs	505	3,472
Lot option and development contracts intangible write-off	273	718
Depreciation and amortization	2,053	1,501
Changes in operating assets and liabilities:		
Inventory	(283,536)	(143,268)
Receivables	(6,317)	(1,352)
Deposits on real estate under option or contract	32	(10,847)
Other assets	7,047	1,344
Accounts payable	30,923	10,676
Other liabilities	(66,304)	(74,870)
Customer deposits	5,488	(8,689)
Net cash used in operating activities	(183,487)	(82,780)
Cash flows used in investing activities:		
Investments in unconsolidated entities	(490)	—
Additions to property and equipment	(2,810)	(2,173)
Net cash used in investing activities	(3,300)	(2,173)
Cash flows used in financing activities:		
Borrowings from revolving credit facility	—	—
Repayments of revolving credit facility	—	—
Proceeds from liabilities for real estate not owned	40,291	25,445
Payments related to real estate not owned	(39,768)	(20,939)
Members' tax distributions	(9,600)	(55,200)
Members' non-tax distributions	(41,000)	(60,000)
Net cash used in financing activities	(50,077)	(110,694)
Change in cash, cash equivalents, and restricted cash	(236,864)	(195,647)
Cash, cash equivalents, and restricted cash, beginning of period	602,153	486,705
Cash, cash equivalents, and restricted cash, end of period	$ 365,289	$ 291,058
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 2,167	$ 92

ASHTON WOODS USA L.L.C.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the unaudited condensed consolidated balance sheets to the total of the same such amounts shown above:

	As of August 31,	
	2023	**2022**
Cash and cash equivalents	$ 365,152	$ 284,232
Restricted cash	137	6,826
Total cash, cash equivalents, and restricted cash	$ 365,289	$ 291,058

Supplemental disclosures of cash flows information:

	Three months ended August 31,	
	2023	**2022**
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 28	$ 547

See accompanying notes to unaudited condensed consolidated financial statements.

ASHTON WOODS USA L.L.C.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2023

Note 1 — Basis of Presentation and Significant Accounting Policies

(a) Operations

Ashton Woods USA L.L.C. (the "Company" or "Ashton Woods") is a limited liability company that, through its subsidiaries, designs, builds, and markets detached and attached single-family homes under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name and offers entry-level homes under the Starlight Homes brand name. Included under the Starlight Homes brand, the Company offers construction and development services under fee arrangements specifically tailored to the single-family rental industry. In addition, the Company sells completed homes under the Starlight Homes brand, which we typically sell under bulk sales agreements, to real estate investors who purchase the homes for use as rental properties. We refer to such sales as our wholesale home sales. As of August 31, 2023, the Company had operations under the Ashton Woods and/or Starlight Homes brand in or around all of the following markets:

East:	Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Nashville; Orlando; Raleigh; and Southwest Florida
Central:	Austin; Dallas; Houston; Phoenix; and San Antonio

Through two wholly-owned title agency subsidiaries, the Company also performs or intends to perform title services in support of its operations and offers title services to its homebuyers and the public at large in all of its operating divisions except Phoenix.

In addition, the Company offers or intends to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions through two unconsolidated mortgage joint ventures. The Company has an ownership interest of 49% in each of these mortgage joint ventures.

(b) Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned, and controlled subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the Company's opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation of the results for the interim periods presented have been included in the accompanying unaudited condensed consolidated financial statements.

(c) Cash, cash equivalents, and restricted cash

The Company considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Restricted cash may consist of amounts held in restricted cash accounts as collateral for letters of credit issued and outstanding, as permitted by the Company's Sixth Amended and Restated Credit Agreement (as amended, the "Restated Revolver"), and other investments.

(d) Inventory

In addition to the costs of direct land acquisition, land development and home construction, inventory costs include interest, real estate taxes, and indirect overhead costs incurred during development and home construction. The Company uses the specific identification method for the purpose of accumulating home construction costs. Cost of sales for homes closed includes the specific construction costs of each home (both incurred and estimated to be incurred) and all allocated land acquisition, land development, and related costs based upon the total number of homes expected to be closed in each community. Any changes to the estimated total development costs subsequent to the initial home closings in a community are allocated to the remaining homes in the community.

When a home is closed, the Company generally has not yet recorded all incurred costs necessary to complete the home. Each month, the Company records as a liability and a charge to cost of sales - homes the amount it estimates will ultimately be paid related to completed homes that have been closed as of the end of that month. The Company compares its updated home construction budgets to actual recorded costs to estimate the additional costs remaining to be paid on each closed home. The Company monitors the accuracy of each month's accrual by comparing actual costs paid on closed homes in subsequent months to the amount accrued. Actual costs to be paid on closed homes in the future could differ from the current estimate.

Inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case the inventory is written down to fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *Property, Plant and Equipment* ("ASC 360-10"). The Company reviews its inventory in accordance with ASC 360-10, which requires long-lived assets to be assessed for impairment when facts and circumstances indicate an impairment may exist. The Company utilizes an undiscounted future cash flow model in this assessment. When the results of the undiscounted future cash flows are less than the carrying value of the community (asset group), an asset impairment must be recognized in the unaudited condensed consolidated financial statements as a component of cost of sales - homes. The amount of the impairment is calculated by subtracting the estimated fair value of the community from the carrying value. ASC 360-10 also requires that assets held for sale be stated at the lower of cost or fair value, less costs to sell. Accordingly, land held for sale is stated at the lower of accumulated cost or fair value, less costs to sell.

The Company recognized inventory impairment charges of $47.8 thousand during the three months ended August 31, 2023. The impairment charges of $47.8 thousand on homes in inventory during the three months ended August 31, 2023 is included as a component of cost of sales - homes in the unaudited condensed consolidated statements of income for the three months ended August 31, 2023. The Company recognized no inventory impairment charges during the three months ended August 31, 2022.

In order for management to assess the fair value of its real estate assets, certain assumptions must be made that are highly subjective and susceptible to change. Management evaluates, among other things, the actual gross margins for homes closed and the estimated gross margins for homes sold in backlog (representing the number or value of sales that have not yet closed). This evaluation also includes assumptions with respect to future home sales prices, levels of sales incentives, construction and development costs, the monthly rate of sales, discount rates, profit margins, which are critical in determining the fair value of the Company's real estate inventory assets. Given the historical variability in the homebuilding industry cycle, the Company is of the view that the valuation of homebuilding inventories is sensitive to changes in economic conditions, such as interest rates, inflation, the availability of credit, and unemployment levels. Changes in these economic conditions could materially affect the projected home sales prices, the level of sales incentives, the costs to develop land and construct homes, and the monthly rate of sales and cancellations. Because of these potential changes in economic and market conditions, in conjunction with the assumptions and estimates required of management in valuing homebuilding inventory, actual results could differ materially from management's assumptions and may require material inventory impairments to be recorded in the future.

(e) Receivables

Receivables at August 31, 2023 and May 31, 2023 consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
Closing funds due	$ 275	$ 1,469
Land development receivables	62,626	60,380
MUD receivables [(1)]	14,225	10,076
Other receivables [(2)]	13,917	12,894
	$ 91,043	$ 84,819

(1) Includes certain land development costs to be reimbursed by twelve and eleven Municipal Utility Districts ("MUD") in Houston, Texas at August 31, 2023 and May 31, 2023, respectively.

(2) Includes amounts due from utility companies, rebates due from trade partners, drawn amounts due from salespersons, and a loan to one of the Company's executive officers relating to the officer's income tax obligations arising from a Class D equity award (see Note 10 for additional discussion of this loan receivable).

(f) Real estate not owned

Real estate not owned reflects lots under option purchase agreements recorded pursuant to ASC 606, *Revenue From Contracts With Customers* ("ASC 606"), ASC Subtopic 470-40, *Product Financing Arrangements* ("ASC 470-40"), or ASC 810, *Consolidation* ("ASC 810") (see Note 4).

(g) Investments in unconsolidated entities

The Company participates in one land development joint venture in which it has less than a controlling interest. The Company accounts for its interest in this entity under the equity method. The Company's share of profits from lots it purchases from this joint venture is deferred and treated as a reduction of the cost basis of land purchased from the entity.

The Company offers or intends to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions through two unconsolidated mortgage joint ventures. The Company has an ownership interest of 49% in each of these mortgage joint ventures. The Company's investments in these mortgage joint ventures are accounted for under the equity method.

Investments in unconsolidated entities are evaluated for other-than-temporary impairment during each reporting period pursuant to ASC Subtopic 323-10, *Investments—Equity Method and Joint Ventures*. A series of operating losses or other factors may indicate an other-than-temporary decrease in the value of the Company's investment in an unconsolidated entity. The amount of impairment recognized is the excess of the investment's carrying value over its estimated fair value. The Company did not have any other-than-temporary impairments during the three months ended August 31, 2023 or 2022, related to its investments in unconsolidated entities.

(h) Deposits and pre-acquisition costs

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the unaudited condensed consolidated balance sheets as deposits on real estate under option or contract (for deposits) and other assets (for pre-acquisition costs) until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Alternatively, in the case of off-balance sheet financing arrangements, pre-acquisition costs are transferred to inventory simultaneous to executing the option agreement to acquire land or lots. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for the costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income and totaled $0.5 million for the three months ended August 31, 2023, and $3.5 million for the three months ended August 31, 2022.

(i) Property and equipment, net

Property and equipment is recorded at cost. Depreciation and amortization are generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the term of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at August 31, 2023 and May 31, 2023 consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
Office furniture and equipment	$ 2,802	$ 2,765
Sales offices, design studios, and model furnishings	23,211	21,647
Leasehold improvements	4,771	4,545
	30,784	28,957
Accumulated depreciation and amortization[1]	(17,730)	(16,685)
	$ 13,054	$ 12,272

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated $2.1 million for the three months ended August 31, 2023, and $1.5 million for the three months ended August 31, 2022.

(j) Revenue recognition

With respect to home sales revenues, revenue from a home sale is recognized when we have satisfied the performance obligation in the home sales contract, which is generally at the time of the closing of each sale, when title to and possession of the property are transferred to the buyer. The revenue recognized for each home sale includes the base sales price of the home, as well as any purchased options and upgrades, and is reduced for any sales price incentives. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings in transit or held in escrow for our benefit, which is typically received within two days of the home closing. Home sale contract assets totaled $0.3 million and $1.5 million at August 31, 2023 and May 31, 2023, respectively, and are classified as receivables, net in the unaudited condensed consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale home sales customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled $49.2 million and $43.8 million at August 31, 2023 and May 31, 2023, respectively. Of the customer deposit liabilities at May 31, 2023, $18.9 million was recognized in home sales revenues during the three months ended August 31, 2023 upon the closing of the related homes. Also included in home sales revenues are our wholesale home sales within our Starlight Homes brand. Wholesale home sales primarily consist of completed homes sold under bulk sales agreements to real estate investors who purchase the homes for use as rental properties.

See Note 1(l) for additional discussion of warranties and obligations associated with home sales revenues.

With respect to land sales revenues, we periodically elect to sell parcels of land or lots. These land and lot sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied. Land sale contract assets consist of cash from closed land sales in transit or held in escrow for our benefit, which is typically received within two days of closing on the land sale. Land sale contract assets are classified as receivables in the unaudited condensed consolidated balance sheets. Land sale contract liabilities consist of customer deposit liabilities related to land parcels under contract for sale. There were no land sale contract assets or liabilities at August 31, 2023 or May 31, 2023.

With respect to financial services and other revenues, financial services revenues, which are not within the scope of ASC 606, primarily consist of title premium income earned from the provision of title services for homebuyers. Other revenues consist of revenue from forfeited customer deposits that is recognized upon cancellation of the home sales contract when the Company is contractually entitled to retain the deposit and other miscellaneous customer revenue that is recognized when the related performance obligation is satisfied. Other revenues also include revenues from fee development, development oversight, and/or construction services pursuant to agreements entered into by the Company with third-party property owners specifically tailored to the single-family rental industry. For these types of contracts, the Company recognizes revenue based on the actual total costs it has incurred plus the applicable fee. In accordance with ASC 606, the Company applies the percentage-of-completion method, using the cost-to-cost approach, as it most accurately measures the progress of our efforts in satisfying our obligations within the fee building agreements. Under this approach, revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred. In the course of providing fee development, development oversight, and/or construction services, the Company routinely subcontracts for services and incurs other direct costs. These costs are typically passed through to the property owners and, in accordance with accounting principles generally accepted in the United States ("GAAP"), are included in the Company's financial services and other revenues and cost of sales - financial services and other revenues in the unaudited condensed consolidated statements of income.

ASC 606 provides certain practical expedients that limit some accounting treatments and disclosure requirements. Accordingly, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. As of August 31, 2023, the expected revenue to be recognized relating to unsatisfied performance obligations for contracts with an original expected length greater than one year is $138.1 million, all of which is related to fee development, development oversight, and/or construction services pursuant to agreements entered into by the Company with third-party property owners. We expect to recognize the revenue relating to unsatisfied performance obligations for contracts with an original expected length greater than one year by the end of fiscal year 2025.

(k) Prepaid expenses

Included in other assets are prepaid expenses of $14.8 million and $13.5 million as of August 31, 2023 and May 31, 2023, respectively, which is predominantly comprised of prepaid insurance, fees, permits, and software licenses.

(l) Warranty costs

The Company provides its homebuyers with limited warranties that generally provide for specified coverages, including, for example, structural coverage, coverage for plumbing, electrical and heating, ventilation and air conditioning systems, and coverage for workmanship and materials. Warranty liabilities are initially established on a per home basis by charging cost of sales - homes and establishing a warranty liability for each home delivered to cover expected costs of materials and labor during the warranty period. The amounts accrued are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. The Company's warranty liability is based upon historical warranty cost experience in each operating division and is adjusted as appropriate to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built. The Company's warranty liability is included in other liabilities in the unaudited condensed consolidated balance sheets.

Presented below are summaries of the activity in the Company's warranty liability account for the three months ended August 31, 2023 and 2022 (in thousands):

	Three months ended August 31,	
	2023	**2022**
Warranty liability, beginning of period	$ 17,242	$ 15,000
Costs accrued during period	5,456	5,165
Costs incurred during period	(5,371)	(5,559)
Warranty liability, end of period	$ 17,327	$ 14,606

(m) Advertising costs

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income, was approximately $1.8 million for the three months ended August 31, 2023, and $0.8 million for the three months ended August 31, 2022.

(n) Long-term incentive plan

The Company offers a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company's future growth through the issuance of performance shares, which are the equivalent of phantom equity awards. The Company's performance shares are accounted for pursuant to ASC Subtopic 710-10-25-9 to 25-11, *Deferred Compensation Arrangements*, as the value is not based on the shares of a comparable set of public builders or other equity instruments, but is based on the book value of equity of the Company. The Company measures the value of the performance shares on a quarterly basis using the intrinsic value method. Additional compensation expense may be recognized subsequent to completion of the vesting period for appreciation-only performance shares. See Note 11 for additional discussion regarding the Company's long-term incentive plan.

(o) Income taxes

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make distributions to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's Restated Revolver and in the indentures governing its 6.625% Senior Notes due 2028 (the "2028

Notes”), its 4.625% Senior Notes due 2029 (the "2029 Notes"), and its 4.625% Senior Notes due 2030 (the "2030 Notes"). Any tax distributions made to the Members are treated as a reduction of equity. The Company made tax distributions to its Members of $9.6 million and $55.2 million during the three months ended August 31, 2023 and 2022, respectively.

(p) Use of estimates

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(q) Segments

ASC 280, *Segment Reporting* (“ASC 280”), provides accounting guidance for the way in which companies report information about operating segments. In accordance with ASC 280, the Company believes that each of its homebuilding operating markets, as summarized below, is an operating segment. In accordance with the aggregation criteria defined in ASC 280, the Company has grouped its homebuilding operations into two reportable segments as follows:

1) East:	Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Nashville; Orlando; Raleigh; and Southwest Florida
2) Central:	Austin; Dallas; Houston; Phoenix; and San Antonio

The Company has determined that the homebuilding operating markets within its respective reportable segments have similar economic characteristics and product types, and are similar in terms of geography. The Company’s homebuilding operating markets also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution.

See Note 14 for further discussion of the Company’s reportable segments.

(r) Risks and uncertainties

Beginning in 2022 and continuing into 2023, the U.S. economy has experienced significant inflationary pressure with prices of gas, food, and other household goods rising at the fastest rate in over 40 years. To combat the high levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 525 basis points from March 2022 to August 2023 and has indicated during that time that additional increases may occur in the future which, in turn, has led to a significant increase in residential mortgage interest rates over the last several quarters. The increase in residential mortgage interest rates, coupled with high inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. In addition, in March 2023, several regional banks were suddenly shut down, taken over by the Federal Deposit Insurance Corporation, or acquired by larger national banks, and a wave of uncertainty from these events caused concern regarding the stability of regional, national, and international banks. Further, while the labor shortages and supply chain disruptions that began during the COVID-19 pandemic have improved, they continue to impact our business operations. The combination of these factors, as well as delays in municipal approvals and permitting, has led to increased costs and elongated production cycles. The current environment makes it challenging to predict the impact that inflationary pressures, rising interest rates, governmental delays, supply chain disruptions and labor shortages may have on the future performance of our business. As a result, there remains significant uncertainty regarding how recent macroeconomic shifts and the continuing supply chain disruptions and labor shortages, and the consequences therefrom, will impact the U.S. and global economies going forward, including the level of unemployment, availability of debt, capital, the health of the residential mortgage markets, consumer confidence, and demand for our homes, and in turn, the impact it will have on our results.

(s) Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation, including the presentation of cash inflows and outflows associated with real estate not owned transactions accounted for under ASC 606 or ASC 740-40, which were previously presented within the operating section of the condensed consolidated statements of cash flows but have been reclassified within the financing section of the condensed

consolidated statements of cash flows to align with industry practice. These reclassifications had no effect on the reported results of operations, nor the change in cash, cash equivalents, and restricted cash for the three months ended August 31, 2023 and 2022.

(t) Subsequent events

The Company has evaluated subsequent events through October 11, 2023. This date represents the date on which the unaudited condensed consolidated financial statements were available to be issued.

On September 5, 2023 and October 11, 2023, the Company's Board of Directors (the "Board") approved tax distributions totaling $27.2 million and $28.7 million, respectively, to the Company's Members. The tax distribution approved on September 5, 2023 was paid to the Company's Members on September 6, 2023.

Subsequent to August 31, 2023, and as of October 11, 2023, the Board approved non-tax distributions totaling $32.0 million to the Company's Members.

Note 2 — Pending and Recently Adopted Accounting Pronouncements

On June 1, 2023, we adopted FASB ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. The standard requires an entity to recognize the effects of adopting the new standard as a cumulative effect adjustment to opening retained earnings in the period of adoption. The adoption of ASU 2016-13 did not have a material effect on our condensed consolidated financial statements or disclosures.

Note 3— Inventory

Inventory consisted of the following at August 31, 2023 and May 31, 2023 (in thousands):

	August 31, 2023	May 31, 2023
Homes under construction and finished homes	$ 1,062,861	$ 850,586
Finished lots	432,463	382,172
Land under development	159,718	166,079
Land held for future development	108,327	89,168
Land held for sale	798	804
	$ 1,764,167	$ 1,488,809

The Company capitalizes all interest incurred to the extent its qualifying assets meet or exceed its debt obligations. If qualifying assets are less than the Company's debt obligations, there are limits on the amount of interest that can be capitalized, and the remainder of interest incurred must be directly expensed. The Company directly expensed interest of $1.5 million and $0.2 million for the three months ended August 31, 2023 and 2022, respectively, in the unaudited condensed consolidated statements of income.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three months ended August 31, 2023 and 2022 (in thousands):

	Three months ended August 31,	
	2023	2022
Capitalized interest, beginning of period	$ 28,068	$ 25,000
Interest incurred	13,955	13,898
Interest amortized to cost of sales	(9,341)	(9,758)
Interest expensed	(1,472)	(151)
Capitalized interest, end of period	$ 31,210	$ 28,989

Note 4 — Other Assets

Other assets at August 31, 2023 and May 31, 2023 consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
Real estate not owned	$ 273,062	$ 243,931
Right-of-use assets[1]	12,801	13,675
Prepaid expenses	14,794	13,512
Lot option and development contracts intangible	2,467	3,012
Architecture plans	4,903	4,592
Deferred financing costs	2,308	2,547
Pre-acquisition costs	5,385	5,021
Other	3,160	1,874
	$ 318,880	$ 288,164

(1) See Note 13, *Leases,* for additional information.

In the ordinary course of business, the Company enters into lot purchase agreements in order to procure lots for the construction of homes in the future. Pursuant to these lot purchase agreements, the Company generally will provide a deposit to the seller as consideration for the right, but not the obligation, to purchase lots at different times in the future, usually at predetermined prices. Depending on the circumstances of such lot purchase agreements, "Real estate not owned" may be recorded based on the application of different accounting provisions in accordance with ASC 810 or ASC 470-40. In applying these provisions, the Company regularly evaluates its land and lot purchase agreements.

Pursuant to ASC 810, when the Company enters into a purchase agreement to acquire land or lots from an entity and pays a non-refundable deposit, the Company has concluded that a variable interest entity ("VIE"), for which consolidation may be required, is created because the Company is deemed to have provided subordinated financial support that will absorb some or all of an entity's expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary of the VIE and thus must consolidate the entity by first determining if it has the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract; and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if it will potentially benefit from a significant amount of the VIE's expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as "Real estate not owned" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities. At August 31, 2023 and May 31, 2023, no purchase contracts or investments in unconsolidated entities were determined to require consolidation under ASC 810.

Pursuant to ASC 470-40*,* if a buying entity participates in an arrangement in which it is economically compelled to purchase land, then the entity is required to consolidate such arrangement. In an effort to balance the amount of land and lots owned relative to the amount of land and lots controlled, the Company enters into arrangements in which it identifies lots that it desires to purchase, finds an investor to purchase the lots and then enters into option purchase agreements with the investor to acquire the lots in staged takedowns. In consideration for such options, the Company generally makes nonrefundable deposits. While the Company is generally not obligated to purchase the lots that are the subject of such agreements, it would forfeit the remaining deposits if the lots are not purchased. Although the Company is not obligated to purchase the lots under option unless it enters into a contract with specific performance obligations, if, at the reporting date, the Company believes that due to the terms of the purchase contracts it is compelled to purchase the lots under option, the Company will record "Real estate not owned" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities, in connection with such option purchase agreements. At August 31, 2023 and May 31, 2023, the Company had one lot purchase agreement with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates

(individually and collectively, the “Investors”) that is accounted for pursuant to ASC 470-40. At August 31, 2023 and May 31, 2023, the Company recorded real estate not owned of $26.0 million related to this lot purchase agreement accounted for pursuant to ASC 470-40 and liabilities for real estate not owned of $18.2 million, which is net of a cash deposit to the seller of $7.8 million.

Based on the provisions of ASC Subtopic 606-10, a seller may not recognize as a sale property it has sold if the seller has an obligation or a right to repurchase lots and if the repurchase agreement is considered to be a financing arrangement. ASC 606 considers a repurchase option contract to be a financing arrangement, in accordance with ASC 606-10-55-70, if the seller will repurchase the lots for an amount that is equal to or greater than the original selling price of the asset. Therefore, if the Company enters into lot purchase option agreements for land it has concurrently sold and determines that the repurchase agreement is considered to be a financing arrangement, the Company records the lots subject to such sale as “Real estate not owned” within other assets and the related liabilities under the lot purchase option agreement as “Liabilities for real estate not owned” within other liabilities. At August 31, 2023 and May 31, 2023, the Company recorded real estate not owned of $247.1 million and $217.9 million, respectively, for the sale of lots because its repurchase agreements related to the real estate were considered to be financing arrangements. While these option agreements contain no specific performance obligations, should the Company choose not to purchase the land, it will forfeit the deposited amount.

The lot option and development contracts intangible is comprised of the fair value adjustment recorded in accordance with the purchase price accounting for the Company's acquisition of substantially all of the assets of Capitol City Homes, LLC ("Capitol City Homes") during the fiscal year ended May 31, 2022. The fair value adjustment recorded as of the acquisition date represented the difference between the contractual purchase price of lots under option and the estimated fair value of such lots as of the acquisition date. Significant assumptions included in the Company's estimate of the fair value of the lots under such lot option and development contracts included market comparisons, gross margin comparisons, future development costs, and the timing of the completion of development activities. The lot option and development contracts intangible fair value is amortized to inventory as lots are purchased in accordance with the acquired contracts. During both the three months ended August 31, 2023 and 2022, $0.3 million of the lot option and development contracts intangible fair value was allocated to inventory upon the purchase of lots in accordance with the terms of the acquired contracts. In addition, the Company wrote-off $0.3 million and $0.7 million of the lot option and development contracts intangible during the three months ended August 31, 2023 and 2022, respectively, upon the termination of lot option contracts acquired in the Capitol City Homes acquisition. The corresponding charges against earnings are included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income for the three months ended August 31, 2023 and 2022.

Architecture plans are comprised of the costs incurred related to architecture plans, associated engineering costs, and interactive floor plans for house plans, and are amortized through cost of sales - homes on a per home basis.

Deferred financing costs included in other assets are comprised of costs incurred in connection with obtaining financing under the Restated Revolver. The Company did not incur any deferred financing fees during the three months ended August 31, 2023 and 2022, respectively, related to the Company's Restated Revolver.

See Note 1(h) for additional information on pre-acquisition costs.

Note 5 — Investments in Unconsolidated Entities

The Company enters into land joint ventures from time to time as a means of accessing larger parcels of land and lot positions, managing its risk profile and leveraging its capital base. As of August 31, 2023, the Company had an equity investment in one land joint venture with the Investors. The Company has a 49% limited partner non-controlling interest in this joint venture and has accounted for it under the equity method. The partners generally share profits and losses in accordance with their ownership interests. As of August 31, 2023 and May 31, 2023, the Company had recorded $0.8 million and $0.3 million, respectively, for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company has entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of $6,000 for these services that is included in other income, net in the unaudited condensed consolidated statements of income. As of August 31, 2023, the joint venture had no debt outstanding.

The Company offers or intends to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions through two unconsolidated mortgage joint ventures. The Company has an ownership interest of 49% in each of these mortgage joint ventures. The Company's investments in these mortgage joint ventures are accounted for under the equity method. The debt of these mortgage joint ventures is non-recourse to the Company.

Summarized condensed combined unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of August 31, 2023 and May 31, 2023, and for the three months ended August 31, 2023 and 2022, was as follows (in thousands):

	August 31, 2023	**May 31, 2023**
Assets:		
Cash	$ 12,365	$ 11,039
Mortgage notes receivable	82,534	143,955
Real estate	1,205	722
Other	2,337	2,186
Total assets	$ 98,441	$ 157,902
Liabilities and equity:		
Liabilities:		
Accounts payable and other accruals	$ 4,996	$ 6,125
Notes payable [(1)]	75,986	134,606
Total liabilities	80,982	140,731
Equity	17,459	17,171
Total liabilities and equity	$ 98,441	$ 157,902

(1) The notes payable balance at August 31, 2023 and May 31, 2023 is comprised of outstanding balances on three warehouse lines. The warehouse lines are non-recourse to the Company.

	Three months ended August 31,	
	2023	**2022**
Revenues:		
Financial services	$ 13,177	$ 7,781
Total revenues	13,177	7,781
Gross profit	8,833	4,268
General and administrative expenses:		
Financial services	1,746	1,370
Total general and administrative expenses	1,746	1,370
Net income	$ 7,087	$ 2,898

Note 6 — Debt

Debt at August 31, 2023 and May 31, 2023 consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
6.625% Notes due 2028 (1)	$ 247,750	$ 247,601
4.625% Notes due 2029 (2)	346,392	346,216
4.625% Notes due 2030 (3)	393,828	393,583
	$ 987,970	$ 987,400

(1) Net of $2.3 million and $2.4 million of unamortized deferred financing costs as of August 31, 2023 and May 31, 2023, respectively.

(2) Net of $3.6 million and $3.8 million of unamortized deferred financing costs as of August 31, 2023 and May 31, 2023, respectively.

(3) Net of $4.1 million and $4.3 million of unamortized deferred financing costs as of August 31, 2023 and May 31, 2023, respectively and $2.1 million and $2.2 million of unamortized discount as of August 31, 2023 and May 31, 2023, respectively.

The 2028 Notes

On January 23, 2020, Ashton Woods and Ashton Woods Finance Co., a wholly owned subsidiary of Ashton Woods ("Finance Co.", and together with Ashton Woods, the "Companies"), issued $250 million principal amount of 6.625% Senior Notes due 2028 in a private offering pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act of 1933, as amended (the "Securities Act"). The 2028 Notes were issued at a price of 100.00% of the principal amount to yield 6.625%.

The 2028 Notes mature on January 15, 2028. Interest is payable on the 2028 Notes on January 15 and July 15 of each year. The 2028 Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 2028 Notes are effectively subordinated to any of the Company's existing and future secured debt, to the extent of the value of the assets securing such debt. The obligations under the 2028 Notes are jointly and severally guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 2028 Notes), other than (i) subsidiaries that have assets with a book value of not more than $2.0 million and that do not guarantee certain other indebtedness, (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 2028 Notes), and (iii) Finance Co., which is an issuer (all such Restricted Subsidiaries providing guarantees, the "Guarantors"). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage, Inc. ("AW Mortgage") which holds the Company's interests in two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 2028 Notes. As of and for the three months ended August 31, 2023, the Company recognized equity in earnings from AW Mortgage of $3.5 million and AW Mortgage had $7.8 million of assets and no liabilities.

The indenture governing the 2028 Notes gives the Companies the option to redeem the 2028 Notes at any time or from time to time, in whole or in part, (a) on or after January 15, 2023 until January 15, 2026, at certain redemption prices set forth in the indenture governing the 2028 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (b) on or after January 15, 2026, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 2028 Notes contains a number of covenants, including covenants relating to the following:

- Limitations on indebtedness;
- Limitations on restricted payments, including dividends and investments;
- Limitations on transactions with affiliates;
- Limitations on liens;
- Limitations on asset sales; and
- Limitations on mergers.

As of August 31, 2023, the Companies were in compliance with the covenants in the indenture governing the 2028 Notes.

The 2029 Notes

On August 2, 2021, the Companies issued $350 million principal amount of 4.625% Senior Notes due 2029 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 2029 Notes were issued at a price of 100.00% of the principal amount to yield 4.625%.

The 2029 Notes mature on August 1, 2029. Interest is payable on the 2029 Notes on February 1 and August 1 of each year. The 2029 Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 2029 Notes are effectively subordinated to any of the Company's existing and future secured debt, to the extent of the value of the assets securing such debt. The obligations under the 2029 Notes are jointly and severally guaranteed by the Guarantors. The obligations under the 2029 Notes are required to be guaranteed by the same subsidiaries that are required to guarantee the 2028 Notes and 2030 Notes.

The indenture governing the 2029 Notes gives the Companies the option to redeem the 2029 Notes at any time or from time to time, in whole or in part, (a) until August 1, 2024, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 2029 Notes, (b) on or after August 1, 2024 until August 1, 2026, at certain redemption prices set forth in the indenture governing the 2029 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after August 1, 2026, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 2029 Notes contains a number of covenants, which are substantially the same as those contained in the indentures governing the 2028 Notes and 2030 Notes.

As of August 31, 2023, the Companies were in compliance with the covenants in the indenture governing the 2029 Notes.

The 2030 Notes

On September 23, 2021, the Companies issued $300 million principal amount of 4.625% Senior Notes due 2030 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 2030 Notes were issued at a price of 100.00% of the principal amount to yield 4.625%.

On January 27, 2022, the Companies issued an additional $100 million principal amount of the 4.625% Senior Notes due 2030 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The additional 2030 Notes were issued at a price of 97.500% of the principal amount to yield 5.000%.

The 2030 Notes mature on April 1, 2030. Interest is payable on the 2030 Notes on April 1 and October 1 of each year. The 2030 Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 2030 Notes are effectively subordinated to any of the Company's existing and future secured debt, to the extent of the value of the assets securing such debt. The obligations under the 2030 Notes are jointly and severally guaranteed by the Guarantors. The obligations under the 2030 Notes are required to be guaranteed by the same subsidiaries that are required to guarantee the 2028 Notes and 2029 Notes.

The indenture governing the 2030 Notes gives the Companies the option to redeem the 2030 Notes at any time or from time to time, in whole or in part, (a) until April 1, 2025, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 2030 Notes, (b) on or after April 1, 2025 until April 1, 2027, at certain redemption prices set forth in the indenture governing the 2030 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after April 1, 2027, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 2030 Notes contains a number of covenants, which are substantially the same as those contained in the indentures governing the 2028 Notes and 2029 Notes.

As of August 31, 2023, the Companies were in compliance with the covenants in the indenture governing the 2030 Notes.

Senior Unsecured Revolving Credit Facility

On January 28, 2022, the Company entered into the First Amendment to the Restated Revolver, which amended the Restated Revolver, dated as of February 2, 2021. The Restated Revolver provides for, among other things, (i) an aggregate revolving loan commitment of up to $350.0 million, with up to $50.0 million available for the issuance of letters of credit and up to $20.0 million available for swingline loans, and an accordion feature to permit the size of the facility to be increased up to $400.0 million in the future (dependent upon Company needs and available lender commitments), and (ii) a maturity date of January 28, 2026.

Interest accrues on borrowings under the Restated Revolver at a Secured Overnight Financing Rate (SOFR) or alternative base rate, in each case plus an applicable margin that varies based upon the leverage ratio of the Company from time to time.

Availability under the Restated Revolver is based upon a borrowing base formula, determined by applying certain advance rates to certain asset types provided for in the borrowing base.

The Restated Revolver contains affirmative and negative covenants that are customary for credit agreements of this nature, including the following material financial covenants:

- A minimum level of Tangible Net Worth (as defined in the Restated Revolver);
- A maximum Leverage Ratio (as defined in the Restated Revolver);
- A minimum Interest Coverage Ratio (as defined in the Restated Revolver); and
- A minimum liquidity requirement.

Other principal covenants in the Restated Revolver include covenants relating to:

- Limitations on liens;
- Limitations on mergers;
- Limitations on the aggregate value of certain land components that may be owned;
- Limitations on investments;
- Limitations on transactions with affiliates;
- Limitations on payment of certain indebtedness;
- Limitations on permitted indebtedness;
- Limitations on distributions;
- Limitations on sales of assets; and
- Limitations on restrictive agreements.

In addition, the Restated Revolver permits certain tax distributions to Members and permits certain other distributions to Members if certain conditions are met. As of August 31, 2023, the Company was in compliance with the covenants in the Restated Revolver.

At August 31, 2023, there were no borrowings outstanding under the Restated Revolver and $18.3 million of letters of credit outstanding. As of August 31, 2023, the Company had available additional borrowing capacity of $331.7 million under the Restated Revolver based on outstanding letters of credit and the borrowing base formula.

Note 7 — Other Liabilities

Other liabilities at August 31, 2023, and May 31, 2023, consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
Liabilities for real estate not owned [(1)]	$ 189,861	$ 169,146
Accrued long-term compensation	99,007	106,947
Salaries, bonuses, and benefits	23,400	64,462
Accrued interest	11,356	14,885
Lease liabilities [(2)]	13,891	14,830
Warranty accruals	17,327	17,242
Other	33,523	30,855
	$ 388,365	$ 418,367

(1) Net of deposits of $83.2 million and $74.8 million as of August 31, 2023, and May 31, 2023, respectively. See Note 4 for additional information about liabilities for real estate not owned.
(2) See Note 13, *Leases,* for additional information.

Note 8 — Customer Deposits

Customer deposits at August 31, 2023, and May 31, 2023, consisted of the following (in thousands):

	August 31, 2023	May 31, 2023
Customer deposits - retail homes	$ 48,224	$ 40,342
Customer deposits - wholesale homes	1,020	3,414
	$ 49,244	$ 43,756

Customer deposits - retail homes are deposits on retail homes that are under purchase contracts that have not yet closed. Customer deposits - wholesale homes are deposits on wholesale homes that are under purchase contracts that have not yet closed, as well as deposits to secure the purchase of homes in future communities or future phases of existing communities.

Note 9 — Members' Equity, Amended Regulations, and Ownership

The Second Amended and Restated Regulations (as amended, the "Regulations") of the Company provides for four classes of Members and associated membership interests as follows: (1) Class A Membership Interest, which is held by Little Shots Nevada, L.L.C. ("Little Shots"), (2) Class B Membership Interests initially issued to the holders of our former 11.0% Senior Subordinated Notes due 2015, all of which are now held by Little Shots, (3) Class C Membership Interests created in June 2010, all of which are held by Little Shots, and (4) Class D Membership Interests created in March 2022, which are held by one of the Company's executive officers. The Regulations set forth each Member's respective membership interests and sharing ratio. No Member is required to make any additional contributions to the Company. Subject to certain limited exceptions, including for tax distributions, all items of income, gain, loss, deduction and credit of Ashton Woods will be allocated among the Members in accordance with their sharing ratios, as further provided in the Regulations.

Effective March 30, 2022, the Company and Little Shots entered into a fifth amendment to the Regulations to: (1) create a new class of membership interests, the Class D Membership Interests, and (2) amend and restate certain provisions to reflect the creation of the Class D Membership Interests. The Class D Membership Interests have no voting rights, do not participate in income or loss allocations, and do not participate in tax or non-tax distributions. The Class D Membership Interests convert to Class A Membership Interests upon the occurrence of various specified events.

On April 30, 2022, 208,371 Class D Units were awarded to one of the Company's executive officers (the "Class D equity award") as non-cash compensation valued at $5.8 million which will be recognized as compensation expense over the five-year requisite service period. The Company recognized compensation expense of $0.3 million during both the three months ended August 31, 2023 and 2022, which is included in selling, general and

administrative expense in the unaudited condensed consolidated statements of income. As of August 31, 2023, we had unrecognized compensation cost related to the Class D equity award of $4.3 million which is expected to be recognized over a period of 3.7 years.

At August 31, 2023, there were 20,837,100 membership interests outstanding, comprised as follows:

	Membership Interests	Ownership percentage	Percentage of membership class
Little Shots Nevada L.L.C.			
Class A	8,027,200	38.52 %	100.00 %
Class B	1,972,800	9.47 %	100.00 %
Class C	10,628,729	51.01 %	100.00 %
Total Little Shots Nevada L.L.C.	20,628,729	99.00 %	
Other Holder			
Class D	208,371	1.00 %	100.00 %
	20,837,100	100.00 %	

Note 10 — Transactions with Related Parties

Services agreement

The Company is a party to a services agreement with the Investors that provides the Company with a license, as well as development and support, for certain of the Company's computer systems and administrative services. The Company pays a fee of $1,000 per home closing quarterly, in arrears, for these services, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income. The Company incurred fees of $1.9 million and $1.6 million during the three months ended August 31, 2023 and 2022, respectively, under the services agreement. As of August 31, 2023, and May 31, 2023, the balance due to the Investors under the terms of the service agreement was $1.9 million and $2.7 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

Lot purchase agreements

The Company is a party to eleven lot purchase agreements with the Investors. An initial deposit ranging from 15% to 30% of the aggregate purchase price was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is required to record five of these lot purchase agreements as "Real estate not owned" within other assets and "Liabilities for real estate not owned" within other liabilities in the unaudited condensed consolidated balance sheets. As of August 31, 2023, the total purchase price of 3,440 lots remaining to be purchased under such agreements was approximately $137.2 million.

Joint venture

The Company is a party to a land joint venture with the Investors, which is accounted for under the equity method. The Company has a non-controlling equity investment of less than 50% in the joint venture. As of August 31, 2023, the joint venture had $1.2 million of land inventory and no debt outstanding.

Sales of completed homes

During the year ended May 31, 2023, the Company entered into seven wholesale home sales agreements with the Investors. In accordance with these agreements, the Company reported 789 wholesale home orders to the Investors for an aggregate purchase price of $249.3 million. The Company closed on 204 of these sales during the three months ended August 31, 2023 and has closed on 542 of these sales since the commencement of the agreements.

Land sales and fee arrangements to construct homes

The Company sold two parcels of land and subsequently entered into two construction and development agreements with the Investors during the year ended May 31, 2021, to develop lots and build a total of 252 homes for a fee. As of August 31, 2023, the Company has completed construction on 219 of these homes.

Loan receivable

During the fiscal year ended May 31, 2022, the Company entered into an interest-free loan agreement with one of its executive officers to cover income tax obligations incurred by the officer in conjunction with the Class D equity award (see Note 9 for additional discussion regarding the Class D equity award). The interest-free loan's principal amount of approximately $2.5 million is to be repaid in annual installments prior to maturity in August 2024. As of August 31, 2023, the balance due to the Company under the terms of the interest-free loan agreement was $1.7 million and was included in receivables, net in the unaudited condensed consolidated balance sheets.

Note 11— Long-Term Incentive Plan

The Company has made, and may continue to make, grants to its executive officers and certain officers and employees under the Third Amended and Restated Performance Share Plan, as amended, (the "Plan"), which is a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company's future growth. The Plan provides for the grant to participants of full-value performance shares and appreciation-only performance shares, which are the equivalent of phantom equity awards. Full-value performance shares allow the participant to receive a cash payment equal to the total value of the performance share on the designated date of payment. Appreciation-only performance shares allow the participant to receive a cash payment equal to the increase in value of the performance share measured from the date of grant to the designated date of payment.

The value of a performance share under the Plan is determined by dividing the Company's book value, as defined under the Plan, by the number of hypothetical shares as defined by the Plan. Generally, except as otherwise determined by the Board upon grant, performance shares awarded under the Plan will vest ratably over three years and will be subject to forfeiture upon the occurrence of certain events, including termination of employment for cause. The Plan provides that performance shares will become fully vested upon a participant's resignation for good reason, the participant's death or disability or a change of control, and with respect to certain grants, upon a termination without cause and an equity sale, as defined in the Plan. In the absence of a payment event otherwise defined in the Plan, the full-value performance share awards pay out after the third anniversary of the award date, and the appreciation-only performance share awards pay out after the fifth anniversary of the award date.

The following table represents a rollforward of the outstanding performance shares for the three months ended August 31, 2023:

	Full-value shares	**Appreciation-only shares**	**Total shares**
Outstanding performance shares as of May 31, 2023	529,908	1,318,416	1,848,324
Performance shares awarded during the period	73,430	146,860	220,290
Shares forfeited during the period	(3,778)	(7,555)	(11,333)
Fully vested performance shares paid	(97,661)	(131,428)	(229,089)
Total outstanding performance shares as of August 31, 2023	501,899	1,326,293	1,828,192
Total vested performance shares as of August 31, 2023	271,102	871,824	1,142,926

The Company's liability for performance shares awarded under the Plan is remeasured quarterly to reflect the intrinsic value of the performance shares that have vested as of the balance sheet date. As a result, the Company may record an increase or decrease in compensation expense in any period. Compensation expense for the full-value and appreciation-only performance shares is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income.

The total number of performance shares vested as of August 31, 2023, and May 31, 2023, were 1,142,926 and 1,246,189, respectively. The Company recorded $16.5 million and $15.2 million for the three months ended August 31, 2023 and 2022, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the three months ended August 31, 2023 and 2022, $24.4 million (229,089 units) and $18.5 million (245,878 units), respectively, of vested performance shares were paid out to employees. As of August 31, 2023, and May 31, 2023, the Company's liability for the performance shares was $99.0 million and $106.9 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 12 — Fair Value Disclosures

ASC 820, *Fair Value Measurement,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those that are obtained from market participants external to the Company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions and specific knowledge of the assets/liabilities and related markets. The three levels are defined as follows:

- **Level 1:** Valuation is based on quoted prices in active markets for identical assets and liabilities.
- **Level 2:** Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- **Level 3:** Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

The carrying amounts of cash and cash equivalents, restricted cash, receivables, accounts payable, customer deposits, and the Restated Revolver, as reported in the accompanying unaudited condensed consolidated balance sheets, approximate their fair values due to their short-term maturity or floating interest rate terms, as applicable. The factors considered in determining fair values of the Company's communities, when necessary, under ASC 360-10 are described in the discussion of the Company's inventory impairment analysis (see Note 1(d)) and are classified as Level 2 or Level 3 valuations.

The following table presents the carrying amounts and estimated fair values of the Company's 2028 Notes, 2029 Notes, and 2030 Notes (collectively, the "Senior Notes") at August 31, 2023, and May 31, 2023:

		August 31, 2023		May 31, 2023	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:		(in thousands)			
6.625% Notes due 2028	Level 2	$ 247,750	$ 239,075	$ 247,601	$ 233,750
4.625% Notes due 2029	Level 2	346,392	302,330	346,216	291,375
4.625% Notes due 2030	Level 2	393,828	343,400	393,583	330,000
		$ 987,970	$ 884,805	$ 987,400	$ 855,125

The Companies' Senior Notes are recorded at their carrying values in the unaudited condensed consolidated balance sheets, which differs from their respective fair values. The carrying values of the Companies' Senior Notes reflect their face amount, adjusted for unamortized debt issuance costs and any discount. The fair values of the Senior Notes are derived from quoted market prices by independent dealers (Level 2).

Note 13— Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are disputed and aggressively defended by the Company. The Company establishes liabilities for legal claims and related matters when such matters are both probable of occurring and any potential loss is reasonably estimable. The Company accrues for such matters based on the facts and circumstances specific to each matter and revises

these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and related matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing, or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse effect on the Company's results of operations, financial condition, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

The Company has entered into employment agreements with its executive officers and certain other employees that provide for severance payments based on salary and bonus upon termination without cause, or, with respect to certain of these officers, following a change of control, by the Company without cause or by the executive for good reason.

In the normal course of business, the Company provides letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At August 31, 2023, and May 31, 2023, the Company had letters of credit outstanding of $18.3 million and $8.4 million, respectively, and surety bonds outstanding of $212.6 million and $210.7 million, respectively. As of August 31, 2023, the Company had $31.7 million of unused letter of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, as of August 31, 2023, the Company has made nonrefundable deposits of $368.5 million, which includes $83.2 million of nonrefundable deposits related to purchase and option agreements recorded under ASC 606 or ASC 470-40 (See Note 4). The Company would forfeit the remaining deposits if the lots are not purchased. The total purchase price of lots remaining to be purchased under option agreements with nonrefundable deposits was approximately $2.4 billion as of August 31, 2023.

Leases

The Company leases office space and equipment under various operating leases with varying commencement dates and renewal options for use in our operations. We recognize lease expense for these leases on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Right-of-use assets and lease liabilities are recorded on the unaudited condensed consolidated balance sheets for all leases with an expected term of at least one year. Some leases include one or more options to renew. The exercise of lease renewal options is generally at our discretion. The depreciable lives of right-of-use assets and leasehold improvements are limited to the expected lease term. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

Right-of-use assets are classified within other assets on the unaudited condensed consolidated balance sheets, while lease liabilities are classified within other liabilities on the unaudited condensed consolidated balance sheets. Right-of-use assets and lease liabilities were $12.8 million and $13.9 million at August 31, 2023, respectively, and $13.7 million and $14.8 million at May 31, 2023, respectively. During the three months ended August 31, 2023 and 2022, there were approximately $28.0 thousand and $0.5 million, respectively, of additions to the right-of-use assets under operating leases. Payments on lease liabilities during the three months ended August 31, 2023 and 2022, totaled $1.2 million and $1.4 million, respectively.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. For the three months ended August 31, 2023 and 2022, our total lease expense was approximately $1.2 million and $1.6 million, respectively, inclusive of short-term lease costs. Sublease income, short-term lease costs, and variable lease costs are not material to the unaudited condensed consolidated financial statements.

The future minimum lease payments required under our leases as of August 31, 2023, are as follows (in thousands):

Year ending May 31, 2024	$ 3,318
Year ending May 31, 2025	3,816
Year ending May 31, 2026	3,548
Year ending May 31, 2027	2,345
Year ending May 31, 2028	1,763
Thereafter	991
Total future minimum lease payments[a]	15,781
Less: Interest [b][c]	1,890
Total future minimum lease payments less interest[c]	$ 13,891

(a) Lease payments include options to extend lease terms that are reasonably certain of being exercised.

(b) Our leases do not provide a readily determinable implicit rate. Therefore, we estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.

(c) The weighted average lease term and weighted average discount rate used in calculating our lease liabilities were 4.2 years and 6.46%, respectively, at August 31, 2023.

Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

1) East:	Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Nashville; Orlando; Raleigh; and Southwest Florida
2) Central:	Austin; Dallas; Houston; Phoenix; and San Antonio

The following table summarizes revenue, gross profit, depreciation and amortization, equity in earnings in unconsolidated entities, and net income for each of the Company's reportable segments (in thousands):

	Three months ended August 31,	
Revenues:	**2023**	**2022**
Homebuilding:		
East	$ 334,009	$ 239,902
Central	414,854	461,894
Total homebuilding revenues	748,863	701,796
Financial services and other revenue	15,935	11,225
Total revenues	$ 764,798	$ 713,021
Gross profit (loss) [1]:		
Homebuilding:		
East	$ 90,786	$ 61,005
Central	110,856	146,329
Total homebuilding gross profit	201,642	207,334
Financial services and other revenue gross profit	6,664	4,301
Total gross profit	$ 208,306	$ 211,635
Depreciation and amortization:		
East	$ 1,091	$ 510
Central	947	975
Total depreciation and amortization	$ 2,038	$ 1,485
Equity in earnings of unconsolidated entities:		
East	$ 1,188	$ 310
Central	2,288	1,231
Total equity in earnings of unconsolidated entities	$ 3,476	$ 1,541
Net income:		
East	$ 49,372	$ 25,333
Central	60,980	96,890
	110,352	122,223
Other [2]	(1,149)	(111)
Total net income	$ 109,203	$ 122,112

(1) Includes inventory impairments totaling $47.8 thousand for the east segment during the three months ended August 31, 2023. There were no inventory impairments for the east segment during the three months ended August 31, 2022. There were no inventory impairments for the central segment during the three months ended August 31, 2023, nor the three months ended August 31, 2022, respectively.

(2) "Other" primarily consists of interest directly expensed for the three months ended August 31, 2023 and 2022.

The following table summarizes total assets for each of the Company's reportable segments (in thousands):

	August 31, 2023	May 31, 2023
Assets:		
Homebuilding:		
East	$ 1,026,025	$ 883,942
Central	1,434,181	1,276,420
	2,460,206	2,160,362
Other [1]	388,945	623,008
Total assets	$ 2,849,151	$ 2,783,370

(1) "Other" is comprised of cash, restricted cash, and corporate assets.

The following table summarizes additions to property and equipment for each of the Company's reportable segments for the periods presented (in thousands):

	Three months ended August 31,	
	2023	2022
Additions to property and equipment:		
Homebuilding:		
East	$ 1,151	$ 1,396
Central	1,655	777
	2,806	2,173
Other [1]	4	—
Total additions to property and equipment	$ 2,810	$ 2,173

(1) "Other" is comprised of property and equipment additions for the Company's corporate office.

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

The following management's discussion and analysis is intended to assist the reader in understanding the Company's business and is provided as a supplement to, and should be read in conjunction with, the Company's unaudited condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and with our audited consolidated financial statements and accompanying notes included in our annual report for the fiscal year ended May 31, 2023 ("2023 Annual Report"). The Company's results of operations discussed below are presented in conformity with GAAP.

Forward-Looking Statements

Certain statements included in this report contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, which represent our expectations or beliefs concerning future events, and no assurance can be given that the results described in this report will be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as "estimate," "project," "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "target," "could," "seek", or other similar words or phrases. All forward-looking statements are based upon information available to us as of the date of this report.

A forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update or revise any forward-looking statement, to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events or new information, even if future events make it clear that any expected results that we have expressed or implied will not be realized. Though we are of the view that such forward-looking statements are reasonable, the results in the forward-looking statement may not be achieved. New factors emerge from time to time, and it is not possible for management to predict all such factors.

These forward-looking statements reflect our best estimates and are subject to risks, uncertainties, and other factors, many of which are outside of our control, which could cause actual results to differ materially from the results discussed in the forward-looking statements. Important factors that could cause actual results to differ materially from those in forward-looking statements and that could negatively affect our business include, but are not limited to, the following:

- Deterioration in homebuilding industry conditions or adverse changes in general economic, real estate construction, or other business conditions;
- The impact of an epidemic, pandemic, or similar public threat, and the measures that federal, state and local governments and/or health authorities implement to address it;
- Raw materials, electrical power, and building supply shortages and price fluctuations;
- High inflation;
- Fluctuations in quarterly results due to seasonality and other factors;
- Fluctuations and declines in the market value of our land and/or homes inventory or land under contract could result in impairments;
- Increases in residential mortgage interest rates and the availability of mortgage financing;
- An increase in unemployment or underemployment;
- High cancellation rates;
- Our potential expansion into new markets and/or acquisitions of other homebuilding companies;
- The availability of undeveloped land and improved lots at suitable prices;
- Our lack of geographic diversification;
- The availability of reasonably priced financing to support our operations;
- Physical impact of adverse weather conditions and regulations relating to climate change;
- Our dependence on key employees;
- The availability and supply of skilled labor;
- Our exposure to home warranty and construction defect claims and changes in immigration laws and policies;
- The availability and performance of our subcontractors;
- Failure of our employees, subcontractors or agents to comply with applicable regulations and guidelines;
- The competitive nature of the homebuilding industry;

- Slower home sales could extend the time it takes to recover land purchase and property development costs and force us to absorb additional costs;
- Risks relating to unconsolidated joint ventures;
- Negative publicity;
- Failures in our financial and operational controls could result in cost overruns and errors in valuing sites;
- Our ability to obtain surety bonds;
- Terrorist attacks or increased domestic and international social, political or economic unrest or instability;
- Technology failures, cybersecurity attacks, breaches, and/or threats, and related exposures;
- Government regulations relating to health, safety and the environment could increase the cost of, limit the availability of our development and homebuilding projects and adversely affect our financial results;
- Government regulations relating to our title and mortgage operations;
- A major health or safety incident;
- Our exposure to various litigation and legal claims;
- The potential that government rulings or legislation could make us responsible for labor law violations of our subcontractors and other parties;
- Our exposure to additional entity-level taxation by individual states and localities;
- We are not subject to various securities disclosure and reporting laws or the Sarbanes-Oxley Act of 2002;
- The level of our indebtedness;
- A downgrade in our credit ratings;
- Our ability to incur additional indebtedness;
- Our ability to generate cash to service existing indebtedness;
- The ability or our controlling shareholders to select our board members and influence our business, including in ways that may conflict with the interests of our bondholders;
- Restrictive covenants included in our bond indentures and revolving credit agreement; and
- Other factors, including those discussed elsewhere in our 2023 Annual Report under the caption “Risk Factors”, over which the Company has little or no control.

Overview and Outlook

Beginning in 2022 and continuing into 2023, the U.S. economy has experienced significant inflationary pressure with prices of gas, food, and other household goods rising at the fastest rate in over 40 years. To combat the high levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 525 basis points from March 2022 to August 2023 and has indicated during that time that additional increases may occur in the future which, in turn, has led to a significant increase in residential mortgage interest rates over the last several quarters. The increase in residential mortgage interest rates, coupled with high inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. In addition, in March 2023, several regional banks were suddenly shut down, taken over by the Federal Deposit Insurance Corporation, or acquired by larger national banks, and a wave of uncertainty from these events caused concern regarding the stability of regional, national, and international banks. High inflation and significant increases in residential mortgage interest rates caused a decline in demand for new homes during the first half of our fiscal year ended May 31, 2023, and also caused potential homebuyers to reconsider their purchase decisions resulting in increased cancellation rates. In response to this decreased demand, we adjusted pricing and sales and financing incentives across all of our markets beginning in the first quarter of our fiscal year ended May 31, 2023, which allowed us to remain competitive in our current communities and price our homes to the market in our newly opened communities. As consumer demand for new homes improved during the second half of our fiscal year ended May 31, 2023, we were able to raise prices and reduce incentives in certain communities throughout our markets.

Despite increased affordability concerns and uncertain macroeconomic conditions, there continues to be qualified and motivated homebuyers due to the historical under-supply of new home construction, the limited supply of homes at affordable price points across our markets, the demographic shift towards homeownership, and a strong employment market, which has resulted in wage growth across most sectors, adding to the demand for finished new homes. Given these factors, we believe that demand continues to exist for single-family homes, and as a result, we are continuing to start construction on additional homes, make new land investments, and develop land we own or control, while continuing to focus on maintaining adequate liquidity through the still uncertain times ahead.

Business

We design, build, and market detached and attached single-family homes in seven states under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name, and offers entry-level and wholesale homes under the Starlight Homes brand name. Our Ashton Woods communities are focused on delivering design and personalization for our homebuyers through collaboration and expertise. Our Ashton Woods sales and marketing strategy leverages our national brand while allowing our operating divisions to customize execution to meet the needs and preferences of our local markets. While Ashton Woods' value proposition is grounded in design and personalization, Starlight is focused on delivering more affordable homes. Our strategy in approaching the Starlight market is primarily to convert renters into first-time homebuyers and to appeal to move-down buyers by offering more affordable homes that include attractive features, without offering customers the opportunity to personalize their homes.

Presented below are certain operating and other data based on buyer profile:

	Three months ended August 31,	
	2023	**2022**
Net new home orders (units):		
Wholesale - Starlight Homes	(59)	—
Entry-Level - Starlight Homes	942	569
Entry-Level - Ashton Woods	49	—
Move-up - Ashton Woods	733	434
Multi-Move-Up - Ashton Woods	116	26
Company Total	1,781	1,029
Homes closed (units):		
Wholesale - Starlight Homes	213	223
Entry-Level - Starlight Homes	870	639
Entry-Level - Ashton Woods	45	—
Move-up - Ashton Woods	669	671
Multi-Move-Up - Ashton Woods	82	99
Company Total	1,879	1,632

	As of August 31,	
	2023	**2022**
Backlog (units) at end of period:		
Wholesale - Starlight Homes	349	184
Entry-Level - Starlight Homes	541	467
Entry-Level - Ashton Woods	45	—
Move-up - Ashton Woods	894	1,209
Multi-Move-Up - Ashton Woods	249	122
Company Total	2,078	1,982

	As of August 31,	
	2023	2022
Active communities:		
Entry-Level - Starlight Homes	55	48
Entry-Level - Ashton Woods	5	—
Move-up - Ashton Woods	60	68
Multi-Move-Up - Ashton Woods	11	4
Company Total	131	120

	Three months ended August 31,	
	2023	2022
Average monthly sales per average active community: [(1)]		
Entry-Level - Starlight Homes [(2)]	5.4	4.1
Entry-Level - Ashton Woods	3.6	—
Move-up - Ashton Woods	4.1	2.2
Multi-Move-Up - Ashton Woods	3.7	2.9
Company Average	4.6	3.0

(1) Average active community for the three months ended August 31, 2023, is calculated by averaging the active community counts at August 31, 2023, and May 31, 2023, and for the three months ended August 31, 2022, by averaging the active community counts at August 31, 2022, and May 31, 2022.

(2) Includes negative 59 wholesale home sales for the three months ended August 31, 2023. There were no wholesale home sales during the three months ended August 31, 2022.

	Three months ended August 31,			
	2023		2022	
Average sales price per home closed (in thousands):				
Wholesale - Starlight Homes	$	317	$	301
Entry-Level - Starlight Homes	$	336	$	377
Entry-Level - Ashton Woods	$	329	$	—
Move-up - Ashton Woods	$	468	$	471
Multi-Move-Up - Ashton Woods	$	751	$	785
Company Average	$	399	$	430

During the three months ended August 31, 2023, we closed 1,879 homes. Of those closings, 1,655 (88%) were single-family detached homes, while the remaining 224 (12%) homes closed were single-family attached homes.

During the twelve months ended August 31, 2023, the Company added 81 new active communities, while closing out 70 communities. Of the 81 active communities added during the twelve months ended August 31, 2023, 31 (38%) are considered to be entry-level Starlight Homes, 4 (5%) are considered to be entry-level Ashton Woods Homes, 39 (48%) are considered to be move-up Ashton Woods Homes, and 7 (9%) are considered to be multi-move-up Ashton Woods Homes.

Operating Results

	Three months ended August 31,	
	2023	2022
Revenues:	(in thousands)	
Home sales	$ 748,863	$ 701,796
Financial services and other revenues	15,935	11,225
	$ 764,798	$ 713,021
Gross profit:		
Home sales	$ 201,642	$ 207,334
Financial services and other revenues	6,664	4,301
	$ 208,306	$ 211,635
Selling, general and administrative expense	$ 102,815	$ 90,604
Net income (1)	$ 109,203	$ 122,112

(1) Because the Company is structured as a limited liability company, income tax obligations are paid by our Members and are not borne by us. As a limited liability company, we periodically make tax distributions to our Members. The Company made tax distributions of $9.6 million and $55.2 million during the three months ended August 31, 2023 and 2022, respectively.

	Three months ended August 31,	
	2023	2022
Supplemental data:	($ in thousands)	
Active communities at end of period	131	120
Net new home orders (in units)	1,781	1,029
Homes closed (in units) (1)	1,879	1,632
Average sales price per home closed	$ 399	$ 430
Backlog at end of period (in units)	2,078	1,982
Sales value of backlog at end of period	$ 961,462	$ 960,119
Home sales gross margin percentage (2)	26.9 %	29.5 %
Adjusted home sales gross margin percentage (3)	28.2 %	30.9 %
Ratio of selling, general and administrative expense to home sales revenues	13.7 %	12.9 %
Interest incurred (4)	$ 13,955	$ 13,898
EBITDA (5)	$ 122,069	$ 133,522
EBITDA margin (5)	16.0 %	18.7 %
Total debt to total capitalization ratio (6)	45.2 %	49.2 %
Total net debt to net capitalization ratio (7)	34.4 %	40.7 %
Cancellation rate (as a percentage of gross sales) (8)	17.4 %	22.5 %

(1) A home is included in “homes closed” when title to and possession of the property is transferred to the buyer. Revenues and cost of sales for a home are recognized at the time of the closing of a sale when title to and possession of the property are transferred to the buyer.

(2) Home sales gross margin percentage is defined as the difference between home sales revenues and cost of sales—homes, expressed as a percentage of home sales revenues. Cost of sales—homes includes the land costs, home construction costs, indirect costs of construction, previously capitalized interest, cost of a reserve for warranty expense, architecture fee amortization, impairment charges, purchase price accounting allocations, closing costs, and pre-acquisition costs related to real estate purchases that are no longer probable.

(3) Adjusted home sales gross margin percentage, which is defined as adjusted home sales gross margin expressed as a percentage of home sales revenues, is not a financial measure under GAAP and should not be considered an alternative to home sales gross margin percentage determined in accordance with GAAP as an indicator of operating performance. We use this measure to evaluate our performance against other companies in the homebuilding industry and believe it is also relevant and useful to investors. Adjusted home sales gross margin is home sales gross margin that is adjusted to remove inventory impairments, if any, and interest amortized to cost of sales. The following is a reconciliation of home sales gross margin, which is the most directly comparable GAAP measure, to adjusted home sales gross margin:

	Three months ended August 31,	
	2023	2022
	(in thousands)	
Home sales revenues	$ 748,863	$ 701,796
Cost of sales homes	547,221	494,462
Home sales gross margin	201,642	207,334
Add: Inventory impairments - homes	48	—
Interest amortized to cost of sales	9,341	9,758
Adjusted home sales gross margin	$ 211,031	$ 217,092
Ratio of home sales gross margin to home sales revenue	26.9 %	29.5 %
Ratio of adjusted home sales gross margin to home sales revenue	28.2 %	30.9 %

(4) Interest incurred for any period is the aggregate amount of interest that is capitalized or charged directly to interest expense during such period. The following table summarizes interest costs incurred, amortized to cost of sales, and expensed during the three months ended August 31, 2023, and 2022:

	Three months ended August 31,	
	2023	2022
	(in thousands)	
Capitalized interest, beginning of period	$ 28,068	$ 25,000
Interest incurred	13,955	13,898
Interest amortized to cost of sales	(9,341)	(9,758)
Interest expensed	(1,472)	(151)
Capitalized interest, end of period	$ 31,210	$ 28,989

(5) EBITDA (earnings before interest expensed, depreciation and amortization, and interest amortized to cost of sales) is a measure commonly used in the homebuilding industry and is presented as a useful adjunct to net income and other measurements under GAAP because it is a meaningful measure of a company's performance, as interest expense, depreciation and amortization, and interest amortized to cost of sales can vary significantly between companies due, in part, to differences in structure, levels of indebtedness, capital purchasing practices, and interest rates. EBITDA is not a financial measure under GAAP and should not be considered an alternative to net income determined in accordance with GAAP as an indicator of operating performance, nor as an alternative to cash flows from operating activities determined in accordance with GAAP as a measure of liquidity. Because some analysts and companies may not calculate EBITDA in the same manner as us, the EBITDA information in this report may not be comparable to similar presentations by others. EBITDA margin is calculated by dividing EBITDA by total revenues.

The following is a reconciliation of net income, which is the most directly comparable GAAP measure, to EBITDA:

	Three months ended August 31,	
	2023	2022
	(in thousands)	
Net income	$ 109,203	$ 122,112
Depreciation and amortization	2,053	1,501
Interest amortized to cost of sales	9,341	9,758
Interest expensed	1,472	151
EBITDA	$ 122,069	$ 133,522

(6) The total debt to total capitalization ratio consists of total debt (gross principal amount) divided by total capitalization (total debt plus total Members' equity):

	As of August 31,	
	2023	2022
	($ in thousands)	
Total debt (aggregate principal balance)	$ 1,000,000	$ 1,000,000
Total Members' equity	1,211,043	1,034,082
Total capitalization	$ 2,211,043	$ 2,034,082
Total debt to total capitalization	45.2 %	49.2 %

(7) The total net debt to net capitalization ratio, which consists of total debt (gross principal amount), net of cash, cash equivalents, and restricted cash ("net debt"), divided by net capitalization (net debt plus total Members' equity), is not a financial measure under GAAP and should not be considered an alternative to total debt to total capitalization ratio, which is the most directly comparable financial measure determined in accordance with GAAP. We use this measure to evaluate our performance against other companies in the homebuilding industry and believe it is also relevant and useful to investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing.

	As of August 31,	
	2023	2022
	($ in thousands)	
Total debt (aggregate principal balance)	$ 1,000,000	$ 1,000,000
Less cash, cash equivalents, and restricted cash	365,289	291,058
Net debt	$ 634,711	$ 708,942
Total Members' equity	1,211,043	1,034,082
Total net capitalization	$ 1,845,754	$ 1,743,024
Total net debt to net capitalization	34.4 %	40.7 %

(8) The following table summarizes the cancellation rates (as a percentage of gross sales) by buyer profile for the three months ended August 31, 2023, and 2022:

	Three months ended August 31,	
	2023	2022
Wholesale - Starlight Homes	636.4 %	— %
Entry-Level - Starlight Homes	17.1 %	22.1 %
Entry-Level - Ashton Woods	12.5 %	— %
Move-up - Ashton Woods	11.5 %	22.8 %
Multi-Move-Up - Ashton Woods	7.2 %	25.7 %
Consolidated	17.4 %	22.5 %

Operating results - Segments

We have grouped our homebuilding operating divisions into two reportable segments, east and central. At August 31, 2023, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

1) East:	Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Nashville; Orlando; Raleigh; and Southwest Florida
2) Central:	Austin; Dallas; Houston; Phoenix; and San Antonio

Presented below are certain operating and other data for our segments:

Net new home orders (units):

	Three months ended August 31,	
	2023	2022
East:		
Wholesale - Starlight Homes	(70)	—
Entry-Level - Starlight Homes	437	244
Entry-Level - Ashton Woods	28	—
Move-up - Ashton Woods	243	244
Multi-Move-Up - Ashton Woods	109	20
Total east	747	508
Central:		
Wholesale - Starlight Homes	11	—
Entry-Level - Starlight Homes	505	325
Entry-Level - Ashton Woods	21	—
Move-up - Ashton Woods	490	190
Multi-Move-Up - Ashton Woods	7	6
Total central	1,034	521
Company total	1,781	1,029

Homes closed (units):

	Three months ended August 31,	
	2023	2022
East:		
Wholesale - Starlight Homes	55	65
Entry-Level - Starlight Homes	376	250
Entry-Level - Ashton Woods	29	—
Move-up - Ashton Woods	250	231
Multi-Move-Up - Ashton Woods	72	34
Total east	782	580
Central:		
Wholesale - Starlight Homes	158	158
Entry-Level - Starlight Homes	494	389
Entry-Level - Ashton Woods	16	—
Move-up - Ashton Woods	419	440
Multi-Move-Up - Ashton Woods	10	65
Total central	1,097	1,052
Company total	1,879	1,632

Average sales price per home closed:

	Three months ended August 31,	
	2023	2022
	(in thousands)	
East:		
Wholesale - Starlight Homes	$ 324	$ 283
Entry-Level - Starlight Homes	$ 355	$ 383
Entry-Level - Ashton Woods	$ 314	$ —
Move-up - Ashton Woods	$ 480	$ 440
Multi-Move-Up - Ashton Woods	$ 745	$ 714
Total east	$ 427	$ 414
Central:		
Wholesale - Starlight Homes	$ 314	$ 308
Entry-Level - Starlight Homes	$ 321	$ 373
Entry-Level - Ashton Woods	$ 356	$ —
Move-up - Ashton Woods	$ 460	$ 488
Multi-Move-Up - Ashton Woods	$ 789	$ 821
Total central	$ 378	$ 439
Company total	$ 399	$ 430

Backlog (units) at end of period:

	As of August 31,	
	2023	2022
East:		
Wholesale - Starlight Homes	185	116
Entry-Level - Starlight Homes	269	219
Entry-Level - Ashton Woods	14	—
Move-up - Ashton Woods	375	596
Multi-Move-Up - Ashton Woods	231	54
Total east	1,074	985
Central:		
Wholesale - Starlight Homes	164	68
Entry-Level - Starlight Homes	272	248
Entry-Level - Ashton Woods	31	—
Move-up - Ashton Woods	519	613
Multi-Move-Up - Ashton Woods	18	68
Total central	1,004	997
Company total	2,078	1,982

Active communities:

	As of August 31,	
	2023	2022
East:		
Entry-Level - Starlight Homes	26	22
Entry-Level - Ashton Woods	2	—
Move-up - Ashton Woods	20	19
Multi-Move-Up - Ashton Woods	9	3
Total east	57	44
Central:		
Entry-Level - Starlight Homes	29	26
Entry-Level - Ashton Woods	3	—
Move-up - Ashton Woods	40	49
Multi-Move-Up - Ashton Woods	2	1
Total central	74	76
Company total	131	120

Average monthly sales per average active community: [1]

	Three months ended August 31,	
	2023	2022
East:		
Entry-Level - Starlight Homes [2]	4.7	4.0
Entry-Level - Ashton Woods	4.7	—
Move-up - Ashton Woods	4.0	4.3
Multi-Move-Up - Ashton Woods	4.3	2.7
Total east	4.4	4.0
Central:		
Entry-Level - Starlight Homes [3]	6.0	4.2
Entry-Level - Ashton Woods	2.8	—
Move-up - Ashton Woods	4.2	1.3
Multi-Move-Up - Ashton Woods	1.2	4.0
Total central	4.8	2.3
Company total	4.6	3.0

(1) Average active community for the three months ended August 31, 2023, is calculated by averaging the active community counts at August 31, 2023, and May 31, 2023, and for the three months ended August 31, 2022, by averaging the active community counts at August 31, 2022, and May 31, 2022.

(2) Includes negative 70 wholesale home sales for the three months ended August 31, 2023. There were no wholesale home sales for the three months ended August 31, 2022.

(3) Includes 11 wholesale home sales for the three months ended August 31, 2023. There were no wholesale home sales for the three months ended August 31, 2022.

Adjusted Home Sales Gross Margin:

The Company presents adjusted home sales gross margin and adjusted home sales gross margin percentage on a segment basis in the following tables. Adjusted home sales gross margin is a non-GAAP measure. The following is a reconciliation of home sales gross margin of our segments, the most directly comparable GAAP measure, to our segments' adjusted home sales gross margin:

	Three months ended August 31,	
	2023	2022
Homebuilding East:	(in thousands)	
Home sales revenues	$ 334,009	$ 239,902
Cost of sales homes	243,223	178,897
Home sales gross margin	90,786	61,005
Add: Inventory impairments - homes	48	—
Interest amortized to cost of sales	4,009	3,634
Adjusted home sales gross margin	$ 94,843	$ 64,639
Ratio of home sales gross margin to home sales revenues	27.2 %	25.4 %
Ratio of adjusted home sales gross margin to home sales revenues	28.4 %	26.9 %

	Three months ended August 31,	
	2023	2022
Homebuilding Central:	(in thousands)	
Home sales revenues	$ 414,854	$ 461,894
Cost of sales homes	303,998	315,565
Home sales gross margin	110,856	146,329
Add: Interest amortized to cost of sales	5,332	6,124
Adjusted home sales gross margin	$ 116,188	$ 152,453
Ratio of home sales gross margin to home sales revenues	26.7 %	31.7 %
Ratio of adjusted home sales gross margin to home sales revenues	28.0 %	33.0 %

Operating results - Discussion

Three Months Ended August 31, 2023 Compared to Three Months Ended August 31, 2022

Home sales revenues - Consolidated

Home sales revenues increased $47.1 million (6.7%) for the three months ended August 31, 2023 to $748.9 million from $701.8 million for the three months ended August 31, 2022. The increase in home sales revenues for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed.

The number of homes closed increased 15.1% (247 homes) for the three months ended August 31, 2023, to 1,879 from 1,632 for the three months ended August 31, 2022. The increase in closings during the three months ended August 31, 2023 was primarily due to the increased availability of homesites and speculative home inventory, and the improvement of cancellation rates on a consolidated basis from 22.5% for the three months ended August 31, 2022 to 17.4% for the three months ended August 31, 2023. The increase in closings during the three months ended August 31, 2023 was driven by an improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023.

The average sales price of homes closed decreased 7.2% to an average of $399,000 for the three months ended August 31, 2023, from an average of $430,000 for the three months ended August 31, 2022, primarily as a result of adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023. In addition, newly added communities during the last twelve months ended August 31, 2023 were opened at lower initial prices and/or had higher incentive offerings compared to new community openings during the twelve month period ended August 31, 2022. While these pricing and sales incentive adjustments generally lowered average sales prices, homes in backlog at May 31, 2022, a majority of which closed during the three months ended August 31, 2022, were sold at higher average sales prices before the significant rise in residential mortgage interest rates impacted pricing across all of our markets.

Home sales revenues - East segment

Home sales revenues for the east segment increased by $94.1 million (39.2%) for the three months ended August 31, 2023, to $334.0 million from $239.9 million for the three months ended August 31, 2022. The increase in home sales revenues for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, was primarily due to a 34.8% increase in the number of homes closed.

The number of homes closed during the three months ended August 31, 2023 increased 34.8% (202 homes) as compared to the three months ended August 31, 2022. The increase in closings for the east segment during the three months ended August 31, 2023, compared to the three months ended August 31, 2022, was primarily due to the increased availability of homesites and speculative home inventory and the improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023. This increase in demand has also

contributed to improved cancellation rates in the east segment during the three months ended August 31, 2023, compared to the three months ended August 31, 2022.

The average sales price of homes closed increased 3.1% to an average of $427,000 for the three months ended August 31, 2023, from an average of $414,000 for the three months ended August 31, 2022. The increase in the average sales price of homes closed in the east segment for the three months ended August 31, 2023, compared to the three months ended August 31, 2022, is primarily due to an increase in the number of closings in our move-up and multi-move up communities from new community openings and the availability of homesites to sell.

Home sales revenues - Central segment

Home sales revenues for the central segment decreased by $47.0 million (10.2%) for the three months ended August 31, 2023, to $414.9 million from $461.9 million for the three months ended August 31, 2022. The decrease in home sales revenues for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, was due to a decrease in the average sales price of homes closed, partially offset by an increase in the number of homes closed.

The average sales price of homes closed decreased 13.9% to an average of $378,000 for the three months ended August 31, 2023, from an average of $439,000 for the three months ended August 31, 2022. The decrease in the average sales price of homes closed for the three months ended August 31, 2023, compared to the three months ended August 31, 2022 is primarily due to adjustments in pricing and sales and financing incentives made in response to changing market conditions during the fiscal year ended May 31, 2023. In addition, newly added communities in the central segment during the twelve months ended August 31, 2023 were opened at lower initial prices and/or had higher incentive offerings compared to new community openings during the twelve month period ended August 31, 2022. While the pricing and sales incentive adjustments during the fiscal year ended May 31, 2023 generally lowered average sales prices, homes in backlog in the central segment at May 31, 2022, a majority of which closed during the three months ended August 31, 2022, were sold at higher average sales prices before the significant rise in residential mortgage interest rates impacted pricing across all of our markets in the central segment.

The number of homes closed during the three months ended August 31, 2023 increased 4.3% (45 homes) as compared to the three months ended August 31, 2022. Closings for the central segment during the three months ended August 31, 2023, compared to the three months ended August 31, 2022, increased primarily as a result of the improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023. This increase in demand has also contributed to improved cancellation rates in the central segment during the three months ended August 31, 2023, compared to the three months ended August 31, 2022.

Net new home orders, cancellations, and backlog - Consolidated

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of the home closing. Net new home orders increased 73.1% (752 homes) for the three months ended August 31, 2023, compared to the three months ended August 31, 2022. Average monthly sales per average active community increased from 3.0 for the three months ended August 31, 2022, to 4.6 for the three months ended August 31, 2023.

Included in the net new home orders are wholesale home sales to real estate investors. Wholesale homes are sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements). In the normal course of business, we may also elect to sell one or more homes to buyers who may be real estate investors pursuant to individual retail purchase and sale agreements which are not included in the wholesale home sales reported herein. Sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from period to period. During the three months ended August 31, 2023, we had negative 59 net wholesale home sales as a result of the termination of a wholesale home sales contract with a real estate investor. There were no wholesale home sales to real estate investors during the three months ended August 31, 2022. Excluding the wholesale home sales to real estate investors, net new home orders increases 78.8% (811 homes) for the three months ended August 31, 2023, compared to the three months ended August 31, 2022. The increase in net new home orders was primarily due to the improvement in demand for new homes as a result of adjustments in pricing

and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023.

Our cancellation rates (as a percentage of gross sales) improved across most of our buyer profiles during the three months ended August 31, 2023, compared to the three months ended August 31, 2022. The lower cancellation rates across most of our buyer profiles were primarily due to the adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023, which eased affordability concerns of homebuyers that were exacerbated by the rapid increase in residential mortgage interest rates during the three months ended August 31, 2022. As a result, our consolidated cancellation rate improved from 22.5% for the three months ended August 31, 2022, to 17.4% for the three months ended August 31, 2023. Excluding wholesale home sales contracts with real estate investors, which was negatively impacted during the three months ended August 31, 2023 by the termination of a wholesale home sales contract with a real estate investor, our consolidated cancellation rate decreased from 22.5% for the three months ended August 31, 2022, to 14.2% for the three months ended August 31, 2023.

Backlog consists of homes that are under purchase contracts that have not yet closed. Backlog increased 4.8% from 1,982 homes in backlog at August 31, 2022, to 2,078 homes in backlog at August 31, 2023. The increase in backlog was a result of the significant increase in new home orders during the three months ended August 31, 2023, as discussed above, partially offset by an increase in the number of homes closed during the three months ended August 31, 2023 compared to the three months ended August 31, 2022.

The sales value of backlog at both August 31, 2023 and August 31, 2022 was $961.5 million, a 0.1% increase from the $960.1 million sales value of backlog at August 31, 2022. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at August 31, 2023 was $853.5 million, a 5.5% decrease from the $902.9 million sales value of backlog excluding wholesale home sales contracts with real estate investors at August 31, 2022. The decrease in the sales value of backlog, excluding wholesale home sales to real estate investors, was primarily due to a 3.8% decrease in the number of homes in backlog, excluding wholesale home sales to real estate investors, and the decrease in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, from $502,000 at August 31, 2022, to $494,000 at August 31, 2023 as a result of the adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023.

Net new home orders and backlog - East segment

Net new home orders in the east segment increased 47.0% (239 homes) during the three months ended August 31, 2023, compared to the three months ended August 31, 2022. Average monthly sales per average active community increased from 4.0 for the three months ended August 31, 2022, to 4.4 for the three months ended August 31, 2023. Excluding the wholesale home sales to real estate investors, net new home orders increased 60.8% (309 homes) for the three months ended August 31, 2023, compared to the three months ended August 31, 2022. The increase in net new home orders during the three months ended August 31, 2023 compared to the three months ended August 31, 2022, was primarily due to the improvement in demand for new homes as a result of adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023.

Backlog consisted of 1,074 homes at August 31, 2023, which is a 9.0% increase from 985 homes in backlog at August 31, 2022. The increase in backlog was primarily the result of the significant increase in new home orders during the three months ended August 31, 2023, as discussed above, partially offset by an increase in the number of homes closed during the three months ended August 31, 2023 compared to the three months ended August 31, 2022.

The sales value of backlog at August 31, 2023 was $546.2 million, a 16.2% increase compared to the $469.8 million sales value of backlog at August 31, 2022. The increase in the sales value of backlog was due to the increase in the number of homes in backlog and an increase in the average sales price of homes in backlog to $509,000 at August 31, 2023, from $477,000 at August 31, 2022. The increase in the average sales price of homes in backlog was primarily due to the mix of communities with homes in backlog. As of August 31, 2023, of the 1,074 homes in backlog, 231 (21.5%) of the homes were considered multi-move-up, compared to 54 (5.5%) of the 985 homes in backlog at August 31, 2022. The increase in the percentage of multi-move-up homes in backlog at August 31, 2023 was primarily driven by a decrease in the percentage of move-up homes in backlog due to the mix of active communities in the east segment, as well as availability of homesites and inventory to sell.

Net new home orders and backlog - Central segment

Net new home orders in the central segment increased 98.5% (513 homes) during the three months ended August 31, 2023, compared to the three months ended August 31, 2022. The increase in net new home orders during the three months ended August 31, 2023, compared to the three months ended August 31, 2022, was due to an improvement in demand across all of our markets in response to adjustments in pricing and higher sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023. As a result of this improved demand for new homes, average monthly sales per average active community increased from 2.3 for the three months ended August 31, 2022, to 4.8 for the three months ended August 31, 2023.

Backlog consisted of 1,004 homes at August 31, 2023, which is a 0.7% increase from 997 homes in backlog at August 31, 2022. Included in backlog at August 31, 2023 and August 31, 2022 were 164 and 68 wholesale home sales contracts with real estate investors, respectively. Excluding wholesale home sales contracts with real estate investors, backlog decreased 9.6% from 929 homes in backlog at August 31, 2022 to 840 homes in backlog at August 31, 2023. The decrease in backlog, excluding wholesale home sales contracts with real estate investors, was primarily a result of the improvement in cancellation rates in the central segment during the three months ended August 31, 2023, compared to the three months ended August 31, 2022.

The sales value of backlog at August 31, 2023 was $415.3 million, a 15.3% decrease over the $490.3 million sales value of backlog at August 31, 2022. The decrease in the sales value of backlog is due to a decrease in the average sales price of homes in backlog to $414,000 at August 31, 2023 from $492,000 at August 31, 2022, partially offset by an increase in the number of homes in backlog. The decrease in the average sales price of homes in backlog, was primarily due to the adjustments in pricing and sales and financing incentives that began during the fiscal year ended May 31, 2023 and continued throughout the three months ended August 31, 2023, and the mix of communities with homes in backlog. Of the 1,004 homes in backlog at August 31, 2023, 467 (46.5%) of the homes were entry-level compared to 316 (31.7%) entry-level homes of the 997 homes in backlog at August 31, 2022. The increase in the percentage of entry-level Starlight homes and entry-level Ashton Woods homes in backlog at August 31, 2023 was primarily driven by a decrease in move-up and multi-move-up homes in backlog from 613 (61.5%) and 68 (6.8%) move-up and multi-move-up homes, respectively, of the 997 homes in backlog at August 31, 2022 to 519 (51.7%) and 18 (1.8%) move-up and multi-move-up homes, respectively, of the 1,004 homes in backlog at August 31, 2023, due to the mix of active communities in the central segment, as well as availability of homesites and inventory to sell.

Home sales gross margins - Consolidated

The home sales gross margin percentage from homes closed for the three months ended August 31, 2023 decreased to 26.9% from 29.5% for the three months ended August 31, 2022. The decrease in home sales gross margin percentage for the three months ended August 31, 2023 compared to the three months ended August 31, 2022 was a result of a decrease in the average sales price of homes closed, primarily driven by pricing adjustments and an increase in sales and financing incentives, and an increase in the cost of materials and labor, as a percentage of home sales revenues, for the homes closed during the three months ended August 31, 2023.

Adjusted home sales gross margin percentage from homes closed for the three months ended August 31, 2023 decreased to 28.2% from 30.9% for the three months ended August 31, 2022. This decrease in the adjusted home sales gross margin percentage for the three months ended August 31, 2023, compared to the three months ended August 31, 2022, was primarily due to the decrease in gross margins described above.

Home sales gross margins - East segment

The home sales gross margin percentage from homes closed in the east segment for the three months ended August 31, 2023 increased to 27.2% from 25.4% for the three months ended August 31, 2022. The increase in home sales gross margin percentage for the three months ended August 31, 2023 compared to the three months ended August 31, 2022 was a result of both an increase in the average sales prices of homes closed in the east segment and a decrease in the cost of materials and labor, as a percentage of home sales revenues, offset, in part, by an increase in sales and financing incentives, for the homes closed in the east segment during the three months ended August 31, 2023.

Home sales gross margins - Central segment

The home sales gross margin percentage from homes closed in the central segment for the three months ended August 31, 2023 decreased to 26.7% from 31.7% for the three months ended August 31, 2022. The decrease in home sales gross margin percentage for the three months ended August 31, 2023 compared to the three months ended August 31, 2022 was a result of both a decrease in the average sales price of homes closed, primarily driven by pricing adjustments and an increase in sales and financing incentives, and an increase in the cost of materials and labor, as a percentage of home sales revenues, for the homes closed during the three months ended August 31, 2023.

Selling, general and administrative expense

Selling, general and administrative expense ("SG&A") totaled $102.8 million for the three months ended August 31, 2023, compared to $90.6 million for the three months ended August 31, 2022. The increase in SG&A for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, was primarily due to increases in sales commissions due to an increase in the number of home closings and an increase in the number of homes closed with outside sales agents, as well as higher salary and benefit related compensation expenses, and increases in advertising and marketing expenses.

SG&A as a percentage of home sales revenues increased to 13.7% for the three months ended August 31, 2023, from 12.9% for the three months ended August 31, 2022.

Land sales

We periodically elect to sell parcels of land or lots. We had no sales of lots and land during the three months ended August 31, 2023 and 2022.

Net income

Net income decreased $12.9 million to $109.2 million for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022. The decrease in net income for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, is primarily attributable to the decrease in home sales gross margins and the increase in SG&A for the three months ended August 31, 2023, as compared to the three months ended August 31, 2022, as discussed above.

Liquidity and capital resources

Overview

We currently fund our operations with proceeds from the sales of homes and land, borrowings under our Restated Revolver and long-term senior note financing. As we utilize our capital resources and liquidity to fund the growth of our business, we monitor our balance sheet leverage ratios to ensure that we maintain reasonable levels. We also monitor current and expected operational requirements, as well as financial market conditions, to evaluate accessing other available financing sources. We may make debt purchases and/or exchanges from time to time through tender offers, exchange offers, redemptions, open market purchases, private transactions, or otherwise, or seek to raise additional capital, depending on market conditions and covenant restrictions.

Over the next twelve months, we expect our principal uses of liquidity and capital resources will be to fund our short-term working capital obligations, land and lot purchases, land development, home construction, overhead expenditures, interest payments, and tax and non-tax distributions to our Members. Beyond the next twelve months, we believe our principal demand for funds will be consistent with our short-term uses, as well as repayment or refinancing of our Restated Revolver which matures on January 28, 2026, and repayment or refinancing of our senior notes, with the first maturity of such senior notes not occurring until January 15, 2028.

The Company's total liquidity, including cash, cash equivalents, restricted cash, and available additional borrowing capacity under our Restated Revolver, was $697.0 million as of August 31, 2023. Based on our existing financial condition and credit relationships, we believe that our operations and capital resources are sufficient to provide for our current short-term and foreseeable long-term capital needs. However, we continue to evaluate the impact of market conditions on our liquidity and will consider, as appropriate, additional funding opportunities.

The total debt to total capitalization ratio consists of total debt divided by total capitalization (debt plus Members' equity). Our ratio of total debt to total capitalization improved to 45.2% at August 31, 2023, from 49.2% at August 31, 2022. The net debt to net capitalization ratio, which, as discussed above, is a non-GAAP financial measure, consists of total debt, net of cash and restricted cash ("net debt"), divided by net capitalization (net debt plus Members' equity). Our ratio of net debt to net capitalization improved to 34.4% at August 31, 2023, from 40.7% at August 31, 2022.

Material Cash Requirements

As of August 31, 2023, there have been no material changes to our known contractual and other obligations appearing in the "Liquidity and Capital Resources - Material Cash Requirements" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2023 Annual Report.

At August 31, 2023, we controlled 51,157 lots. Of the 51,157 lots controlled, we owned 26.2%, or 13,383 lots, and 73.8%, or 37,774 lots, were under contract. In the ordinary course of business, we enter into purchase and option agreements in order to procure land for the construction of homes in the future. At August 31, 2023, these agreements had an aggregate remaining purchase price of $2.2 billion and cash deposits of $288.1 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $373.8 million and cash deposits of $83.2 million. Pursuant to these land purchase and land option agreements, we generally provide a deposit to the seller as consideration for the right, but not the obligation, to purchase land at different times in the future at predetermined prices. In certain instances, we are required to record the land under option as if we own it.

Senior Unsecured Revolving Credit Facility

On January 28, 2022, the Company entered into the First Amendment to the Restated Revolver, which amended the Restated Revolver, dated as of February 2, 2021. The First Amendment to the Restated Revolver provides for, among other things, (i) an aggregate revolving loan commitment of up to $350.0 million, with up to $50.0 million available for the issuance of letters of credit and up to $20.0 million available for swingline loans, and an accordion feature to permit the size of the facility to be increased up to $400.0 million in the future (dependent upon Company needs and available lender commitments), and (ii) a maturity date of January 28, 2026.

Interest accrues on borrowings under the Restated Revolver at a SOFR or alternative base rate, in each case plus an applicable margin that varies based upon the leverage ratio of the Company from time to time.

Availability under the Restated Revolver is based upon a borrowing base formula, determined by applying certain advance rates to certain asset types provided for in the borrowing base.

The Restated Revolver contains affirmative and negative covenants that are customary for credit agreements of this nature, including (i) a minimum level of Tangible Net Worth (as defined in the Restated Revolver), (ii) a maximum Leverage Ratio (as defined in the Restated Revolver), (iii) a minimum Interest Coverage Ratio (as defined in the Restated Revolver), and (iv) a minimum liquidity requirement. At August 31, 2023, the Company was in compliance with all of the covenants in the Restated Revolver.

The Company did not utilize the Restated Revolver to fund operations during the three months ended August 31, 2023. As of August 31, 2023, the Company had no borrowings outstanding under the Restated Revolver and $18.3 million of letters of credit outstanding.

Senior Note Offerings

On January 23, 2020, the Companies issued and sold, at an issue price of 100%, $250.0 million aggregate principal amount of their 2028 Notes through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2028 Notes is payable semi-annually in cash in arrears on January 15 and July 15

of each year. The 2028 Notes will mature on January 15, 2028. The 2028 Notes are guaranteed by substantially all the Company's subsidiaries and have terms substantially similar to the Companies' 2029 Notes and 2030 Notes.

On August 2, 2021, the Companies issued and sold, at an issue price of 100.00%, $350 million aggregate principal amount of their 2029 Notes through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2029 Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year. The 2029 Notes will mature on August 1, 2029. The 2029 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2028 Notes and 2030 Notes.

On September 23, 2021, the Companies issued and sold, at an issue price of 100.00%, $300 million aggregate principal amount of their 2030 Notes through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2030 Notes is payable semi-annually in cash in arrears on April 1 and October 1 of each year. The 2030 Notes will mature on April 1, 2030. The 2030 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2028 Notes and 2029 Notes.

On January 27, 2022, the Companies issued and sold, at an issue price of 97.500% plus accrued and unpaid interest from September 23, 2021, an additional $100 million aggregate principal amount of their 2030 Notes (the "Add-on Notes") through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. The Add-on Notes represent a further issuance of the Companies' 2030 Notes.

Our debt obligations are fully discussed in Note 6 to our unaudited condensed consolidated financial statements included in this quarterly report.

Letters of Credit and Surety Bonds

In the ordinary course of business, we provide letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At August 31, 2023, we had letters of credit and surety bonds outstanding of $18.3 million and $212.6 million, respectively. As of August 31, 2023, we had $31.7 million of unused letter of credit capacity under the Restated Revolver.

Off-Balance-Sheet Arrangements

As of August 31, 2023, real estate not owned totaled $273.1 million related to 21 lot purchase agreements with $83.2 million of non-refundable deposits. Refer to our discussion in Note 4 to our unaudited condensed consolidated financial statements included in this quarterly report.

As of August 31, 2023, we are a partner in one land development joint venture in which we have a non-controlling interest. We account for our interest in this joint venture under the equity method. Our share of profits from lots we purchase from the joint venture is deferred until we close on the homes.

As of August 31, 2023, we are a partner in two mortgage joint ventures in which the Company offers or intends to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions. The Company has a non-controlling interest in these joint ventures. We account for our interests in the mortgage joint ventures under the equity method. Our share of profits is included within equity in earnings of unconsolidated entities in the unaudited condensed consolidated statements of income.

Operating cash flows

Net cash used in operating activities for the three months ended August 31, 2023 was $183.5 million compared to $82.8 million of net cash used in operating activities for the three months ended August 31, 2022. The primary source of funds from operations is from the closing of homes. The increase in net cash used in operations for the three months ended August 31, 2023 was primarily due to a decrease in net income and a net increase in the capital invested for inventory and deposits on real estate under option or contract which was partially offset by an increase in customer deposits received.

Investing cash flows

Net cash used in investing activities was $3.3 million for the three months ended August 31, 2023 and $2.2 million for the three months ended August 31, 2022. Net cash used in investing activities for the three months ended August 31, 2023 was primarily to furnish and/or update furnishings in model homes and community sales offices.

Financing cash flows

Net cash used in financing activities was $50.1 million for the three months ended August 31, 2023, compared to $110.7 million of net cash used in financing activities for the three months ended August 31, 2022. The funds used in financing activities during the three months ended August 31, 2023 consisted of tax distributions of $9.6 million and non-tax distributions of $41.0 million to our Members. At August 31, 2023, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $331.7 million based on outstanding letters of credit and the borrowing base formula.

Inventory

As of August 31, 2023, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			Completed Homes			
	Unsold	Models (1)	Sold	Unsold	Models (2)	Sold	Total Homes
East	1,044	15	646	208	66	172	2,151
Central	1,358	20	592	236	78	270	2,554
Company total	2,402	35	1,238	444	144	442	4,705

(1) Includes 24 models under the Ashton Woods brand name and 11 sales offices under the Starlight Homes brand name.
(2) Includes 83 models under the Ashton Woods brand name and 61 sales offices under the Starlight Homes brand name.

As of August 31, 2022, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			Completed Homes			
	Unsold	Models (1)	Sold	Unsold	Models (2)	Sold	Total Homes
East	751	11	789	45	40	57	1,693
Central	1,739	9	850	80	72	101	2,851
Company total	2,490	20	1,639	125	112	158	4,544

(1) Includes 11 models under the Ashton Woods brand name and 9 sales offices under the Starlight Homes brand name.
(2) Includes 73 models under the Ashton Woods brand name and 39 sales offices under the Starlight Homes brand name.

As of August 31, 2023 and 2022, the cost of homes under construction and finished homes in inventory consisted of the following (in thousands):

	As of August 31,	
	2023	2022
Sold homes	$ 443,589	$ 438,953
Unsold homes	565,469	530,781
Model homes	53,803	38,558
Homes under construction and finished homes	$ 1,062,861	$ 1,008,292

As of August 31, 2023 and 2022, we had the following unsold homes in inventory (in units):

	As of August 31,	
	2023	2022
Entry-Level - Starlight Homes	1,641	1,609
Entry-Level - Ashton Woods	115	—
Move-up	1,029	978
Multi-Move-Up	61	28
Consolidated	2,846	2,615

As of August 31, 2023, we controlled the following residential homes and lots (in units):

	Total Homes	Finished Lots	Land Under Development	Residential Land Held for Future Development	Owned Lots	Lots Under Option	Controlled Lots
East	2,151	1,766	1,896	192	3,854	17,908	21,762
Central	2,554	2,112	2,455	4,962	9,529	19,866	29,395
Total Company	4,705	3,878	4,351	5,154	13,383	37,774	51,157
Percentage of total controlled		7.6 %	8.5 %	10.1 %	26.2 %	73.8 %	100.0 %

As of August 31, 2022, we controlled the following residential homes and lots (in units):

	Total Homes	Finished Lots	Land Under Development	Residential Land Held for Future Development	Owned Lots	Lots Under Option	Controlled Lots
East	1,693	1,121	2,401	810	4,332	19,578	23,910
Central	2,851	2,247	2,565	5,486	10,298	21,450	31,748
Total Company	4,544	3,368	4,966	6,296	14,630	41,028	55,658
Percentage of total controlled		6.1 %	8.9 %	11.3 %	26.3 %	73.7 %	100.0 %

In addition to the 13,383 lots we owned at August 31, 2023, we controlled, through the use of purchase and option agreements, 37,774 lots at August 31, 2023. Purchase and option agreements that did not require consolidation under ASC 810, ASC 606, or ASC 470-40 at August 31, 2023 had an aggregate remaining purchase price of $2.2 billion. In connection with these agreements, we had cash deposits of $288.1 million at August 31, 2023. In addition, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $373.8 million and cash deposits of $83.2 million (see Note 4 to our unaudited condensed consolidated financial statements included in this quarterly report).

During the three months ended August 31, 2023, we acquired 2,789 lots for a total purchase price of $257.7 million. We spent $36.5 million on land development during the three months ended August 31, 2023. During the three months ended August 31, 2023, we spent $2.8 million to furnish and/or update furnishings in model homes and sales offices.

Seasonality and inflation

Our historical quarterly results of operations have tended to be impacted by the seasonal nature of the homebuilding industry. We have historically experienced increases in revenues and cash flow from operations during the fourth quarter of each fiscal year based on the timing of home closings. Any period of high inflation is likely to have an adverse effect on us and the homebuilding industry in general since it may contribute to higher land, financing, labor, and construction costs. We attempt to pass on at least a portion of the cost increases to our

homebuyers via increased sales prices; however, we may be limited in our ability to increase our prices, if at all. Further, higher residential mortgage interest rates may accompany inflation and affect the affordability of mortgage financing for homebuyers. If we are unable to increase our sales prices to compensate for any increased costs, or if residential mortgage interest rates continue to increase and continue to affect the ability or desire of potential homebuyers to obtain financing for their home purchases, our results of operations will likely be adversely affected. See “Risks Relating to our Business and Industry - "Our future operations may be adversely impacted by high inflation” in Part I, Item 1A. "Risk Factors" in our 2023 Annual Report.

Our operations are also affected by seasonality in cash use. Our cash needs are generally higher from January to April each year as we complete the spring building cycle.

Critical accounting policies and estimates

There have been no significant changes to our critical accounting policies and estimates during the three months ended August 31, 2023, compared with those disclosed in our 2023 Annual Report.

Transactions with related parties

See Note 10 to our unaudited condensed consolidated financial statements as of August 31, 2023 included in this quarterly report for information about transactions with related parties.

Pending and recently adopted accounting pronouncements

See Note 2 to our unaudited condensed consolidated financial statements as of August 31, 2023 included in this quarterly report for information about pending and recently adopted accounting pronouncements.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We maintain a mix of variable-rate and fixed-rate debt and our primary market risk exposure for these financial instruments relates to fluctuations in interest rates, which include changes in the U.S. Treasury, SOFR, and other similar reference rates. For our variable-rate debt, our primary exposure is in interest expense.

The borrowings under the Restated Revolver accrue interest at a variable rate. As of August 31, 2023, we had no outstanding borrowings under the Restated Revolver.

Item 4. *Controls and Procedures*

Pursuant to Section 4.03 of each of the indentures governing the 2028 Notes, 2029 Notes, and the 2030 Notes, the Company is not required to comply with Section 302 or Section 404 of the Sarbanes-Oxley Act of 2002, or related Items 307 and 308 of Regulation S-K promulgated by the Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Information with respect to legal proceedings is incorporated into this Part II, Item 1 from Note 13 to our unaudited condensed consolidated financial statements included in this quarterly report.

Item 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2023 Annual Report which could materially affect our business, financial condition, or future results. The risks described in our 2023 Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially affect our business, financial condition, and/or operating results.

Item 2. *Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities*

Pursuant to Section 4.03 of each of the indentures governing the 2028 Notes, 2029 Notes and 2030 Notes, the Company is not required to comply with this Item.