**NOT FILED WITH THE SEC**

**THIS ANNUAL REPORT IS BEING PREPARED PURSUANT TO REQUIREMENTS CONTAINED IN THE INDENTURE DATED AS OF AUGUST 8, 2017 GOVERNING THE 6.750% SENIOR NOTES DUE 2025 ISSUED BY ASHTON WOODS USA L.L.C, IN THE INDENTURE DATED AS OF MARCH 27, 2019 GOVERNING THE 9.875% SENIOR NOTES DUE 2027 ISSUED BY ASHTON WOODS USA L.L.C., AND 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..**

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

For the fiscal year ended May 31, 2021

OR

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

For the transition period from ________ to________.

Commission file Number: **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

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

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes [ ] No [ ] N/A [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes [ ] No [ ] N/A [X]

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", "small 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. [ ]

Indicated by a check mark if the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 4040(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued the audit report: Yes [ ] No [ ] N/A [X]

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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# PART I.

## Item 1. *Business*

**Our company**

Headquartered in Atlanta, Georgia, Ashton Woods USA L.L.C., together with its subsidiaries (collectively, the "Company" or "Ashton Woods"), is one of the largest private homebuilders in the United States. Based on home closings for the calendar year ended December 31, 2020, we ranked second among private homebuilders and 15th among all homebuilders (private and public) in the U.S. according to Builder Magazine. We design, build, and market high-quality attached and detached single-family homes under the Ashton Woods Homes and Starlight Homes brand names. We serve a broad customer base and focus on achieving the highest standards in design, quality, and customer satisfaction.

Our homebuilding operations started in Dallas, Texas in 1989. We have delivered over 56,000 homes in the 32 years that we have been in business, and we have grown through the formation of homebuilding and land development operations in select strategic markets that we believe we possess strong long-term housing and employment growth characteristics. Our geographic footprint is diversified across the Southeast and Southwest U.S., with operations in Atlanta, Georgia; Dallas, Houston, Austin, and San Antonio, Texas; Orlando, Sarasota, and Tampa, Florida; Phoenix, Arizona; Coastal Carolinas; and Raleigh, North Carolina.

**Our brands**

Ashton Woods markets its homes through its two award-winning brands, Ashton Woods and Starlight Homes. The Ashton Woods brand is known for its design leadership and the ability to personalize one's home through our Design Studio experience. The Starlight Homes brand is focused on the first-time and move-down buyer segments, offering affordable homes with thoughtful designs and quality finishes. Both Ashton Woods and Starlight Homes offer communities in attractive locations and are committed to providing reliable customer service.

The Ashton Woods brand focuses on buyers with a preference for and willingness to pay a premium for design and personalization. Our reputation as a design leader and our ability to offer personalization in a production model has allowed us to deliver a highly differentiated value proposition that is relevant and meaningful to a clearly-defined core target consumer. As a result, we attract buyers who seek out unique design and are willing to spend more to get what they want.

Ashton Woods' brand pillars are a combination of what we deliver (design and personalization) and how we deliver it (through collaboration and expertise). These brand pillars come to life in our award-winning Design Studios, which are staffed by design professionals with significant expertise, extensive training, and the ability to translate buyers' visions into homes that reflect their sense of style. Our focus on comprehensive research of local homebuyer preferences provides Ashton Woods homebuyers with the opportunity to select from a variety of floor plans designed for and tailored to address the local market. Our 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.

Where Ashton Woods' value proposition is that of an industry leader in design, Starlight Homes is focused on affordability. With first-time homebuyers entering the market in larger numbers and demand outpacing supply for homes at lower price points, our strategy in approaching the entry-level market is primarily to convert renters into first-time homebuyers by offering affordable homes that include appealing features. Secondarily, we have also seen an increase in move-down buyers purchasing Starlight Homes due to the attractive finishes and high quality they can obtain at a lower price point.

Starlight Homes' affordability value proposition is driven by operating efficiencies built into the brand. Starlight Homes' marketing is driven by a direct data-based model, while sales efficiency is enhanced through a rigorous process to convert leads. With a highly efficient build process resulting from repeated construction of simplified, yet thoughtful, designs without changes or design options, our Starlight Homes business has shorter cycle times and higher inventory turnover. The Starlight Homes offerings further strengthen the Ashton Woods portfolio and we believe position us for efficient growth well into the future.

Included within the Starlight Homes brand, we also offer construction and development services specifically tailored to the single-family rental industry, which we typically sell under bulk sales agreements to real estate investors. We refer to such sales as our wholesale home sales, which are included in home sales revenues.

The Company develops land and lots and constructs homes for a fee. In the course of providing development, development oversight, and/or construction services, the Company routinely subcontracts for services and incurs other direct costs. The revenues and costs associated with these activities are included in the Company's financial services and other revenues and cost of sales - financial services and other revenues on the consolidated statements of income, respectively.

**Our strategy**

***Integrated operating philosophy***

Our strategic decision-making incorporates all aspects of our business, including land acquisition and development, product design and offerings, community design, construction practices, and sales and marketing.

Our integrated operations allow us to identify, research, and execute on market opportunities in an effective and efficient manner.

Through two wholly-owned title agency subsidiaries, the Company also performs title services in support of its operations and offers title services to its homebuyers in all of its operating divisions except Phoenix. The Company offers or plans 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. Offering title and mortgage services to our customers provides the opportunity for a more streamlined homebuying experience for our buyers and additional efficiencies and revenue opportunities for the Company.

***Differentiated product focused on distinct target markets***

We are dedicated to providing high-quality, well-designed homes in desirable locations while endeavoring to meet the demands of today's homebuyers. The product lines offered in a particular community depend upon many factors, including the supply of existing housing and the demand for new housing in the general area. In an effort to better meet the demand in the marketplace, we conduct in-depth qualitative and quantitative market research. This research enables us to meet the specific lifestyle demands of our targeted homebuyers and create synergies between the design of our homes and the community development.

We believe our two primary brands, Ashton Woods and Starlight Homes, enable us to provide a differentiated value proposition to meet the needs of distinct customer segments. The target consumers for the core Ashton Woods brand are buyers who have a preference for and willingness to pay a premium for design and personalization. Our Design Studios provide Ashton Woods homebuyers the ability to make selections from an extensive array of options, including hardwoods, tiles, cabinets, light fixtures, countertops, and other fixtures and finishes, guided by deeply experienced and extensively trained in-house designers.

Starlight Homes addresses the needs of the growing entry-level market, guiding people through the process of achieving the dream of home ownership. Starlight Homes' tagline, Guiding You Home, speaks to the critical role the sales team plays in helping consumers realize that home ownership is attainable and guiding first-time homebuyers through what they may perceive to be an intimidating process. As such, every sales associate goes through a rigorous training program, which prepares them to move potential homebuyers through the marketing and sales process from lead to appointment to sale. Consistent and thorough analysis of these conversion metrics allows us to efficiently deploy resources where needed to optimize the business cost per lead and cost per sale.

***Superior customer experience through design, quality, and service***

We strive to build and sell homes that combine high-quality craftsmanship with design characteristics that ultimately reflect the various lifestyles and aspirations of our broad customer base.

We differentiate ourselves through a combination of high-style architecture and design, high-quality materials and construction, and a dedication to homeowner satisfaction. Our product offerings are designed to enhance

efficiency and livability, and align with modern tastes, and our product offerings continue to evolve as we commit to delivering innovative designs.

We focus on value engineering our products based on our market and customer segmentation studies, without compromising quality or selection of finishes. We also engage in efforts to reduce our construction cycle times, which ultimately generates better capital efficiency.

We instill in our employees the importance of high quality and superior customer service through extensive in-house training, as well as through a compensation structure directly tied in part to our customer satisfaction results. We are committed to achieving the highest level of customer service during the sales process, as well as after a home has closed. We have a variety of programs and services in place that seek to ensure customer satisfaction and seek to improve production efficiency and reduce warranty costs.

***Preserve and build on market position and pursue growth opportunities***

We maintain a rigorous focus on securing land only in premier locations for our target customers. We believe this focus provides us with competitive positioning and enhanced operational performance. We target land opportunities in each of our markets largely through the use of an in-depth analysis of supply and demand fundamentals, combined with site-specific financial feasibility studies, which we prepare in conjunction with our local operational managers. We undertake a detailed financial analysis as part of the evaluation of each land acquisition opportunity. This process enables us to enhance our financial returns while mitigating our land and inventory risk.

Through ongoing evaluation and assessment, we focus our operations and community development in those markets in which we operate that we believe exhibit positive demographic trends and offer attractive long-term growth opportunities. Maintaining and growing our share of those markets, through both selective growth and the expansion of our product offerings as we have done with Starlight Homes, enables us to source attractive acquisition opportunities and achieve economies of scale by leveraging our reputation as a preferred builder of choice by developers, land brokers, and trade partners.

We pursue growth where we believe it is merited based on existing market demand and economic attributes and where it is consistent with our integrated operating philosophy and land acquisition strategy and our commitment to best-in-class quality and superior customer experience. We have historically accessed new markets through organic growth. Since fiscal year 2010, we have opened new Ashton Woods operations in Austin, Coastal Carolinas, Raleigh, San Antonio, and Sarasota to take advantage of market developments we believed offered attractive growth opportunities at the time. We will continue to evaluate opportunities, including in new markets, from time to time, including growing our business through select opportunistic acquisitions, joint ventures, and other strategic transactions, and we also believe we have ample growth opportunities across our existing geographic footprint and product offerings.

Enhancing our product offerings, as market conditions allow, is central to our growth strategy. We perform extensive research to determine demand for additional product offerings in each of our markets. Our single-family rental business, in which we sell homes and land, and build homes for a fee, has experienced meaningful growth and institutionalization as an asset class. In certain instances, we have built communities or dedicated sections of communities for single-family rental companies, either as part of our regular homebuilding operations, or as a contract developer and builder for single-family home rental companies. During the year ended May 31, 2021, we entered into contracts to sell 1,272 homes and closed on sales of 394 homes to single-family rental companies.

**Operating divisions and products**

We currently operate in Atlanta, Georgia; Dallas, Houston, Austin, and San Antonio, Texas; Orlando, Sarasota, and Tampa, Florida; Phoenix, Arizona; Coastal Carolinas, South Carolina; and Raleigh, North Carolina. We build and sell detached single-family homes in all of our markets and currently offer attached single-family homes in all of our operating divisions except Austin, Phoenix, Southwest Florida, and San Antonio. During the year ended May 31, 2021, we closed 6,549 homes. Of those closings, 5,754 (87.9%) were single-family detached homes, while the remaining 795 (12.1%) of the homes closed were single-family attached homes.

We seek to maintain the flexibility to alter our product mix within a given market and to alter our development focus among markets depending on market conditions and consumer preferences. In determining our product mix in each market and our markets for development and growth, we consider demographic trends, demand for a particular type of product, margins, timing, and the economic strength of the market. We have focused, and intend to continue to focus, on our broad customer base. The base prices of our homes range from the low $100,000s to over $1,000,000, with an average sales price of $342,000 for homes closed for the fiscal year ended May 31, 2021.

As of May 31, 2021, we had 108 active communities, comprised of 89 detached single-family home communities and 19 attached single-family home communities. Active communities are defined as communities that have sold at least five homes and have at least five homes left to sell.

**Land acquisition and development**

We endeavor to achieve a balance between land owned and developed for our own use, and additional lots controlled through option contracts. We believe that our attractive land positions in our markets will enable us to continue to maintain market share in the current homebuilding environment. As of May 31, 2021, and based on the last twelve months' closings, we had land supply for use in our homebuilding operations of approximately 7.8 years, consisting of a 2.1 year supply of owned land and lots and homes available to close, and a 5.7 year supply of land and lots controlled through contracts.

We typically purchase land only after necessary entitlements have been obtained so that development or construction may begin as soon as market conditions dictate. The term "entitlements" refers to development agreements, tentative maps or recorded plats, as applicable, since the types of entitlements will vary depending on the jurisdiction within which the land is located. Even though entitlements are usually obtained before we purchase land, we are often required to secure a variety of other governmental approvals and permits during the land development process. The time required to obtain such approvals and permits can substantially lengthen the development process.

We select land and lots to purchase based upon a variety of considerations, including:

- in depth market studies to confirm pricing and selling pace assumptions;
- competition analysis to establish competitive positioning;
- suitability for development, generally within a one to three-year time period from the beginning of the development process to the delivery of the last home;
- financial review as to the feasibility of the proposed project, including projected profit margins, return on capital employed, and the capital payback period;
- results of environmental and legal due diligence;
- proximity to local traffic corridors and amenities;
- management's judgment on the state of the real estate market and the economic trends; and
- our experience in a particular market.

We acquire land through purchase and option contracts, as well as through joint ventures with other builders or developers. A substantial portion of our land is acquired through option contracts, which allows us to control lots and land without incurring the risks of land ownership or financial commitments other than non-refundable deposits. We generally enter into option contracts with third parties to purchase finished lots as home construction begins. These contracts are generally non-recourse and require non-refundable deposits. At May 31, 2021, we had $224.3 million in non-refundable deposits on real estate under option or contract, of which $36.3 million is related to purchase and option agreements recorded under ASC 606 or ASC 470-40. At May 31, 2021, we had 51,006 total lots and homes under control for use in our homebuilding operations, of which, we owned 27.0% or 13,747 lots and homes, and 73.0% or 37,259 lots were under contract. Once we acquire land, we generally initiate development and construction through contractual agreements with local subcontractors. These activities include site planning, engineering and home construction, as well as development activities to provide roads, sewerage, water supply, other utilities, drainage, recreation facilities, and other amenities.

**Land joint ventures**

Occasionally, we use partnerships or joint ventures to purchase and develop land. As of May 31, 2021, we controlled 42 lots for future use by our homebuilding operations through one joint venture with a related party. We may form new partnerships or joint ventures in the future where economically advantageous.

**Letters of credit and surety bonds**

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. The amount of such obligations outstanding at any time varies in accordance with our development activities and commitments. In the event any letters of credit or surety bonds are drawn upon, we would be obligated to reimburse the issuer of such letter of credit or surety bond. At May 31, 2021, the Company had letters of credit outstanding of $6.6 million and surety bonds outstanding of $139.3 million. As of May 31, 2021, the Company had $43.4 million of unused letter of credit capacity under its revolving credit facility.

**Backlog**

Homes covered by a sales contract but that are not yet closed are considered "backlog" and are representative of potential future revenues. Started homes are excluded from backlog until a sales contract is signed and cash deposit is received, and are referred to as unsold speculative or "spec" inventory.

We do not recognize any revenue from a home sale until a finished home is delivered to the homebuyer, payment is collected and other criteria for a sale and profit recognition are met. At May 31, 2021, of our total unsold homes in inventory, excluding model homes and sales centers, 97% were under construction and 3% were completed.

The number of homes in backlog increased 125% to 3,395 units at May 31, 2021 from 1,508 units at May 31, 2020, with a 130% increase in the value of backlog to $1.3 billion from $555 million. We believe that during fiscal year 2022 we will deliver to customers substantially all homes in backlog at May 31, 2021 under existing or, in the case of cancellations, replacement sales contracts.

**Seasonality**

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again, we historically experience variability in our quarterly results from operations due to the seasonal nature of the homebuilding industry. We generally experience increases in revenues and cash flows from operations during the fourth quarter of our fiscal year based on the timing of home closings. The seasonal activity usually increases our working capital requirements in our second and third quarters to support our home production. As a result of the seasonality of our operations, our quarterly results of operations are not necessarily indicative of the results that may be expected for the full year. Additionally, given the disruption in economic activity caused by the spread of the novel coronavirus and its variants COVID-19 ("COVID-19"), our quarterly results throughout the fiscal year ended May 31, 2021 are not necessarily indicative of results that may be achieved in the future.

**Marketing and sales**

We believe that we have established a reputation for building high quality, well-designed homes, which helps to generate interest in each new community. We drive awareness and consideration of our communities through a variety of marketing vehicles, most notably and increasingly through digital advertising and social media to drive visitors to our websites and communities. We focus on continually improving upon our brand awareness and maintaining consistency across our various operating divisions by applying standardized sales office designs and national marketing communications guidelines, while customizing by operating division to address the needs and wants of local homebuyers.

We typically build, decorate, furnish, and landscape between one and two model homes for each Ashton Woods community and maintain on-site sales offices in our Ashton Woods and Starlight Homes communities. As of May 31, 2021, we maintained 134 model homes and sales offices in all stages of construction. We believe that model homes play a particularly important role in the marketing of our Ashton Woods communities, helping homebuyers to imagine the possibilities of an Ashton Woods home. Our Starlight Homes sales offices play an

equally important role, as they are housed in a fully completed Starlight Homes home, with features and finishes that will be included in the homebuyer's purchase.

Generally, interior decorations are undertaken by our internal design firm, and vary among our models based upon the lifestyles of targeted Ashton Woods homebuyers. Ashton Woods homebuyers may select various options and personalize their new homes at our award-winning Design Studios. Our Starlight Homes homebuyers do not make any selections through our Design Studios, as we generally maintain and sell speculative inventory that provides homebuyers with available homes to view and purchase.

Our sales counselors are available to assist prospective homebuyers by providing them with floor plans and price information, and tours of model and inventory homes. Sales counselors are trained by us and attend regular meetings to be updated on sales techniques, competitive products in the area, the availability of financing, construction schedules, and marketing and advertising strategy, which management believes results in a sales force with extensive knowledge of our operating practices and housing products.

We use various sales incentives in order to attract homebuyers, including sales price reductions, reductions in the prices of certain options or upgrades for our Ashton Woods homebuyers, and the payment of certain closing costs. The decision to offer incentives and the type of incentives offered at any point in time are driven by market forces and vary by location.

Sales of our homes are made pursuant to home sale contracts, the terms of which vary according to market practices and to the legal requirements of the states in which they are used. Typically, each contract requires a deposit from the homebuyer. In addition, the home sale contract typically contains one or more contingencies relating to financing, the sale of an existing home, or other factors that provide homebuyers with the right to cancel in the event they are unable to obtain financing at a prevailing interest rate, are not able to sell their home, or such other contingencies are not met within a specified time period after the execution of the home sales contract.

**Other services**

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

In addition, Company offers or plans 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.

**Construction and Sources of Materials**

We act as the general contractor for the construction of our homes. Subcontractors are typically engaged to complete construction of each home at a negotiated price. Agreements with our subcontractors and material suppliers are generally entered into after competitive bidding. Our operating divisions monitor the construction of each project to coordinate the activities of subcontractors and suppliers, and to seek to ensure subcontractor compliance with contract documents, zoning, building and safety codes, and quality and cost controls.

We specify that quality, durable materials be used in the construction of our homes. We have numerous suppliers of raw materials and services, and such materials and services have been and continue to be available. From time to time, we enter into regional and national supply contracts with certain vendors to leverage our purchasing power and our size in order to control our costs. However, we do not have any material long-term contractual commitments with any of our subcontractors or suppliers. We do not maintain inventories of construction materials except for materials being utilized for homes under construction. Prices of materials may fluctuate due to various factors, including demand or supply shortages, which may be beyond the control of our vendors. We believe that our relationships with our suppliers and subcontractors are good.

Construction time for our homes depends on many factors, including the availability of labor, materials and supplies, the type and size of the home, location, and weather conditions. Our homes are designed to promote efficient use of space and materials, and to minimize construction costs and time. Construction of a home is typically completed within nine months following commencement of construction.

**Warranty program**

The Company provides its homebuyers with a limited warranty that generally provides for specified coverage, including for example structural coverage, coverage for plumbing, electrical and mechanical distribution systems, and coverage for workmanship and materials. We subcontract our homebuilding work to subcontractors who typically provide us with a two-year warranty for faulty work not in compliance with the plans, specifications, applicable building codes, and standard construction practices, and therefore, claims relating to workmanship and materials are generally the primary responsibility of our subcontractors. We contract with an independent third party that assists in administering our warranty program.

Warranty liabilities are initially established on a per home basis by charging cost of sales 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.

**Corporate operations**

We perform the following functions at a centralized level:

- the evaluation and selection of geographic markets;
- the allocation of capital resources to particular markets, including final approval of all land acquisitions;
- the establishment of financial policies and procedures;
- the consolidation of operating division and segment financial information;
- the capitalization of the Company;
- the maintenance of centralized information systems; and
- the monitoring of the decentralized operations of our subsidiaries and operating divisions.

We allocate the capital resources necessary for new projects in a manner consistent with our overall operating strategy. We utilize gross margins, net income margins, and inventory turnover as the primary criteria for our allocation of capital resources. Capital allocations are determined through consultation among certain corporate and operational management, who play an important role in ensuring that new communities are consistent with our strategy, taking into account market conditions, results of operations, and other factors. Centralized financial controls are also maintained through the standardization of accounting and financial policies and procedures.

We operate through separate operating divisions, which are located near or within the geographic market in which they operate. Each operating division generally is managed by professionals with substantial experience in the operating division's market. In addition, each established operating division is equipped with the personnel to complete the functions of land acquisition, land development, construction, marketing, sales, and product service.

**Competition and market factors**

The development and sale of residential properties is highly competitive and fragmented. We compete with numerous small and large residential builders for sales on the basis of a number of interrelated factors, including location, reputation, amenities, design, quality, and price. We compete with new home sales, re-sales of existing homes, and available rental housing.

We believe that we compare well with other builders in the markets in which we operate due primarily to:

- our experience within our geographic markets and the breadth of our product line, which allows us to vary our product offerings to reflect changing conditions within a market;
- our responsiveness to market conditions, which enables us to capitalize on the opportunities for attractive land acquisitions in desirable locations; and
- our reputation for quality design, construction, and service.

Some of our competitors have significantly greater financial resources or lower cost structures than we do. Because some of our competitors are larger than us, they may possess certain advantages over us, such as the ability

to raise money at lower cost and the ability to negotiate better prices on materials and services with subcontractors. Certain of our smaller competitors may have an advantage over us based on length of operation in the market compared to us or better name recognition than us. Furthermore, many custom homebuilders may have an advantage over us because purchasers of custom homes tend to want a level of flexibility in the structural design of their homes that we do not offer.

The demand for new housing is directly related to consumer confidence levels and general economic conditions, including employment and interest rate levels. Other factors are also believed to affect the housing industry and the demand for new homes. Such other factors include:

- the availability of labor and materials and increases in the costs thereof;
- changes in costs associated with home ownership such as increases in property taxes and energy costs, and changes in income tax deductibility of mortgage interest and property taxes;
- changes in consumer preferences;
- demographic trends;
- the amount of resale housing inventory available in the market; and
- the availability of and changes in interest rates and mortgage financing programs.

**Government regulation and environmental matters**

Substantially all of our land is purchased with entitlements, giving us the right to obtain building permits upon compliance with specified conditions, which generally are within our control. Upon compliance with such conditions, we must obtain building permits. The length of time necessary to obtain such permits and approvals affects the carrying costs of unimproved property acquired for the purpose of development and construction. In addition, the continued effectiveness of permits already granted is subject to factors such as changes in policies, rules and regulations, and their interpretation and application. Several governmental authorities have imposed impact fees as a means of defraying the cost of providing certain governmental services to developing areas. To date, the governmental approval processes discussed above have not had a material adverse effect on our development activities and have not had a material effect on our capital expenditures, earnings, and competitive position, and indeed all homebuilders in a given market face the same fees and restrictions. There can be no assurance, however, that these and other restrictions will not adversely affect us in the future.

We may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums or “slow-growth” or “no-growth” initiatives or building permit, water tap or sewer tap allocation ordinances which could be implemented in the future in the states and markets in which we operate. The majority of our land is entitled and, therefore, other than delays in the delivery of land and lots to us caused by such delays, the moratoriums generally would only adversely affect us to the extent land is not entitled or if they arose from health, safety and welfare issues such as insufficient water or sewerage facilities. Local and state governments also have broad discretion regarding the imposition of development fees for projects in their jurisdiction. These fees are normally established, however, when we receive recorded final plats and building permits. We are also subject to a variety of local, state, and federal statutes, ordinances, rules, and regulations concerning the protection of health and the environment. Although in the future these laws may result in delays, cause us to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas, these laws have not had a material effect on our capital expenditures, earnings, and competitive position to date.

**Human capital resources**

As of May 31, 2021, we employed 976 employees, of whom 329 were sales and marketing personnel, 208 were executive, management and administrative personnel and 439 were construction personnel, including purchasing and warranty employees. We act solely as a general contractor, and all construction operations are monitored by our project managers and field superintendents who coordinate third party subcontractors. Although our employees are not covered by collective bargaining agreements, subcontractors may be represented by labor unions or may be subject to collective bargaining arrangements. We believe that our relations with our employees and subcontractors are good.

The people who work for our company are our most valuable resources and are critical to our continued success and execution of our strategies. As such, we focus on attracting, promoting and retaining qualified employees with

the expertise needed to manage and support our operations. Our senior corporate and divisional leaders average 10 years of tenure with us and 26 years of homebuilding industry experience.

To attract and retain top talent in our industry, we offer our employees a broad range of company-paid benefits and highly competitive compensation plans. Our employees are eligible for medical, dental and vision insurance, a savings/retirement plan, life and disability insurance, various wellness programs and tuition reimbursement.

**Available information**

Our principal internet websites can be found at www.ashtonwoods.com and www.starlighthomes.com. We make available free of charge on or through our website www.ashtonwoods.com, access to our annual report, quarterly reports and current reports. The contents of our websites are not, however, a part of any such report and are not incorporated by reference herein.

## Item 1A. *Risk Factors*

You should read the discussion of our business, included elsewhere in this annual report, in conjunction with the risks included below. We are or could become subject to the risks and uncertainties set forth below and/or those discussed elsewhere in this annual report, and/or additional risks not currently known to us or that we now consider to be immaterial. If we are negatively affected by any or a combination of such risks and uncertainties, our results of operations, cash flows, financial position or business prospects could be severely and negatively impacted.

**Risks Relating to our Business and Industry**

***Our business was materially and adversely disrupted by the outbreak and worldwide spread of COVID-19 and could be materially and adversely disrupted by another epidemic or pandemic, or similar public threat, or fear of such an event, and the measures that international, federal, state and local governments, agencies, law enforcement and/or health authorities implement to address it.***

An epidemic, pandemic, or similar serious public health issue, and the measures undertaken by governmental authorities to address it, could significantly disrupt or prevent us from operating our business in the ordinary course for an extended period, and thereby, and/or along with any associated economic and/or social instability or distress, have a significant adverse impact on our consolidated financial statements.

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. On March 13, 2020, the United States declared a national emergency concerning the outbreak, and since that date states and most municipalities had declared public health emergencies. As a result, there were extraordinary and wide-ranging actions taken by federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 across the United States, including quarantines and “shelter-in-place” orders which substantially restricted daily activities. While states and local municipalities have ended or begun to ease restrictions to varying degrees as conditions have been improving and vaccines have become widely available, new or additional restrictions may be imposed, and daily activities may be significantly impacted as "hot spots" develop in areas with lower vaccination rates and the occurrence of more transmissible variants of COVID-19. In all of the markets in which we build homes, construction operations have been deemed “essential”, and we have largely been able to maintain our operations throughout the pandemic, although in an altered and potentially more limited capacity due to various health, safety, and operational precautions adopted by the Company and/or required by local municipalities in response to COVID-19.

While our operations are currently fully functioning, subject to regulated restrictions and safety constraints we have enacted in order to protect our employees, trade partners, and customers, additional outbreaks of COVID-19, and its variants, may require us to implement restrictions on our operations. The potential magnitude or duration of the business and economic impacts from the unprecedented public health effort to contain and combat the spread of COVID-19 are uncertain and could include, among other things, significant volatility in financial markets. In addition, efforts by local governments and agencies to lift restrictions on individuals and businesses may result in a resurgence of a pandemic or epidemic like spread of COVID-19 and potentially prolong and intensify the impact of the crisis. Future COVID-19 public health efforts could be intensified to such an extent that we would not be able to

conduct business operations in certain of our markets or at all for an indefinite period. Despite the development of vaccines and more effective treatments for COVID-19, there are no reliable estimates of how long the COVID-19 pandemic will last, and therefore, the unpredictability of the current economic and public health conditions will continue to evolve.

Our business has also been impacted by constraints to the labor and supply chain on which we rely to construct our homes. The continuing pandemic has caused our employees and those of our trade partners to miss workdays due to illness or quarantine. In addition, our supply chain has been impacted by similar labor interruptions slowing production capacity and also by increased demand on raw materials generated in part by the COVID-19 pandemic. The combination of these factors has led to increased costs and elongated production cycles.

Demand for our homes is dependent on a variety of macroeconomic factors, such as employment levels, interest rates, inflation levels, changes in stock market valuations, consumer confidence, housing demand, availability of financing for home buyers, availability and prices of new homes compared to existing inventory, and demographic trends. These factors, and in particular consumer confidence, have been and may continue to be adversely affected by the COVID-19 pandemic.

Should the adverse impacts described (or others that are currently unknown) occur, whether individually or collectively, we would expect to experience, among other things, increases in the cancellation rates for homes in our backlog, and decreases in our net new orders, homes delivered, revenues, and profitability. Such impacts could be material to our consolidated financial statements in future reporting periods. Along with a potential increase in cancellations of homes in our backlog, if there are prolonged governmental restrictions on our business and our customers, and/or an extended economic recession, we could be unable to produce revenues and cash flows sufficient to conduct our business, meet the terms of our covenants and other requirements under our debt obligations and/or land contracts, or service our outstanding debt. Such circumstances could, among other things, exhaust our available liquidity (and ability to access liquidity sources) and/or trigger an acceleration to pay a significant portion of all of our then-outstanding debt obligations, which we may be unable to do.

***The homebuilding industry is cyclical and a deterioration in industry conditions or adverse changes in general economic, real estate construction, or other business conditions could adversely affect our business or our financial results.***

The residential homebuilding industry is sensitive to changes in economic conditions and other factors, such as the level of unemployment, consumer confidence, consumer income, population growth, material and supply costs and availability, availability of financing, and interest rate levels. Adverse changes in any of the conditions generally, or in the markets where we operate, could decrease demand and pricing for new homes in these areas or result in customer cancellations of pending contracts. This could adversely affect the number of home deliveries we make or reduce the prices we can charge for homes, either of which could result in a significant decrease in our revenues and earnings that could materially and adversely affect our financial condition.

During the homebuilding industry downturn between 2006 to 2012, the U.S. housing market was unfavorably impacted by severe weakness in new home sales attributable to, among other factors, weak consumer confidence, tightened mortgage standards, significant foreclosure activity, a more challenging appraisal environment, higher than normal unemployment levels, and significant uncertainly in the global economy. During this period, we incurred significant losses, including impairments of our land inventory and certain other assets.

***Raw materials and building supply shortages and price fluctuations could delay or increase the cost of home construction and adversely affect our operating results.***

The homebuilding industry has, from time to time, experienced shortages of raw materials, appliances and other building materials, in some cases due to volatility in global commodity prices. In particular, shortages and fluctuations in the price of lumber, concrete, drywall, or other important raw materials, as well as shortages of appliances and other building materials, could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. Our lumber needs are particularly sensitive to shortages. In addition, the cost of petroleum products, which are used both to deliver our materials and to transport workers to our job sites, fluctuates and may be subject to increased volatility as a result of geopolitical events, catastrophic storms, other severe weather or significant environmental accidents. Environmental laws and regulations may also have a negative impact on the availability and price of certain raw materials such as lumber and concrete. Additionally,

pricing for raw materials, appliances, and other building materials may be affected by various other national, regional and local economic and political factors. For example, in recent years the federal government has imposed new or increased tariffs or duties on an array of imported materials and goods that are used in connection with the construction and delivery of our homes, including steel, aluminum and lumber, raising our costs for these items (or products made with them). Such government imposed tariffs and trade regulations on imported building supplies may in the future have significant impacts on the cost to construct our homes, including by causing disruptions or shortages in our supply chain and/or negatively impacting the U.S. regional or local economies. Additionally, we are generally unable to pass increases in construction costs on to our customers who have already entered into purchase contracts.

***Our future operations may be adversely impacted by high inflation.***

We, like other homebuilders, may be adversely affected during periods of high inflation, mainly from higher land, construction, labor and materials costs. Inflation could increase our cost of financing, materials and labor and could cause our financial results and profitability to decline. Traditionally, we have attempted to pass cost increases on to our customers through higher sales prices. Although inflation has not historically had a material adverse effect on our business, sustained increases in costs could have a material adverse effect on our business if we are unable to correspondingly increase home sale prices.

***Our quarterly operating results may fluctuate because of the seasonal nature of our business and other factors.***

Our quarterly operating results generally fluctuate by season as a result of a variety of factors such as the timing of home deliveries and land sales, the changing composition and mix of our asset portfolio, and weather-related issues.

Weather-related problems may delay starts or closings and increase costs and thus reduce profitability. In some cases, we may not be able to recapture increased costs by raising prices. In addition, deliveries may be staggered over different periods of the year and may be concentrated in particular quarters. Our quarterly operating results may fluctuate because of these factors. See Item 1 - Business - Seasonality.

***Fluctuations and declines in the market value of land may have an adverse effect on the value of our inventory resulting in impairment charges, which could adversely affect our business and results of operations.***

We regularly acquire land for replacement and expansion of land inventory within our existing and new markets. The market value of land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. Further, as a result of these fluctuations, the book value of our real estate assets may not reflect current or future market value of these assets. When market conditions are such that land values are not appreciating, previously entered into option agreements may become less desirable, at which time we may elect to forgo deposits and pre-acquisition costs and terminate the agreements. At times in past years, as a result of the negative impact of economic conditions in our markets on land values, we have had to recognize inventory impairment charges and have also, at times, chosen to write-off deposits on land. At May 31, 2021 we had $1.1 billion in total real estate inventory and $224.3 million in non-refundable deposits on real estate under option or contract, of which $36.3 million is related to consolidated purchase and option agreements. If these conditions recur or worsen, we may have to incur additional and larger inventory impairment charges which would adversely affect our financial condition and results of operations and our ability to comply with certain covenants in our debt instruments linked to tangible net worth.

***Future increases in mortgage interest rates, reductions in mortgage availability, or other increases in the effective costs of owning a home could reduce consumer demand for our homes and adversely affect our business and financial results.***

A substantial number of purchasers of our homes finance their home purchase with mortgage financing. Housing demand is adversely affected by reduced availability of mortgage financing and factors that increase the upfront or monthly costs of financing a home such as increases in interest rates, property taxes, or insurance premiums. Any substantial increase, cumulatively or individually, in mortgage interest rates or unavailability of mortgage financing may adversely affect the ability of prospective homebuyers to obtain financing for our homes, as well as adversely affect the ability of prospective homebuyers to sell their current homes. These factors could adversely affect the

sales or pricing of our homes and could also reduce the volume and/or margins in our financial services businesses. These developments could have a material adverse effect on the overall demand for new housing and thereby on the results of operations for our business.

Certain expenses of owning a home, including mortgage interest expenses and real estate taxes, generally have been deductible expenses for an individual's federal, and in some cases state, income taxes, subject to various limitations. The Tax Cuts and Jobs Act, which was signed into law at the end of calendar year 2017 and became effective January 1, 2018, includes provisions which impose significant limitations with respect to these income tax deductions. For instance, under the Tax Cuts and Jobs Act, the annual deduction for real estate taxes and state and local income or sales taxes is generally limited to $10,000. Furthermore, through the end of 2025, the deduction for mortgage interest is generally only available with respect to acquisition indebtedness that does not exceed $750,000. These changes and limitations on homeowner tax deductions could adversely impact demand for and sales prices of new homes particularly in areas with relatively high housing prices and/or high state and local income and real estate taxes. In addition, if the federal government further changes or any state government changes its income tax laws to eliminate or substantially limit these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. Also, increases in property tax rates or fees on developers by local governmental authorities, including those imposed in response to reduced federal and state funding or to fund local initiatives, such as funding schools or road improvements, can adversely affect the ability of potential homebuyers to obtain financing or their desire to purchase new homes, and can have an adverse impact on our business and financial results.

***An increase in unemployment or underemployment may lead to a decrease in sales pace or an increase in the number of loan delinquencies and property repossessions and may have an adverse impact on us.***

In response to the COVID-19 pandemic and the consequences therefrom, the federal government enacted various stimulus packages to mitigate the impact of COVID-19 on businesses and their work forces, and to provide additional financial support to employees who have lost their jobs during the COVID-19 pandemic. In the United States, the unemployment rate was 5.5% in May 2021, according to the U.S. Bureau of Labor Statistics. When stimulus and other support is reduced or not extended, unemployment or underemployment may continue to increase, concerns about job loss may be exacerbated, and unemployed or underemployed individuals may become delinquent in their mortgage payments and other obligations, all of which may have an adverse impact on our business and financial results. People who are not employed or are underemployed or are concerned about the loss, or potential loss, of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, continued high levels of unemployment or any further increase in unemployment or underemployment may lead to a decrease in sales pace or an increase in the number of loan delinquencies and property repossessions, which may have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale.

***High cancellation rates may negatively impact our business.***

Our backlog reflects the number and value of homes for which we have entered into sales contracts with customers but have not yet delivered those homes. In connection with the sale of a home, our policy is to collect a deposit from our customers, although typically this deposit reflects a small percentage of the total purchase price, and due to local or other regulations, the deposit may, in certain circumstances, be fully or partially refundable prior to closing. If the prices for our homes in a given community decline, our neighboring competitors reduce their sales prices (or increase their sales incentives), interests rates increase, the availability of mortgage financing tightens or there is a downturn in local, regional or national economies, homebuyers may elect to cancel their home purchase contracts with us. Significant cancellations have previously had, and could in the future have, a material adverse effect on our business as a result of lost sales revenue and the accumulation of unsold housing inventory.

***As market conditions permit, we intend to continue to consider growth or expansion of our operations, which could have a material adverse effect on our cash flows or profitability and our ability to service our debt and meet our working capital requirements.***

We intend to continue to consider growth or expansion of our operations in our current operating divisions or in other markets, which may require substantial capital expenditures. The magnitude, timing, and nature of any future expansion will depend on a number of factors, including the identification of suitable markets, our financial capabilities, the availability of qualified personnel in the target market, and general economic and business

conditions. Our expansion into new markets or existing operating divisions could have a material adverse effect on our cash flows and profitability.

Before a new community generates revenues, we invest significant time and material expenditures to acquire the land, obtain approvals, construct large portions of the community's infrastructure, put certain amenities in place, build model homes, and arrange sales facilities.

We may choose to enter new markets or expand operations in existing operating divisions through acquisitions, joint ventures, and other strategic transactions, which may result in us incurring additional debt, some of which could be secured or unsecured debt. Acquisitions or other strategic transactions may also involve numerous risks, including difficulties in the assimilation of the acquired company's operations, unanticipated liabilities or expenses, the diversion of management's attention from other business concerns, risks of entering markets in which we have limited or no direct experience, and the potential loss of key employees of an acquired company.

***Our future success is highly dependent on the availability of undeveloped land and improved lots at prices acceptable to us, as well as adequate liquidity to acquire such properties.***

Our success in land development and in the building and sale of homes depends in large part upon the continued availability of undeveloped land and improved lots at prices acceptable to us and with terms that meet our underwriting criteria. The availability of undeveloped land and improved lots at favorable prices depends on a number of factors that are beyond our control. Such factors include the risks of competitive over-bidding on land sites, restrictive governmental regulations that limit housing density, deterioration in market conditions, availability of financing to acquire land, and other market conditions. If the availability of suitable land opportunities is negatively affected, the number of homes we may be able to build and sell could decline. Further, increased demand for such land could cause prices to rise and we may not be able to pass the increased costs on to homebuyers. Such factors would negatively affect our revenues and profits. In addition, our ability to purchase land will depend upon us having satisfactory liquidity to fund these purchases and available financing sources, including through joint ventures or other purchase arrangements that give the Company access to land and lots over time, often referred to as "land banking" arrangements. Because such land purchases involve significant cash investments, we may be at a competitive disadvantage for these land purchases due to differences in levels of debt between us and other homebuilders and due to differing access to capital between us and other homebuilders. We may further be at a competitive disadvantage if land banking arrangements are not readily available on terms satisfactory to us, forcing us to finance the purchase of larger parcels of land and lots within a shorter time period or to forgo certain purchases.

To the extent that we are unable to purchase land timely or enter into new contracts for the purchase of land at reasonable prices, our home sales revenue and results of operations could be negatively impacted and/or we could be required to scale back our operations.

***Lack of greater geographic diversification could expose our business to increased risks if there are economic downturns in our markets.***

We currently operate in several states with a concentration on Texas. Negative factors affecting one or a number of the geographic regions at the same time could result in a relatively greater impact on our results of operations than they might have on other companies that have a more geographically diversified portfolio of operations. To the extent that regions in which our business is concentrated are impacted by an adverse event, we could be disproportionately affected compared to companies whose operations are less geographically concentrated.

***We could experience a reduction in the number of homes sold, reduced revenues, or reduced cash flows if we are unable to obtain reasonably priced financing to support our homebuilding and land acquisition and development activities.***

The homebuilding industry is capital intensive, and homebuilding operations require significant up-front expenditures to acquire land and begin development. Accordingly, we use significant amounts of capital to finance our homebuilding and land development activities. If, in the future, internally generated funds and other funds available to us are not sufficient to finance our capital needs (including capital required to fund land acquisition, development and construction activities), we would seek additional capital in the form of debt or equity financing from a variety of potential sources, including additional bank financing and/or securities offerings. The amount and

types of indebtedness that we may incur are limited by the terms of our credit facility and the indentures governing our senior notes. In addition, the availability of borrowed funds to be utilized for land acquisition, development, and construction may be greatly reduced and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans, and the availability of funding may be further affected by the COVID-19 pandemic and the resulting impact on the economy and capital markets. Any shortage of financing, increased cost of such financing, unwillingness of third parties to engage in joint ventures and land banking transactions, failure to obtain capital to fund our planned capital investments, and other expenditures, and/or delays in obtaining such capital could have a material adverse effect on our business, cause project delays and result in increased costs.

***Physical impacts of and regulations relating to climate change could increase our costs and/or otherwise adversely impact our operations.***

Some of our business is in areas that are particularly vulnerable to the physical impacts of climate change, such as from the increased frequency and severity of storms, hurricanes, flooding, sustained rainfall, wildfires, and drought or extreme cold. Such severe weather events can delay home construction, increase costs by damaging inventories, reduce the availability of building materials, and negatively impact the demand for new homes in affected areas, as well as slow down or otherwise impair the ability of utilities and local governmental authorities to provide approvals and service to new housing communities. Furthermore, if our insurance does not fully cover our costs and other losses from these events, including those arising out of related business interruptions, our earnings, liquidity, or capital resources could be adversely affected. In addition, more stringent, expensive or constricting federal, state or local regulations relating to climate change or greenhouse gas emissions could materially and adversely affect our business, financial performance and operating results.

***We are dependent on the services of certain key employees, and the loss of their services could hurt our business.***

Our future success depends upon our ability to attract, train, assimilate, and retain skilled personnel. If we are unable to retain our key employees, attract, train, assimilate, or retain other skilled personnel in the future; or if one or more of our key employees becomes unable to perform their services for the Company for an extended period of time, due to illness or otherwise, it could hinder the execution of our business strategy. Competition for qualified personnel in all of our operating markets is intense, and it could be difficult for us to find experienced personnel to replace our current employees, many of whom have significant homebuilding experience. Furthermore, a significant increase in the number of our active communities would necessitate the hiring of a significant number of additional skilled personnel, who are in short supply in our markets.

***The supply of skilled labor may be adversely affected by changes in immigration laws and policies.***

The timing and quality of our development and construction activities depend upon the availability, cost and skill of contractors and subcontractors and their employees. The supply of labor in the markets in which we operate could be adversely affected by changes in immigration laws and policies as well as changes in immigration trends, including, without limitation, as a result of the COVID-19 pandemic. Accordingly, a sufficient supply of skilled labor may not be available to us in the future. In addition, changes in federal and state immigration laws and policies, or in the enforcement of current laws and policies may have the effect of increasing our labor costs. The lack of adequate supply of skilled labor or a significant increase in labor costs could materially and adversely affect our financial performance.

***Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can lead to significant costs for us.***

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. Construction defects may occur on projects and developments and may arise a significant period of time after completion. Unexpected expenditures attributable to defects or previously unknown sub-surface conditions arising on a development project may have a material adverse effect on our business, financial condition and operating results.

We seek to mitigate this exposure by maintaining products and completed operations general liability insurance and by generally obtaining indemnities and evidence of insurance naming us as additional insured from subcontractors generally covering claims related to damages resulting from faulty workmanship and materials.

Additionally, we establish warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the risks associated with the types of homes built. Although we actively monitor our reserves and coverage, because of the uncertainties inherent in these matters, including the size, nature, and frequency of current and future potential demands and litigation, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our warranty and construction defect claims in the future. While we generally confirm evidence of subcontractor insurance coverage, it is possible and at times we have determined that the limits evidenced have been, or will likely be, reduced or exhausted by other claims or losses, which increases our potential exposure. It is also possible that exclusionary endorsements will preclude or limit coverage, or that existing coverage will be canceled or not renewed. In addition, additional insured endorsement language varies and may change, making it more difficult to trigger or enforce additional insured coverage. Further, contractual indemnities may be difficult to enforce. Enforcement of contractual obligations can be impacted by the unforeseeable insolvency of a vendor or subcontractor, as well as compliance with evolving state anti-indemnity legislation. We may also be responsible for applicable deductibles or self-insured retentions, and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the availability of products and completed operations general liability insurance for construction defects is currently limited and costly. This coverage may be further restricted or become unavailable or costlier in the future, or may be canceled, denied or rescinded.

***We are dependent on the continued availability and satisfactory performance of our subcontractors and our business could be materially and adversely impacted if qualified subcontractors are not available.***

We conduct our construction and development operations only as a general contractor. Our construction work is performed by unaffiliated third-party subcontractors. Consequently, we depend on the continued availability of, and satisfactory performance by, these subcontractors for the development of our communities and the construction of our homes. There may be insufficient availability of, or unsatisfactory performance by, these unaffiliated third-party subcontractors. In addition, inadequate subcontractor resources could have a material adverse effect on our business.

***We can be injured by failures of persons who act on our behalf to comply with applicable regulations and guidelines.***

Although we expect all of our employees, officers, and directors to comply at all times with all applicable laws, rules and regulations, there may be instances in which employees, subcontractors or others with whom we conduct business engage in practices that do not comply with applicable laws, rules, or regulations. When we learn of practices that do not comply with applicable laws, rules, or regulations, we promptly move actively to stop the non-complying practices and will take appropriate disciplinary action with regard to employees of ours, through and including termination of their employment. However, regardless of the steps we take after we learn of practices that do not comply with applicable laws, rules, or regulations, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured.

***Products supplied to us and work done by subcontractors can expose us to risks that could adversely affect our business.***

We rely on subcontractors to perform the actual development of our communities and the construction of our homes, and in some cases, to select and obtain building materials. Despite our detailed specifications and quality control procedures, in some cases, subcontractors may use improper construction processes or defective products or materials. Defective products or materials widely used by the homebuilding industry can result in the need to perform extensive repairs to large numbers of homes. The cost of complying with our warranty and other legal obligations may be significant if we are unable to recover the cost of repairs from subcontractors, materials suppliers and insurers.

We also can suffer damage to our reputation, and may be exposed to possible liability, if subcontractors fail to comply with applicable laws, including laws involving matters that are not within our control. When we learn about possibly improper practices by subcontractors, we try to cause the subcontractors to discontinue them. However, we are not always able to do that, and even when we can, it may not avoid claims against us relating to prior improper practices of the subcontractors.

***Our business and operating results could be adversely affected by adverse weather conditions and natural disasters.***

Adverse weather conditions, such as extended periods of rain, snow, cold temperatures or drought, and natural disasters, such as hurricanes, tornadoes, floods, and fires, can reduce the availability of materials, delay land development and community openings, delay completion and sale of homes, damage partially complete or other unsold homes in our inventory, and/or decrease the demand for homes or increase the cost of building homes. To the extent that natural disasters or adverse weather events occur, our business and results may be adversely affected. To the extent that insurance does not cover business interruption losses or repair costs resulting from these events, our revenues, earnings, liquidity, and capital resources could be adversely affected.

***If we are unsuccessful in competing against our competitors, our market share could decline or our growth could be impaired and, as a result, our financial results could be adversely affected.***

The homebuilding industry is highly competitive. Homebuilders compete for, among other things, desirable land, financing, raw materials, employees, skilled labor, and homebuyers. We compete for residential sales on the basis of a number of interrelated factors, including location, reputation, community amenities, design, quality, and price. We compete with numerous large and small homebuilders, including some homebuilders with nationwide operations and greater financial resources and/or lower costs than us. Any consolidation of homebuilding companies may create competitors that have greater financial, marketing, and sales resources than we do and may also create competitors that are able to compete more effectively against us. In addition, there may be new entrants into the markets in which we currently conduct business. We also compete for sales with the resale market for existing and foreclosed homes, with real estate speculators, and with available rental housing. If we are unable to successfully compete, our financial results could be adversely affected and the value of, or our ability to service, our debt could be adversely affected.

***Slower home sales may extend the time it takes us to recover land purchase and property development costs and force us to absorb additional costs, which could have an adverse impact on our operating results and financial condition.***

We incur many costs even before we begin to build homes in a community. These include costs related to preparing and developing land and installing roads, sewage, and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. If the rate at which we build homes slows, which is related to the number of home sales and closings, or there are delays in the opening of new home communities or phases in existing communities, it could extend the length of time it takes us to recover these costs, which could have an adverse impact on our operating results and financial condition.

***We enter into unconsolidated joint ventures in which we do not have a controlling interest and we could be adversely impacted if our joint venture partners fail to fulfill their obligations.***

We enter into land development joint ventures from time to time as a means of accessing larger parcels of land and lot positions, while managing our risk profile and leveraging our capital base. At May 31, 2021, we had an equity investment of less than 50% in one land development joint venture and did not have a controlling interest in the unconsolidated entity. Generally, our partners in our land development joint ventures are both related parties and unrelated homebuilders, land developers, or other real estate entities.

The land development joint ventures from time to time obtain secured acquisition and development financing. We or our joint venture partners, may, from time to time, provide varying levels of guarantees associated with the debt of these unconsolidated entities. These guarantees may require the partners to repay their share of the debt of the unconsolidated joint venture entity in the event the entity defaults on its obligations under the borrowings, or may require the completion of development of the land owned by the joint venture.

In addition, we are currently party to two joint ventures that offer residential mortgage financing to homebuyers and the public at large. At May 31, 2021, we had an equity investment of less than 50% in each joint venture and did not have a controlling interest in these entities.

Our investments in joint ventures are considered illiquid since we do not have a controlling interest and therefore are limited in buy/sell decisions of joint venture assets. In addition, we may not necessarily agree with decisions

made by our joint venture partners or our joint venture partners may fail to take actions that we would take if we had a controlling interest. Further, our financial condition and results of operations could be negatively impacted if any debt guarantees that we provide are drawn upon.

***Negative publicity or poor relations with the residents of our communities could negatively impact sales, which could cause our revenues or results of operations to decline.***

Unfavorable media or investor and analyst reports related to our industry, company, brand, marketing, personnel, operations, business performance, or prospects may affect the performance of our business, regardless of its accuracy or inaccuracy. Our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment. Adverse publicity or negative commentary on social media outlets, such as blogs, websites or newsletters, could hurt operating results, as consumers might avoid or protest brands that receive bad press or negative reviews. Customers and other interested parties could act on such information without further investigation and without regard to its accuracy. Accordingly, we could suffer immediate harm without affording us an opportunity for redress or correction.

In addition, we can be affected by poor relations with the residents of communities we develop because these residents sometimes look to us to resolve issues or disputes that may arise in connection with the operation or development of their communities. Efforts made by us to resolve these issues or disputes could be deemed unsatisfactory by the affected residents and subsequent actions by these residents could adversely affect sales or our reputation. In addition, we could decide or be required to make material expenditures related to the settlement of such issues or disputes or to modify our community development plans, which could adversely affect our results of operations.

***Failure in our financial and operational controls could result in significant cost overruns or errors in valuing sites.***

We own and purchase a large number of sites each year and are therefore dependent on our ability to process a very large number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the community, sourcing materials and subcontractors, and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, equipment failures, natural disasters, or the failure of external systems, including those of our suppliers, subcontractors, or counterparties, could result in operational losses that could adversely affect our business, financial condition, and operating results and our relationships with our homebuyers.

***We may be unable to obtain adequate surety bonding for the development of our communities.***

We provide surety bonds to governmental authorities and others to ensure the completion of our projects. If we are unable to obtain and provide required surety bonds for our projects, our business operations and revenues could be adversely affected. If we are unable to obtain and provide required surety bonds in the future or are required to provide credit enhancements with respect to our current or future surety bonds, our liquidity could be negatively impacted.

***Future terrorist attacks against the United States or increased domestic or international social, political, or economic unrest or instability could have an adverse effect on our operations.***

Adverse developments in the war on terrorism, future terrorist attacks against the United States, any outbreak or escalation of hostilities between the United States and any foreign power, or social, economic, or political instability domestically or internationally may cause disruption to the economy, consumer confidence, the U.S. housing market, our Company, our employees, and our homebuyers. Historically, perceived threats to national security and other actual or potential conflicts or wars and related geopolitical risks have also created significant social, economic, and political uncertainties. In addition, the economy, consumer confidence, the Company, our employees, and our homebuyers may be impacted by protests and civil unrest, including in relation to efforts to institute social, political, and law enforcement reform, as well as the impacts of implementing or failing to implement reforms. If any such events were to occur, or there was a perception that they were about to occur, they could adversely affect our revenues, operating expenses, and financial condition.

***Information technology failures and data security breaches could harm our business and subject us to adverse publicity, costly government enforcement actions, or private litigation, and expenses.***

We use information technology and other computer resources to carry out important operational activities and to maintain our financial and business records, including personal information and other confidential and sensitive information provided by our customers. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers. Our computer systems, including our back-up systems, or those of the third-parties on whose systems we rely, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (including through data-theft, ransomware, and cyber-attack), compromises, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees or independent contractors. If our computer systems and our back-up systems, or those of the third-parties on whose systems we rely, are damaged, or cease to function properly, we could suffer interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information or personal information (including information about our homebuyers, employees and business partners), which could require us to incur significant costs to remediate or otherwise resolve these issues. Our failure to maintain the security of the data (including personal information) we are required to protect could result in damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also in deterioration in our customers' confidence in us and other competitive disadvantages. While we endeavor to protect our systems and information from such threats, such measures, which require ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly sophisticated, are costly and may not be effective in preventing or mitigating significant negative occurrences or irregularities in our systems or those of third parties on whose systems we rely. Further, work from home and other remote access efforts in response to COVID-19 could increase our risk of such threats as a result of the use of less secure internet connections, increased difficulty in monitoring our employees and responding to third party threats, and increased hacking, phishing, and other fraudulent activity. In addition, the costs of maintaining adequate protection against such threats, as they develop in the future or as legal requirements related to data security change, are significant and continue to increase.

Further, as part of our business, we maintain proprietary information electronically and electronically collect, receive, use, process, disclose, store, and transmit confidential and sensitive business information, including that of our homebuyers, employees, and business partners. We rely on the security of our networks, databases, systems and processes and those of third parties, such as vendors, to protect our confidential and proprietary information and information about our homebuyers, employees, and business partners, including their personal information. Criminals and other wrongdoers are constantly devising schemes to circumvent information technology security safeguards and companies have suffered serious data security breaches. If unauthorized parties gain access to our networks or databases, or those of our vendors or third-party service providers, they may be able to steal, publish, delete, release, modify, or use in an unauthorized manner our sensitive proprietary information and sensitive third-party information, including confidential and personal information. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release or use of such personal or confidential information. In any such event, we could be required to incur significant expense to remediate or otherwise resolve and respond to these issues, including financial obligations to third parties, fines, penalties, regulatory investigations or proceedings, and private litigation with potentially large costs and other competitive disadvantages, any or all of which could adversely affect our financial condition, results of operations, and reputation.

Furthermore, there are numerous laws and regulations regarding data privacy and the collection, receipt, use, processing, storage, disclosure, and transmission of personal information, the scope of which is changing, subject to differing interpretations, and may be inconsistent between states. We or our third-party service providers could be adversely affected if legislation or regulations are expanded to require changes in our or our third-party service providers' business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our or our third-party service providers' business, results of operations or financial condition.

## Regulatory and Legal Risks

***Governmental regulations relating to health, safety and the environment could increase the cost, limit the availability of our development and homebuilding projects, and adversely affect our business or financial results.***

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities, roads, or other local services, among other determinations. New housing developments may also be subject to various assessments for schools, parks, streets, and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives, and have also imposed various moratoria. Any of the foregoing and changes in any of these regulations can limit, delay, or increase the costs of development or home construction.

We are subject to a variety of local, state, and federal laws and regulations concerning protection of health, safety and the environment, including those regulating the emission or discharge of materials into the environment; the handling, use, storage, and disposal of hazardous substances; impacts to wetlands and other sensitive environments; safety on job sites; risks from COVID-19; and the remediation of contamination at properties that we have owned and/or developed. Noncompliance with these laws and regulations, as well as conditions on properties for which we may be liable (such as properties we formerly owned or developed or facilities to which wastes from our operations may have been disposed of) without our having violated any laws or regulations, could result in fines or penalties, claims for personal injury or property damage, obligations to investigate or remediate or to pay for investigation or remediation by others, permit revocations, or other sanctions. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation, and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. In addition, some of these laws and regulations that significantly affect how certain properties may be developed are contentious, attract intense political attention, and may be subject to significant changes over time. For example, regulations governing wetlands subject to permitting under the federal Clean Water Act have been the subject of extensive rulemakings for many years, resulting in several major joint rulemakings by the U.S. Environmental Protection Agency and the U.S. Army Corps of Engineers that have expanded and contracted the scope of wetlands subject to regulation; and such rulemakings have been the subject of many legal challenges, some of which remain pending. As with other changes in regulations, these can limit, delay or increase the costs of development or home construction and can affect our opportunities. The current presidential administration has prioritized climate regulation and environmental protection and reversed many prior relaxations of environmental protection that were enacted by the prior administration. Such changes could limit, delay, or increase the costs of development or home construction.

We are also subject to other local, state, and federal laws and regulations in other aspects of our business, which are subject to evolving interpretation. Failure to comply with such laws and regulations could increase our costs or adversely affect our business or financial results.

***Government regulations relating to our title and mortgage operations could adversely affect the financial results of this portion of our business.***

Our financial services businesses are subject to numerous federal, state and local laws and regulations, which, among other things: prohibit discrimination and establish underwriting guidelines; provide for audits and inspections; require appraisals and/or credit reports on prospective borrowers and disclosure of certain information concerning credit and settlement costs; establish maximum loan amounts; prohibit predatory lending practices; and regulate the referral of business to affiliated entities. In addition, our title operations are also subject to applicable insurance and banking laws and regulations as well as government audits, examinations and investigations, all of which may limit our ability to provide title services to potential purchasers. The regulatory environment for mortgage lending is complex and ever changing and has led to an increase in the number of audits, examinations and investigations in the industry. The 2008 housing downturn resulted in numerous changes in the regulatory framework of the financial services industry. More recently, in response to COVID-19, federal agencies, state governments and private lenders are proactively providing relief to borrowers in the housing market by, subject to requirements, suspending home foreclosures and granting payment forbearance, among other things. Although these

relief measures are temporary, these measures could continue for a prolonged period of time and some could ultimately become incorporated into the current regulatory framework. Any changes or new enactments could result in more stringent compliance standards, which could adversely affect our financial condition and results of operations and the market perception of our business. Additionally, if our joint venture mortgage companies are unable to originate mortgages for any reason going forward, our customers may experience significant mortgage loan funding issues, which could have a material impact on our homebuilding business and our consolidated financial statements.

***A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.***

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of all areas of our business. Any failure in health and safety performance may result in actions by regulatory agencies or governmental authorities and penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities incurred as a result. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to develop land and build homes, which in turn could have a material adverse effect on our business, financial condition and operating results.

***We may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.***

We are involved in various litigation and legal claims in the normal course of our business operations, including actions brought on behalf of various classes of claimants. We establish liabilities for legal claims and regulatory matters when such matters are both probable of occurring and any potential loss is reasonably estimable. We accrue for such matters based on the facts and circumstances specific to each matter and revise 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 regulatory matters, we generally cannot predict the ultimate resolution, the related timing or any eventual loss. 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 and may have a material adverse effect on our results of operations. Unfavorable litigation, arbitration or claims could also generate negative publicity in various media outlets that could be detrimental to our reputation

***Efforts to impose liabilities or obligations on us with regard to labor law violations by subcontractors and other parties whose employees perform contracted services could have an adverse effect on our financial condition.***

The homes we sell are built by employees of subcontractors and other independent contract parties. We do not have the ability to control what these contract parties pay their employees or the work rules they impose on their employees. However, various governmental agencies have recently tried to hold contract parties like us responsible for violations of wage and hour laws and other work-related laws by companies whose employees are performing contracted services. Governmental rulings that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control, which could have an adverse impact on our financial condition.

***If we were subjected to a material amount of additional entity-level taxation by individual states and localities, it would negatively impact our operating results.***

Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships and limited liability companies to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Changes in current state law may subject us to additional entity-level taxation by individual states and localities, reducing our available cash.

***We are not subject to the requirements of the Securities Act of 1933, the Securities Exchange Act of 1934, or the Sarbanes-Oxley Act of 2002.***

We are not subject to the requirements of the Securities Act of 1933, the Securities Exchange Act of 1934, the rules and regulations of the Securities and Exchange Commission (the "SEC") or the Sarbanes-Oxley Act of 2002, which require, among other things, public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. The Sarbanes-Oxley Act of 2002 also requires public companies to have and maintain effective internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). If we were to become publicly traded, we would also be subject to these requirements of the Sarbanes-Oxley Act. Currently, we are not required to comply with these requirements.

**Risks Associated with our Indebtedness and Organizational Structure**

***Our indebtedness could adversely affect our financial condition, limit our growth and make it more difficult for us to satisfy our debt obligations.***

As of May 31, 2021, we had $755.0 million of aggregate indebtedness outstanding (excluding accrued interest) and $243.4 million available for borrowing under our revolving credit facility, after applying a borrowing base formula. Our indebtedness could have important consequences for us. Such indebtedness could, among other things:

- cause us to be unable to satisfy our obligations under our existing or new debt agreements;
- make us more vulnerable to adverse general economic and industry conditions;
- make it difficult to fund future working capital, land acquisition and development, home construction, acquisitions, and general corporate needs;
- cause us to be limited in our flexibility in planning for, or reacting to, changes in our business; and
- cause us to be less competitive than other companies with less indebtedness.

In addition, subject to restrictions in our existing debt instruments, we may incur additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

***Any downgrade of our credit ratings could adversely affect our access to capital and the cost of obtaining such capital and have other adverse effects on us.***

Our credit ratings, ratings on our outstanding indebtedness and our current credit condition, among other factors, can impact our ability to access capital and any negative changes in these ratings may also result in more stringent covenants and higher interest rates. Our credit ratings could be downgraded in the future or credit agencies could issue negative commentaries about us in the future, any of which could adversely impact our business, financial condition, results of operations or liquidity. Any weakening of our financial condition, increase in leverage and/or decrease in profitability or cash flows could adversely affect our ability to access capital, cause a credit downgrade or result in a change in outlook or increase our cost of borrowing.

***Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.***

We may be able to incur substantial additional indebtedness in the future. Although the indentures governing our senior notes and the agreement governing our revolving credit facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. As of May 31, 2021, we had $243.4 million of availability under our revolving credit facility, based on a borrowing base formula, and $6.6 million of outstanding letters of credit. If we incur additional indebtedness, the related risks that we now face would intensify and could further exacerbate the risks associated with our substantial leverage.

***We may be unable to generate sufficient cash to service our debt obligations.***

Our ability to pay our expenses and to pay the principal and interest on the senior notes and our other debt depends on our ability to generate positive cash flows in the future. Our operations may not generate cash flows in an amount sufficient to enable us to pay the principal and interest on our debt or to fund our other liquidity needs.

If we do not have sufficient cash flows from operations, we may be required to incur additional indebtedness, refinance all or part of our existing debt or sell assets. Our ability to borrow funds under our revolving credit facility in the future will depend on our meeting the financial covenants of such credit facility, and sufficient borrowings may not be available to us. In addition, the terms of existing or future debt agreements may restrict us from effecting any of these alternatives. Any inability to generate sufficient cash flows or refinance our debt on favorable terms could significantly and adversely affect our financial condition, the value of the notes and our ability to pay the principal and interest on our debt.

***The families and family trusts that own the majority of our equity interests have the right to select our board members, can influence our business operations, including all matters subject to membership approval, and may have interests that conflict with the interests of our debt holders.***

Little Shots Nevada L.L.C. ("Little Shots"), which is directly or indirectly controlled by five families or family trusts, beneficially owns 87.82% of our equity interests. Except as may be limited by our debt agreements, Little Shots, by virtue of this equity ownership, has the ability to:

- elect the entire membership of our board of directors;
- control all of our management policies, including decisions regarding payments to our members or other affiliates, whether by way of dividend, compensation or otherwise or entering into other transactions with entities affiliated with the families and trusts controlling Little Shots; and
- determine the outcome of corporate matters or transactions, including mergers, joint ventures, consolidations, asset sales, equity issuances, or debt incurrences.

Effective January 27, 2021, the Company and Little Shots entered into a fourth amendment to the Company's Second Amended and Restated Regulations (as amended, the "Regulations") to, among other things, increase the maximum size of the board of directors from five to nine and designate a new class of at-large directors comprised of up to four members. Three of our directors are affiliated with Little Shots and the families and trusts that control it.

Other affiliates of Little Shots and these families and trusts operate businesses that derive revenue from homebuilding and land development. Some of such affiliated entities have engaged, and will in the future continue to engage, in transactions with us. In particular, we are party to a service and software license agreement with an affiliate of this group pursuant to which we are provided with a license to use software critical to our business. The initial term of the services and software license agreement was two years and it automatically renews for successive one-year terms unless either party gives notice that the agreement will not be renewed. We are also party to various construction and development, home sales and lot purchase agreements with affiliates of Little Shots and the controlling families and trusts. See "Certain relationships and related-party transactions" for a description of such transactions. In addition, we may enter into other agreements with affiliates of this group in the future. The families and family trusts controlling Little Shots are not restricted from engaging in homebuilding or land development activities in the United States through entities unrelated to us.

***Our revolving credit facility and the indentures governing our senior notes contain a variety of covenants imposing significant operating and financial restrictions, which may limit our ability to operate our business. Our failure to comply with these covenants could result in an event of default under the revolving credit facility or the indentures governing our senior notes.***

Our revolving credit facility requires us to maintain specified financial ratios and tests, among other obligations, including a minimum tangible net worth test and a maximum leverage ratio. In addition, our revolving credit facility and the indentures governing our senior notes have affirmative and negative covenants customary for financings of those types, which limit our ability to, among other things, borrow money, make investments and extend credit, engage in transactions with our affiliates, consummate certain asset sales, consolidate or merge with another entity or sell, transfer, lease or otherwise dispose of all or substantially all of our assets, and create liens on our assets. It is possible that these covenants could adversely impact our ability to finance our future operations or capital needs or

to pursue available business opportunities. Additionally, a failure to comply with any of these covenants could lead to an event of default under our credit facility and/or the indentures, which could result in an acceleration of the indebtedness under the revolving credit facility and/or the indentures, depending on the covenant default. Acceleration of any such indebtedness or other indebtedness would constitute an event of default under the revolving credit facility or the indentures governing our senior notes.

## Item 1B. *Unresolved Staff Comments*

Not applicable

## Item 2. *Properties*

The Company leases 27,642 square feet of office space in Alpharetta, Georgia for our corporate offices. In addition, we lease a total of approximately 128,000 square feet of space for our operating divisions under leases expiring at various times through October 2028. Periods under lease range from 12 months to 176 months, with various commencement dates and renewal options.

The Company is a party to a lease as a lessee with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates to rent approximately 8,500 square feet of commercial space in Dallas, Texas, with 19 months remaining under the terms of the lease as of May 31, 2021. Total minimum lease payments due under the lease were $0.2 million and $0.3 million as of May 31, 2021 and May 31, 2020, respectively.

## Item 3. *Legal Proceedings*

We are 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. Management believes that, while the ultimate outcome of these ordinary course contingencies cannot be predicted with certainty, the ultimate liability, if any, net of anticipated recoveries including from any insurance, will not have a material adverse effect on our financial condition, results of operations or cash flows.

## Item 4. *Mine Safety Disclosures*

Not applicable.

## PART II.

## Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities*

We are a limited liability company, and the majority of our membership interests are owned indirectly through Little Shots Nevada, L.L.C. by five families or family trusts related to the following individuals: Elly Reisman, the Estate of Norman Reisman, Bruce Freeman, Seymour Joffe, and Harry Rosenbaum. See Item 12 "*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*" for additional information about the ownership of our membership interests. There is no established public trading market for our membership interests.

We periodically make distributions to our Members for the payment of federal and state income taxes. We made distributions of $33.8 million, $12.5 million, and $21.4 million during the year ended May 31, 2021, 2020, and 2019, respectively. Although we are restricted in our ability to pay distributions and dividends under various covenants of our debt agreements, we expect to continue to make distribution to our Members, subject to compliance with our debt agreements and our Regulations.

## Item 6. *Reserved*

## Item 7. *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 audited consolidated financial statements and accompanying notes included elsewhere in this annual report. The Company's results of operations discussed below are presented in conformity with accounting principles generally accepted in the United States ("GAAP").*

*The following tables and related discussion set forth key operating and financial data for our homebuilding operations as of and for the fiscal years ended May 31, 2021 and 2020. For similar operating and financial data and discussion of our fiscal 2020 results compared to our fiscal 2019 results, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II of our annual report for the fiscal year ended May 31, 2020, which is available here.*

**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 or savings or benefits 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. These factors include, but are not limited to, the risks set forth in Item 1A. Risks in this annual report.

**Overview and Outlook**

COVID-19 has had a material impact on global and U.S. economies and has impacted our business operations. Responses to COVID-19 have included, among other things, varying degrees of quarantines, “stay-at-home” or “shelter-in-place” orders, and similar mandates for many individuals, which in some instances substantially restricted daily activities. More recently, states and local municipalities have ended or begun to ease restrictions to varying degrees as conditions have been improving and vaccines have become widely available, however, hesitancy may impede universal inoculation and rapidly mutating variants may reverse or stall current declines in infection rates and hospitalizations, which has more recently been the case in less vaccinated areas of the U.S.

The current environment makes it challenging to predict the impact that the pandemic may have on the future performance of our business. Our primary concern remains the health and well-being of our employees, customers, business partners, and the communities we serve. The state and local governments in all of the markets in which we operate designated residential construction as an essential business or critical infrastructure, and continued to allow the construction and sales of homes.

While we saw a slowdown in sales through late April 2020 with the widespread emergence of COVID-19 in March 2020, sales began to increase in late April and May 2020, and our cancellation rates returned to normal levels. Sales have remained strong through May 31, 2021. With the strong demand for new homes beginning in late April 2020, and continuing through May 31, 2021, we have been starting construction on additional homes, making new land investments, and developing land we own, while continuing to focus on maintaining adequate liquidity through the still uncertain times ahead. During the fiscal year ended May 31, 2021, our new homes sales orders increased by 59%, compared to the fiscal year ended May 31, 2020.

The demand in the new home market has been affected by increased buyer urgency due to historically low interest rates on mortgage loans, the limited supply of homes at affordable price points across our markets, and pent-up demand, in addition to the historical under-supply of new home construction. In addition, resale home inventory levels remain low in our markets, adding to the demand for finished new homes.

Our business has also been impacted by constraints to the labor and supply chain we rely on to construct our homes. The pandemic has caused our employees and those of our trade partners to miss workdays due to illness or quarantine and the increased demand for home construction has added to personnel shortages. In addition, our supply chain has been impacted by similar labor interruptions slowing production capacity and also by increased demand for building materials generated in part by the COVID-19 pandemic. The combination of these factors has led to increased costs and elongated production cycles.

Even with the resurgence of demand and decline in COVID-19 restrictions, we remain cautious as to the impact that COVID-19 may have on our operations and on the overall economy in the future. Although there is optimism about the ongoing vaccine rollouts and generally decreasing infection and hospitalization rates in areas with higher vaccination rates, there remains significant uncertainty regarding how COVID-19 and its related effects will impact the U.S. and global economy going forward, including the level of unemployment, availability of debt, capital, the health of the mortgage markets, consumer confidence, and demand for our homes. In addition, our operations could be further impacted by elongated cycle times due to lack of availability and rising costs of trade labor and building materials, as well as the responsiveness of government services such as zoning, permitting and related government approvals. In addition, as the resurgence of demand has caused an increase in the construction of new homes, the cost of building materials, most notably lumber, has increased significantly. Additional discussion of the risks to the Company from COVID-19 are discussed in Item 1A. Risk Factors in this annual report.

***Business***

We design, build, and market detached and attached single-family homes in six 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. Wholesale homes are typically sold under bulk sales agreements to real estate investors in the single family rental industry. The Company also offers land and lot development and construction services for a fee. In the

course of providing development, development oversight, and/or construction services, the Company routinely subcontracts for services and incurs other direct costs. The revenues and costs associated with these activities are included in the Company's financial services and other revenues and cost of sales - financial services and other revenues on the consolidated statements of income, respectively.

Through two wholly-owned title agency subsidiaries, the Company also performs title services in support of its operations and offers title services to its homebuyers in all of its operating divisions except Phoenix. The Company offers or plans 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. Offering title and mortgage services to our customers provides the opportunity for a more streamlined homebuying experience for our buyers and additional efficiencies and revenue opportunities for the Company.

Our Ashton Woods communities are created to deliver 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 by offering affordable homes that include attractive features, without offering customers the opportunity to personalize their homes.

***Select Consolidated Financial Data***

| | Year ended May 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| **Revenues:** | | (in thousands) | |
| Home sales | $ 2,238,479 | $ 1,767,058 | $ 1,665,997 |
| Land sales | 12,862 | 8,753 | 20,805 |
| Financial services and other revenues | 39,250 | 40,291 | 8,744 |
| | $ 2,290,591 | $ 1,816,102 | $ 1,695,546 |
| **Gross profit:** | | | |
| Home sales | $ 498,747 | $ 317,436 | $ 279,568 |
| Land sales | 3,064 | 1,517 | 1,242 |
| Financial services and other revenues | 11,027 | 11,390 | 6,728 |
| | $ 512,838 | $ 330,343 | $ 287,538 |
| Selling, general and administrative | $ 266,348 | $ 234,806 | $ 211,164 |
| Net income [(1)] | $ 234,181 | $ 75,816 | $ 60,593 |

(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 $33.8 million, $12.5 million, and $21.4 million during the fiscal year ended May 31, 2021, 2020, and 2019 respectively.

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Supplemental data:** | | ($ in thousands) | |
| Active communities at end of period | 108 | 139 | 132 |
| Net new home orders (in units) | 8,436 | 5,309 | 4,138 |
| Homes closed (in units) [(1)] | 6,549 | 5,109 | 4,357 |
| Average sales price per home closed | $ 342 | $ 346 | $ 382 |
| Backlog at end of period (in units) | 3,395 | 1,508 | 1,308 |
| Sales value of backlog at end of period | $ 1,278,653 | $ 555,323 | $ 528,226 |
| Home gross margin [(2)] | 22.3 % | 18.0 % | 16.8 % |
| Adjusted home gross margin [(2)] | 24.3 % | 20.3 % | 19.1 % |
| Ratio of selling, general and administrative expenses to home sales revenue | 11.9 % | 13.3 % | 12.7 % |
| Interest incurred [(3)] | $ 63,243 | $ 57,753 | $ 47,667 |
| Adjusted EBITDA [(4)] | $ 303,496 | $ 140,602 | $ 116,016 |
| Adjusted EBITDA margin [(4)] | 13.2 % | 7.7 % | 6.9 % |
| Total debt to total capitalization [(5)] | 53.7 % | 62.8 % | 57.6 % |
| Total net debt to net capitalization [(6)] | 42.0 % | 52.7 % | 57.6 % |
| Cancellation rate (as a percentage of gross sales)[(7)] | 14.3 % | 20.5 % | 23.2 % |

(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 gross margin 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, a reserve for warranty expense, architecture fee amortization, impairment charges, closing costs, and pre-acquisition costs related to real estate purchases that are no longer probable. Adjusted home gross margin is not a financial measure under GAAP and should not be considered an alternative to home gross margin 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 gross margin is home gross margin that is adjusted to exclude inventory impairments - homes and interest amortized to cost of sales. The following is a reconciliation of home gross margin, which is the most directly comparable GAAP financial measure, to adjusted home gross margin:

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Homebuilding Consolidated:** | | ($ in thousands) | |
| Home sales revenues | $ 2,238,479 | $ 1,767,058 | $ 1,665,997 |
| Cost of sales homes | 1,739,732 | 1,449,622 | 1,386,429 |
| Home gross margin | 498,747 | 317,436 | 279,568 |
| Add: Inventory impairments | 147 | 2,701 | 3,157 |
| Interest amortized to cost of sales | 45,984 | 39,127 | 34,860 |
| Adjusted home gross margin | $ 544,878 | $ 359,264 | $ 317,585 |
| Ratio of home gross margin to home sales revenue | 22.3 % | 18.0 % | 16.8 % |
| Ratio of adjusted home gross margin to home sales revenue | 24.3 % | 20.3 % | 19.1 % |

(3) 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 year ended May 31, 2021, 2020, and 2019:

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | | (in thousands) | |
| Capitalized interest, beginning of period | $ 21,646 | $ 19,040 | $ 13,824 |
| Interest incurred | 63,243 | 57,753 | 47,667 |
| Interest amortized to cost of sales | (45,984) | (39,127) | (34,860) |
| Interest expensed | (14,295) | (16,020) | (7,591) |
| Capitalized interest, end of period | $ 24,610 | $ 21,646 | $ 19,040 |

(4) Adjusted EBITDA (earnings before interest, depreciation and amortization, and interest amortized to cost of sales, further adjusted to eliminate loss on extinguishment or modification of debt) 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. Adjusted 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 Adjusted EBITDA in the same manner as us, the Adjusted EBITDA information in this report may not be comparable to similar presentations by others. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by total revenues.

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

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | | (in thousands) | |
| Net income | $ 234,181 | $ 75,816 | $ 60,593 |
| Depreciation and amortization | 8,854 | 9,639 | 10,483 |
| Interest amortized to cost of sales | 45,984 | 39,127 | 34,860 |
| Interest expensed | 14,295 | 16,020 | 7,591 |
| EBITDA | 303,314 | 140,602 | 113,527 |
| Loss on extinguishment or modification of debt | 182 | — | 2,489 |
| Adjusted EBITDA | $ 303,496 | $ 140,602 | $ 116,016 |

(5) The total debt to total capitalization ratio consists of total debt divided by total capitalization (total debt plus total members' equity)

| | As of May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | | ($ in thousands) | |
| Total debt | $ 755,000 | $ 759,725 | $ 525,427 |
| Total Members' Equity | 650,809 | 450,448 | 387,097 |
| Total capitalization | $ 1,405,809 | $ 1,210,173 | $ 912,524 |
| Total debt to total capitalization | 53.7 % | 62.8 % | 57.6 % |

(6) The total net debt to net capitalization ratio consists of total debt, net of cash, cash equivalents, and restricted cash, divided by net capitalization (Net debt plus total members' equity)

| | As of May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | | ($ in thousands) | |
| Total debt | $ 755,000 | $ 759,725 | $ 525,427 |
| Less cash, cash equivalents, and restricted cash | 284,655 | 258,373 | 189 |
| Net debt | $ 470,345 | $ 501,352 | $ 525,238 |
| Total Members' Equity | 650,809 | 450,448 | 387,097 |
| Total net capitalization | $ 1,121,154 | $ 951,800 | $ 912,335 |
| Total net debt to net capitalization | 42.0 % | 52.7 % | 57.6 % |

(7) The following table presents the cancellation rates (as a percentage of gross sales) by buyer profile for the year ended May 31, 2021, 2020, and 2019:

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Entry-Level - Starlight Homes | 19.3 % | 27.3 % | 35.9 % |
| Entry-Level - Ashton Woods | 10.0 % | 14.7 % | 14.6 % |
| Move-Up - Ashton Woods | 8.0 % | 15.2 % | 13.4 % |
| Multi-Move-Up - Ashton Woods | 9.7 % | 13.6 % | 17.7 % |
| Consolidated | 14.3 % | 20.5 % | 23.2 % |

Presented below are certain operating and other data for our consolidated business based on buyer profile:

| | Year ended May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Net new home orders (units):** | | |
| Entry-Level - Starlight Homes | 4,194 | 2,227 |
| Entry-Level - Ashton Woods | 891 | 986 |
| Move-Up - Ashton Woods | 2,541 | 1,671 |
| Multi-Move-Up - Ashton Woods | 810 | 425 |
| Company Total | 8,436 | 5,309 |
| | | |
| **Homes closed (units):** | | |
| Entry-Level - Starlight Homes | 3,194 | 2,066 |
| Entry-Level - Ashton Woods | 799 | 890 |
| Move-Up - Ashton Woods | 2,022 | 1,675 |
| Multi-Move-Up - Ashton Woods | 534 | 478 |
| Company Total | 6,549 | 5,109 |

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Backlog (units) at end of period:** | | |
| Entry-Level - Starlight Homes | 1,483 | 483 |
| Entry-Level - Ashton Woods | 320 | 317 |
| Move-Up - Ashton Woods | 1,139 | 570 |
| Multi-Move-Up - Ashton Woods | 453 | 138 |
| Company Total | 3,395 | 1,508 |

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Active communities:** | | |
| Entry-Level - Starlight Homes | 43 | 30 |
| Entry-Level - Ashton Woods | 15 | 27 |
| Move-Up - Ashton Woods | 38 | 60 |
| Multi-Move-Up - Ashton Woods | 12 | 22 |
| Company Total | 108 | 139 |

| | Year ended May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Average monthly sales orders per average active community:** [(1)] | | |
| Entry-Level - Starlight Homes | 9.6 | 6.6 |
| Entry-Level - Ashton Woods | 3.5 | 4.0 |
| Move-Up - Ashton Woods | 4.3 | 2.1 |
| Multi-Move-Up - Ashton Woods | 4.0 | 1.6 |
| Company Average | 5.7 | 3.3 |

(1) Average active community is calculated by averaging the active community counts at May 31 for the current year ended and May 31 for the prior year ended.

| | Year ended May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Average sales price per home closed (in thousands):** | | |
| Entry-Level - Starlight Homes | $ 248 | $ 222 |
| Entry-Level - Ashton Woods | $ 303 | $ 292 |
| Move-Up - Ashton Woods | $ 413 | $ 427 |
| Multi-Move-Up - Ashton Woods | $ 692 | $ 707 |
| Company Average | $ 342 | $ 346 |

During the year ended May 31, 2021, we closed 6,549 homes. Of those closings, 5,754 (87.9%) were single-family detached homes, while the remaining 795 (12.1%) were single-family attached homes.

During the year ended May 31, 2021, the Company added 69 new active communities, while closing out 100 communities. Of the 69 active communities added during the year ended May 31, 2021, 27 (39%) are considered to be entry-level Starlight Homes, 13 (19%) are considered to be entry-level Ashton Woods Homes, 25 (36%) are considered to be move-up Ashton Woods Homes, and 4 (6%) are considered to be multi-move-up Ashton Woods Homes.

Wholesale home sales, which are offered under our Starlight Homes brand, are included in consolidated net new home orders, homes closed, and backlog at end of period. The wholesale home sales, which are generally priced at a discount to retail, typically have lower average sales prices than retail home sales. Presented below are certain data for our wholesale home sales:

| | Year ended May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Wholesale (units):** | | |
| Net new home orders | 1,272 | 345 |
| Homes closed | 394 | 292 |
| Backlog at end of period | 960 | 82 |

**Results of operations - Segments**

We present our homebuilding operating divisions in two reportable segments, east and central. At May 31, 2021, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

| | |
|---|---|
| **1) East:** | Atlanta, Coastal Carolinas, 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):**

| | Year ended May 31, | |
|---|---|---|
| | **2021** | **2020** |
| East: | | |
| Entry-Level - Starlight Homes | 1,947 | 1,171 |
| Entry-Level - Ashton Woods | 400 | 299 |
| Move-Up - Ashton Woods | 944 | 475 |
| Multi-Move-Up - Ashton Woods | 398 | 325 |
| Total east | 3,689 | 2,270 |
| Central: | | |
| Entry-Level - Starlight Homes | 2,247 | 1,056 |
| Entry-Level - Ashton Woods | 491 | 687 |
| Move-Up - Ashton Woods | 1,597 | 1,196 |
| Multi-Move-Up - Ashton Woods | 412 | 100 |
| Total central | 4,747 | 3,039 |
| Company total | 8,436 | 5,309 |

**Homes closed (units):**

| | Year ended May 31, | |
|---|---|---|
| | **2021** | **2020** |
| East: | | |
| Entry-Level - Starlight Homes | 1,533 | 1,086 |
| Entry-Level - Ashton Woods | 306 | 270 |
| Move-Up - Ashton Woods | 626 | 497 |
| Multi-Move-Up - Ashton Woods | 324 | 360 |
| Total east | 2,789 | 2,213 |
| Central: | | |
| Entry-Level - Starlight Homes | 1,661 | 980 |
| Entry-Level - Ashton Woods | 493 | 620 |
| Move-Up - Ashton Woods | 1,396 | 1,178 |
| Multi-Move-Up - Ashton Woods | 210 | 118 |
| Total central | 3,760 | 2,896 |
| Company total | 6,549 | 5,109 |

**Average sales price per home closed:**

| | Year ended May 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | (in thousands) | | | |
| East: | | | | |
| Entry-Level - Starlight Homes | $ | 251 | $ | 220 |
| Entry-Level - Ashton Woods | $ | 298 | $ | 302 |
| Move-Up - Ashton Woods | $ | 436 | $ | 463 |
| Multi-Move-Up - Ashton Woods | $ | 732 | $ | 704 |
| Average east | $ | 354 | $ | 364 |
| Central: | | | | |
| Entry-Level - Starlight Homes | $ | 245 | $ | 224 |
| Entry-Level - Ashton Woods | $ | 307 | $ | 288 |
| Move-Up - Ashton Woods | $ | 403 | $ | 412 |
| Multi-Move-Up - Ashton Woods | $ | 629 | $ | 719 |
| Average central | $ | 333 | $ | 332 |
| Company average | $ | 342 | $ | 346 |

**Backlog (units) at end of period:**

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| East: | | |
| Entry-Level - Starlight Homes | 678 | 264 |
| Entry-Level - Ashton Woods | 171 | 89 |
| Move-Up - Ashton Woods | 485 | 160 |
| Multi-Move-Up - Ashton Woods | 179 | 100 |
| Total east | 1,513 | 613 |
| Central: | | |
| Entry-Level - Starlight Homes | 805 | 219 |
| Entry-Level - Ashton Woods | 149 | 228 |
| Move-Up - Ashton Woods | 654 | 410 |
| Multi-Move-Up - Ashton Woods | 274 | 38 |
| Total central | 1,882 | 895 |
| Company total | 3,395 | 1,508 |

**Active communities:**

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| East: | | |
| Entry-Level - Starlight Homes | 16 | 17 |
| Entry-Level - Ashton Woods | 4 | 8 |
| Move-Up - Ashton Woods | 11 | 18 |
| Multi-Move-Up - Ashton Woods | 4 | 18 |
| Total east | 35 | 61 |
| Central: | | |
| Entry-Level - Starlight Homes | 27 | 13 |
| Entry-Level - Ashton Woods | 11 | 19 |
| Move-Up - Ashton Woods | 27 | 42 |
| Multi-Move-Up - Ashton Woods | 8 | 4 |
| Total central | 73 | 78 |
| Company total | 108 | 139 |

**Average monthly sales per average active community:** [1]

| | Year ended May 31, | |
|---|---|---|
| | 2021 | 2020 |
| East: | | |
| Entry-Level - Starlight Homes | 9.8 | 6.3 |
| Entry-Level - Ashton Woods | 5.6 | 3.6 |
| Move-Up - Ashton Woods | 5.4 | 1.9 |
| Multi-Move-Up - Ashton Woods | 3.0 | 1.6 |
| Average east | 6.4 | 3.1 |
| Central: | | |
| Entry-Level - Starlight Homes | 9.4 | 7.0 |
| Entry-Level - Ashton Woods | 2.7 | 4.2 |
| Move-Up - Ashton Woods | 3.9 | 2.3 |
| Multi-Move-Up - Ashton Woods | 5.7 | 1.7 |
| Average central | 5.2 | 3.4 |
| Company average | 5.7 | 3.3 |

(1) Average active community is calculated by averaging the active community counts at May 31 for the current year ended and May 31 for the prior year ended.

**Adjusted Home Gross Margin:**

The Company presents adjusted home gross margin on a segment basis in the following tables. Adjusted home gross margin is a non-GAAP financial measure (see "Overview and Outlook —Select Consolidated Financial Data" for a definition of adjusted home gross margin00). The following is a reconciliation of home gross margin of our segments, the most directly comparable GAAP financial measure, to our segments' adjusted home gross margin.

| | Year ended May 31, | |
|---|---|---|
| | **2021** | **2020** |
| **Homebuilding East:** | (in thousands) | |
| Home sales revenues | $ 986,290 | $ 805,731 |
| Cost of sales homes | 796,767 | 683,551 |
| Home gross margin | 189,523 | 122,180 |
| Add: Inventory impairments | 91 | 2,701 |
| Interest amortized to cost of sales | 23,441 | 20,937 |
| Adjusted home gross margin | $ 213,055 | $ 145,818 |
| Ratio of home gross margin to home sales revenues | 19.2 % | 15.2 % |
| Ratio of adjusted home gross margin to home sales revenues | 21.6 % | 18.1 % |
| | | |
| **Homebuilding Central:** | | |
| Home sales revenues | $ 1,252,189 | $ 961,327 |
| Cost of sales homes | 942,965 | 766,071 |
| Home gross margin | 309,224 | 195,256 |
| Add: Inventory impairments | 56 | 41 |
| Interest amortized to cost of sales | 22,543 | 18,190 |
| Adjusted home gross margin | $ 331,823 | $ 213,487 |
| Ratio of home gross margin to home sales revenues | 24.7 % | 20.3 % |
| Ratio of adjusted home gross margin to home sales revenues | 26.5 % | 22.2 % |

**Results of operations - Discussion**

**Year Ended May 31, 2021 Compared to Year Ended May 31, 2020**

*Home sales revenues - Consolidated*

Home sales revenues increased by 26.7% ($471.4 million) for the year ended May 31, 2021 to $2,238.5 million from $1,767.1 million for the year ended May 31, 2020. The increase in revenues for the year ended May 31, 2021, as compared to the year ended May 31, 2020, 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 by 28.2% (1,440 homes) for the year ended May 31, 2021 to 6,549 from 5,109 for the year ended May 31, 2020. The increase in closings was largely driven by the strong demand for new homes beginning in late April 2020, and continuing through May 31, 2021, the period during which most of the homes that closed during the year ended May 31, 2021 were sold. During the year ended May 31, 2021, our new home sales orders increased by 58.9%, compared to the year ended May 31, 2020, resulting in an increase both in closings during the period and ending period backlog. Included in the number of homes closed are 394 wholesale home closings to real estate investors for the year ended May 31, 2021 and 292 for the year ended May 31, 2020.

The average sales price of homes closed decreased 1.2% to $342,000 for the year ended May 31, 2021 from $346,000 for the year ended May 31, 2020. While we were able to raise prices and reduce incentives in most communities across all of our markets due to the strong demand for new homes, the decrease in the average sales price of homes closed on a consolidated basis reflected our continued, planned shift toward communities with

overall lower average sales prices. For the year ended May 31, 2021, 3,993 (61.0%) closings were from entry-level communities, with generally lower average sales prices, compared to 2,956 (57.9%) closings for the year ended May 31, 2020.

*Home sales revenues - East segment*

Home sales revenues for the east segment increased by 22.4% ($180.6 million) for the year ended May 31, 2021 to $986.3 million from $805.7 million for the year ended May 31, 2020. The increase in revenues 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 during the year ended May 31, 2021 increased 26.0% (576 homes) as compared to the year ended May 31, 2020. The average sales price of homes closed decreased 2.7% to $354,000 for the year ended May 31, 2021 from $364,000 for the year ended May 31, 2020. The increase in closings is largely driven by the strong demand for new homes beginning in late April 2020, and continuing through May 31, 2021, the period during which most of the homes that closed during the year ended May 31, 2021 were sold. During the year ended May 31, 2021 our new home sales orders increased by 62.5%, compared to the year ended May 31, 2020, resulting in an increase both in closings during the period and ending period backlog. Included in the number of homes closed are 227 wholesale home closings to real estate investors for the year ended May 31, 2021 and 217 for the year ended May 31, 2020.

The decrease in the average sales price of homes closed for the year ended May 31, 2021, compared to the year ended May 31, 2020, was primarily due to the continued, planned shift to a higher percentage of closings in entry-level communities, with generally lower average sales prices. During the year ended May 31, 2021, 1,839 (65.9%) of the homes closed were considered entry-level, compared to 1,356 (61.3%) for the year ended May 31, 2020.

*Home sales revenues - Central segment*

Home sales revenues for the central segment increased by 30.3% ($290.9 million) for the year ended May 31, 2021 to $1,252.2 million from $961.3 million for the year ended May 31, 2020. The increase in revenues for the year ended May 31, 2021, as compared to the year ended May 31, 2020, was primarily due to an increase in the number of homes closed.

The number of homes closed during the year ended May 31, 2021 increased 29.8% (864 homes) as compared to the year ended May 31, 2020. The average sales price of homes closed increased 0.3% to $333,000 for the year ended May 31, 2021 from $332,000 for the year ended May 31, 2020. The increase in closings was largely driven by the strong demand for new homes beginning in late April 2020, and continuing through May 31, 2021, the period during which most of the homes that closed during the year ended May 31, 2021 were sold. During the year ended May 31, 2021 our new home sales orders increased by 56.2%, compared to the year ended May 31, 2020, resulting in an increase both in closings during the period and ending period backlog. Included in the number of homes closed are 167 wholesale home closings to real estate investors for the year ended May 31, 2021 and 75 for the year ended May 31, 2020.

The slight increase in the average sales price of homes closed during the year ended May 31, 2021, compared to the year ended May 31, 2020, was primarily due to the strong demand for new homes, which enabled us to raise prices and reduce incentives in most communities across all of our central segment markets, which resulted in increased aggregate average sales prices for our entry-level product in the central segment for the year ended May 31, 2021 as compared to the year ended May 31, 2020. The overall slight increase in sales prices was, in part, offset by the continued, planned shift to a higher percentage of closings in entry-level communities, with generally lower average sales prices and higher sales paces. During the year ended May 31, 2021, 2,154 (57.3%) of the homes closed were considered entry-level, compared to 1,600 (55.2%) for the year ended May 31, 2020.

*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 58.9% (3,127 homes) for the year ended May 31, 2021 compared to the year ended May 31, 2020. The increase in net new home orders was primarily due to an increase in the average monthly sales per average active community across most of our buyer profiles due to continued strong

demand for new homes, as well as an increase in the number of entry-level active communities, which typically have higher sales paces.

Included in net new home orders are 1,272 wholesale home orders to real estate investors for the year ended May 31, 2021 and 345 for the year ended May 31, 2020. These homes were sold under bulk sales agreements (see Note 1(j) to our consolidated financial statements). These sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from period to period. Excluding the wholesale home sales to real estate investors, net new home orders increased 44.3% (2,200 homes) for the year ended May 31, 2021 compared to the year ended May 31, 2020.

The cancellation rates (as a percentage of gross sales) on our entry-level homes have typically been higher than the cancellation rates on our move-up and multi-move-up homes. The most common reason for these cancellations is that the home buyer is not able to obtain financing. The largest improvement in cancellation rates for the year ended May 31, 2021 compared to the year ended May 31, 2020 was in our Starlight Homes business, largely because of the wholesale home sales to real estate investors which typically have very few cancellations. Excluding wholesale home sales to real estate investors, the cancellation rates in our Starlight Homes business decreased from 30.8% for the year ended May 31, 2020 to 25.0% for the year ended May 31, 2021.

Backlog consists of homes that are under sales contracts that have not yet closed. Backlog increased 125.1% from 1,508 homes in backlog at May 31, 2020 to 3,395 homes in backlog at May 31, 2021. Excluding wholesale home sales to real estate investors, backlog increased 70.8% from 1,426 homes in backlog at May 31, 2020 to 2,435 homes in backlog at May 31, 2021. The increase in backlog was a result of the continued strong demand for new homes as well as elongated construction cycle times due to some lack of availability of trade labor and building materials, resulting in the Company selling 8,436 homes during the year ended May 31, 2021, which is 1,887 more homes than were closed (6,549 homes) during the year ended May 31, 2021.

The sales value of backlog at May 31, 2021 was $1,278.7 million, a 130.3% increase from the sales value of backlog at May 31, 2020 of $555.3 million. Excluding wholesale home orders to real estate investors, the sales value of backlog at May 31, 2021 was $1,055.0 million, a 95.5% increase from the sales value of backlog at May 31, 2020 of $539.5 million. The increase in the sales value of backlog, excluding wholesale home sales to real estate investors, is primarily due to the 70.8% increase in the number of homes in backlog, as discussed above, and an increase in the average sales price of homes in backlog, excluding the wholesale home sales to real estate investors, from $378,000 at May 31, 2020 to $433,000 at May 31, 2021. Due to the strong demand in new homes throughout the fiscal year ended May 31, 2021 across all buyer profiles, we were able to raise prices and reduce incentives in most communities across all of our markets. At the same time, elongated construction cycle times due to the availability of trade labor and building materials, as well as the delayed responsiveness of government services such as zoning, permitting and related government approvals, has resulted in extended construction and home delivery times throughout the year ended May 31, 2021.

*Net new home orders and backlog - East segment*

Net new home orders in the east segment increased 62.5% (1,419 homes) during the year ended May 31, 2021 compared to the year ended May 31, 2020. Excluding the wholesale home sales to real estate investors, net new home orders increased 50.7% (1,021 homes) for the year ended May 31, 2021 compared to the year ended May 31, 2020. The increase in net new home orders for the year ended May 31, 2021, as compared to the year ended May 31, 2020, was largely driven by an increase in the average sales pace per average active community due to continued strong demand for new homes as well as the shift in the mix of communities to a higher percentage of entry-level communities, which generally have a higher sales pace.

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Backlog (units) at end of period:** | | |
| Wholesale Units - Starlight Homes | 491 | 66 |
| Entry-Level - Starlight Homes | 187 | 198 |
| Entry-Level - Ashton Woods | 171 | 89 |
| Move-Up | 485 | 160 |
| Multi-Move-Up | 179 | 100 |
| Segment Total | 1,513 | 613 |

Backlog consisted of 1,513 homes at May 31, 2021, which is a 146.8% increase from 613 homes in backlog at May 31, 2020. Included in backlog at May 31, 2021 and May 31, 2020 were 491 and 66 wholesale home orders with real estate investors, respectively. Excluding wholesale home sales to real estate investors, backlog increased 86.8% from 547 homes in backlog at May 31, 2020 to 1,022 homes in backlog at May 31, 2021. The increase in backlog is a result of selling 900 more homes than we closed during the year ended May 31, 2021. The east segment sold 3,689 homes, while closing 2,789 homes during the year ended May 31, 2021.

The sales value of backlog at May 31, 2021 was $566.3 million, a 142.0% increase compared to the sales value of backlog at May 31, 2020 of $234.0 million. Excluding wholesale home orders to real estate investors, the sales value of backlog at May 31, 2021 was $448.0 million, a 102.2% increase from the sales value of backlog at May 31, 2020 of $221.6 million. The increase in the sales value of backlog, excluding wholesale home orders to real estate investors, is due primarily to an increase in the number of homes in backlog and an increase in the average sales price of homes in backlog. The average sales price of homes in backlog, excluding wholesale home orders to real estate investors, at May 31, 2021 was $438,000 compared to $405,000 at May 31, 2020. The increase in the average sales price of homes in backlog, excluding wholesale home orders to real estate investors, is primarily a result of the continued strong demand for new homes, which allowed us to raise prices and decrease incentives in communities across all of our markets in the east segment.

*Net new home orders and backlog - Central segment*

Net new home orders in the central segment increased 56.2% (1,708 homes) during the year ended May 31, 2021 compared to the year ended May 31, 2020. Excluding wholesale home orders to real estate investors, net new home orders increased 40.0% (1,179 homes) for the year ended May 31, 2021 compared to the year ended May 31, 2020. The increase in net new home orders was largely driven by an increase in the average sales pace per average active community due to continued strong demand for new homes as well as the shift in the mix of communities to a higher percentage of entry-level communities, which generally have a higher sales pace, for the year ended May 31, 2021, as compared to the year ended May 31, 2020.

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Backlog (units) at end of period:** | | |
| Wholesale Units - Starlight Homes | 469 | 16 |
| Entry-Level - Starlight Homes | 336 | 203 |
| Entry-Level - Ashton Woods | 149 | 228 |
| Move-Up | 654 | 410 |
| Multi-Move-Up | 274 | 38 |
| Segment Total | 1,882 | 895 |

Backlog consisted of 1,882 homes at May 31, 2021, which is a 110.3% increase from 895 homes in backlog at May 31, 2020. Included in backlog at May 31, 2021 and May 31, 2020 were 469 and 16 wholesale home orders with real estate investors, respectively. Excluding wholesale home sales to real estate investors, backlog increased 60.8% from 879 homes in backlog at May 31, 2020 to 1,413 homes in backlog at May 31, 2021. The increase in backlog is

the result of selling 987 more homes than were closed during the year ended May 31, 2021. The central segment sold 4,747 homes, while closing 3,760 homes during the year ended May 31, 2021.

The sales value of backlog at May 31, 2021 was $712.4 million, a 121.7% increase over the sales value of backlog at May 31, 2020 of $321.3 million. Excluding wholesale home orders to real estate investors, the sales value of backlog at May 31, 2021 was $607.0 million, a 90.9% increase from the sales value of backlog at May 31, 2020 of $318.0 million. The increase in the sales value of backlog, excluding wholesale home orders to real estate investors, is due to the increase in the number of homes in backlog, as discussed above, and an increase in the average sales price of homes in backlog. The average sales price of homes in backlog, excluding wholesale home orders to real estate investors at May 31, 2021, was $430,000 compared to $362,000 at May 31, 2020. The increase in the average sales price of homes in backlog, excluding wholesale home sales to real estate investors, is primarily a result of the continued strong demand for new homes, which has allowed us to raise prices and decrease incentives in communities across all of our markets in the central segment.

*Home gross margins - Consolidated*

The average gross margin from homes closed for the year ended May 31, 2021 increased to 22.3% from 18.0% for the year ended May 31, 2020. The increase in average gross margin for the year ended May 31, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices and reduce incentives in most communities across all of our markets. Although the average sales prices of homes closed decreased for the year ended May 31, 2021, compared to the year ended May 31, 2020, due to the overall shift to lower priced communities, the strong demand for new homes enabled us to raise prices in existing communities throughout the fiscal year. These increases in the average sales prices of homes closed more than covered increases in the costs of materials and labor, thus increasing the average gross margin.

Adjusted gross margin from homes closed for the year ended May 31, 2021 increased to 24.3% from 20.3% for the year ended May 31, 2020. This increase in the adjusted gross margin was due to the improvement in gross margins as described above, offset in part by a decrease in the interest amortized through cost of sales, as a percentage of home sales revenue.

*Home gross margins - East segment*

The average gross margin from homes closed in the east segment for the year ended May 31, 2021 increased to 19.2% from 15.2% for the year ended May 31, 2020. The increase in average gross margin for the year ended May 31, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices and reduce incentives in most communities across all of our markets, although the average sales prices of homes closed was relatively flat for the year ended May 31, 2021, compared to the year ended May 31, 2020, reflecting the overall shift to lower priced communities. These increases in the average sales prices of homes closed more than covered increases in the costs of materials and labor, thus increasing the average gross margin.

*Home gross margins - Central segment*

The average gross margin from homes closed in the central segment for the year ended May 31, 2021 increased to 24.7% from 20.3% for the year ended May 31, 2020. The increase in average gross margin for the year ended May 31, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices and reduce incentives in most communities across all of our markets. Although the average sales prices of homes closed decreased for the year ended May 31, 2021, compared to the year ended May 31, 2020, due to the overall shift to lower priced communities, the strong demand for new homes enabled us to raise prices in existing communities throughout the fiscal year. These increases in the average sales prices of homes closed more than covered increases in the costs of materials and labor, thus increasing the average gross margin.

*Selling, general and administrative expenses (“SG&A”)*

SG&A totaled $266.3 million for the year ended May 31, 2021 compared to $234.8 million for the year ended May 31, 2020. SG&A as a percentage of home sales revenue decreased to 11.9% for the year ended May 31, 2021 from 13.3% for the year ended May 31, 2020. The decrease in SG&A as a percentage of home sales revenue was primarily related to a decrease in sales and marketing costs due to a reduction in advertising and marketing costs, given the strong demand we have been experiencing for new homes across all of our markets, as well as a decrease

in legal settlements and fees incurred in the normal course of business. This was partially offset by an increase in sales commissions due to an increase in the number of home closings with outside broker participation.

*Land sales*

We periodically elect to sell parcels of land or lots. We had $12.9 million in sales of land and lots during the year ended May 31, 2021 and $8.8 million in sales of land and lots during the year ended May 31, 2020.

*Net income*

Net income increased $158.4 million for the year ended May 31, 2021 as compared to the year ended May 31, 2020. The increase in net income for the year ended May 31, 2021 as compared to the year ended May 31, 2020 is primarily attributable to an increase in revenues for the year ended May 31, 2021 as compared to the year ended May 31, 2020, as a result of the 28.2% increase in the number of homes closed during the year ended May 31, 2021 as compared to the year ended May 31, 2020, an increase in home gross margins for the year ended May 31, 2021 as compared to the year ended May 31, 2020, as well as a decrease in SG&A, as a percentage of home sales revenue.

**Liquidity and capital resources**

We currently fund our operations with proceeds from the sales of homes and land, borrowings under our Sixth Amended and Restated Credit Agreement (as amended, the "Restated Revolver"), and long-term financing from senior notes issuances. Our principal uses of cash are land and lot purchases, land development, home construction, repayments under our Restated Revolver, interest costs, overhead, and tax distributions. 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. Based on our existing financial condition and credit relationships, we believe that our operations and capital resources are sufficient to provide for our current and foreseeable capital needs. However, we continue to evaluate the impact of market conditions on our liquidity and will consider, as appropriate, additional funding opportunities. The Company did not access the Restated Revolver to fund operations during the year ended May 31, 2021 and had no borrowings outstanding under the Restated Revolver as of May 31, 2021. The Company's total liquidity, including cash and cash equivalents, restricted cash, and available additional borrowing capacity, was $528.1 million as of May 31, 2021 based on outstanding letters of credit and the borrowing base formula.

*Operating cash flows*

Net cash provided from operating activities for the year ended May 31, 2021 was $72.5 million compared to $53.4 million of net cash provided from operating activities for the year ended May 31, 2020. The primary sources of funds from operations are from the closing of home sales. The increase in net cash provided from operations for the year ended May 31, 2021 was primarily due to an increase in net income, customer deposits and accounts payable, partially offset by an increase in capital spent for inventory, primarily due to new land investments and construction of additional homes. The increase in customer deposits from both retail and wholesale customers is due to the increase in backlog as described above, in combination with higher deposits, as a percentage of the sales price, as well as elongated cycle and delivery times due to lack of availability of trade labor and building materials.

*Investing cash flows*

Net cash used in investing activities was $6.3 million for the year ended May 31, 2021 and $5.8 million for the year ended May 31, 2020. Net cash used in investing activities for the year ended May 31, 2021 was for additions to property and equipment to furnish and/or update furnishings in model homes and sales offices, purchase equipment, and make leasehold improvements.

*Financing cash flows*

Net cash used in financing activities was $39.9 million for the year ended May 31, 2021, compared to $210.6 million of cash provided by financing activities for the year ended May 31, 2020. The funds used in financing activities during the year ended May 31, 2021 consisted of (i) tax distributions of approximately $33.8 million to our Members, (ii) a $4.7 million repayment of a note payable, and (iii) $1.3 million of debt issuance costs paid in

connection with entering into the Restated Revolver. At May 31, 2021, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $243.4 million based on outstanding letters of credit and the borrowing base formula.

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 decreased to 53.7% at May 31, 2021 from 62.8% at May 31, 2020. The net debt to net capitalization ratio 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 decreased to 42.0% at May 31, 2021 from 52.7% at May 31, 2020.

**Inventory**

As of May 31, 2021, 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 | 247 | 8 | 945 | 20 | 39 | 39 | 1,298 |
| Central | 820 | 9 | 1,367 | 8 | 78 | 62 | 2,344 |
| | | | | | | | |
| Company total | 1,067 | 17 | 2,312 | 28 | 117 | 101 | 3,642 |

(1) Includes 16 models under the Ashton Woods brand name and 1 sales offices under the Starlight Homes brand name.
(2) Includes 79 models under the Ashton Woods brand name and 38 sales offices under the Starlight Homes brand name.

As of May 31, 2020, 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 | 365 | 5 | 286 | 267 | 57 | 224 | 1,204 |
| Central | 267 | 10 | 502 | 109 | 71 | 182 | 1,141 |
| | | | | | | | |
| Company total | 632 | 15 | 788 | 376 | 128 | 406 | 2,345 |

(1) Includes 12 models under the Ashton Woods brand name and 3 sales offices under the Starlight Homes brand name.
(2) Includes 93 models under the Ashton Woods brand name and 35 sales offices under the Starlight Homes brand name.

As of May 31, 2021 and 2020, we had the following unsold homes in inventory (in units):

| | As of May 31, | |
|---|---|---|
| | 2021 | 2020 |
| Entry-Level - Starlight Homes | 742 | 398 |
| Entry-Level - Ashton Woods | 47 | 129 |
| Move-Up | 267 | 327 |
| Multi-Move-Up | 39 | 154 |
| Consolidated | 1,095 | 1,008 |

As of May 31, 2021, we controlled the following residential homes and lots (in units):

| | Total Homes | Finished Lots | Land Under Development | Land Held for Future Development | Total Owned | Total Under Option | Total Controlled |
|---|---|---|---|---|---|---|---|
| East | 1,298 | 1,759 | 1,460 | 651 | 5,168 | 14,769 | 19,937 |
| Central | 2,344 | 1,496 | 2,899 | 1,840 | 8,579 | 22,490 | 31,069 |
| Total Company | 3,642 | 3,255 | 4,359 | 2,491 | 13,747 | 37,259 | 51,006 |
| | | | | | | | |
| Percentage of total controlled | 7.1 % | 6.4 % | 8.5 % | 4.9 % | 27.0 % | 73.0 % | 100.0 % |

As of May 31, 2020, we controlled the following residential homes and lots (in units):

| | Total Homes | Finished Lots | Land Under Development | Residential Land Held for Future Development | Total Owned | Total Under Option | Total Controlled |
|---|---|---|---|---|---|---|---|
| East | 1,204 | 1,130 | 1,887 | 716 | 4,937 | 13,872 | 18,809 |
| Central | 1,141 | 1,373 | 1,533 | 589 | 4,636 | 14,129 | 18,765 |
| Total Company | 2,345 | 2,503 | 3,420 | 1,305 | 9,573 | 28,001 | 37,574 |
| | | | | | | | |
| Percentage of total controlled | 6.2 % | 6.7 % | 9.1 % | 3.5 % | 25.5 % | 74.5 % | 100.0 % |

In addition to the 13,747 lots we owned, we controlled, through the use of purchase and option agreements, 37,259 lots at May 31, 2021. Purchase and option agreements that did not require recording at May 31, 2021 under ASC 810, ASC 606, or ASC 470-40 had an aggregate remaining purchase price of $1.6 billion. In connection with these agreements, we had cash deposits of $192.5 million at May 31, 2021. In addition, as of May 31, 2021, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $143.1 million and cash deposits of $36.3 million (See Note 4 to our consolidated financial statements).

During the year ended May 31, 2021, we acquired 11,095 lots for a total purchase price of $555.4 million. We spent $141.7 million on land development during the year ended May 31, 2021. We spent $6.6 million during the year ended May 31, 2021 to furnish and/or update furnishings in model homes and sales offices.

**Aggregate Contractual Commitments and Off-balance Sheet Arrangements**

Our contractual obligations under our debt agreements and lease payments under operating leases as of May 31, 2021 are presented below (in thousands):

| | | Due in Fiscal Year | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| 6.750% senior notes [1] | $ 250,000 | $ — | $ — | $ 250,000 | $ — |
| 9.875% senior notes [1] | $ 255,000 | — | — | — | 255,000 |
| 6.625% senior notes [1] | $ 250,000 | — | — | — | 250,000 |
| Operating leases | $ 19,331 | 3,247 | 6,413 | 5,451 | 4,220 |
| | $ 774,331 | $ 3,247 | $ 6,413 | $ 255,451 | $ 509,220 |

(1) Excludes interest obligations

There have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments, compared to those contained in our audited consolidated financial

statements for the year ended May 31, 2020. Our debt obligations are fully discussed in Note 6 to our consolidated financial statements as of May 31, 2021.

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 May 31, 2021, we had letters of credit and surety bonds outstanding of $6.6 million and $139.3 million, respectively. As of May 31, 2021, we had $43.4 million of unused letter of credit capacity under the Restated Revolver.

On December 13, 2019, the Company issued a $4.7 million note payable to an unaffiliated third party, related to a purchase of land, which was scheduled to mature on July 13, 2022. The note payable had an interest rate of 10.0%. The note was collateralized by the land to which it related and had no recourse to any other assets or to the Company. During the year ended May 31, 2021, the note, along with interest, was paid in full.

At May 31, 2021, we controlled 51,006 lots and homes available to close. Of the 51,006 lots and homes controlled, we owned 27.0%, or 13,747 lots and homes, and 73.0%, or 37,259 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 May 31, 2021, these agreements had an aggregate remaining purchase price of $1.6 billion, net of deposits of $192.5 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $143.1 million and cash deposits of $36.3 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, usually at predetermined prices. In certain instances, we are required under applicable accounting standards to record the land under option as if we own it.

As of May 31, 2021, real estate not owned totaled $96.1 million related to ten lot purchase agreements with $36.3 million of non-refundable deposits. Refer to our discussion in Note 4 to our consolidated financial statements as of May 31, 2021.

As of May 31, 2021, we had an investment in one land development joint venture in which we have less than a 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 home.

As of May 31, 2021, we had investments in two mortgage joint ventures in which the Company offers or plans to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions. The Company does not have a controlling interest in either of the joint ventures. We account for our interest in the mortgage joint ventures under the equity method. Our share of profits is included within equity in earnings in unconsolidated entities in the consolidated statements of income.

**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. Further, higher 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 mortgage interest rates increase significantly, thereby affecting the ability of potential homebuyers to obtain financing for their home purchases, our results of operations will likely be adversely affected.

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**

*General*

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires us to make decisions based upon estimates, assumptions, and factors we consider relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Changes in future economic conditions or other business circumstances may affect the outcomes of our estimates and assumptions. Accordingly, actual results could differ materially from those anticipated. In instances where alternative methods of accounting are permissible under GAAP, we have chosen the method that most appropriately reflects the nature of our business, the results of our operations and our financial condition, and have consistently applied those methods over each of the periods presented in the financial statements.

A summary of the significant accounting policies followed in the preparation of the financial statements is contained in our audited Consolidated Financial Statements for the three year period ended May 31, 2021. Other footnotes in those financial statements describe various elements of the financial statements and the assumptions on which specific amounts were determined. Listed below are those accounting policies and underlying estimates and judgments that we believe are critical and require the use of complex judgment in their application.

*Revenue recognition*

On June 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) applying the modified retrospective method to contracts that were not completed as of June 1, 2018. As a result of our adoption of ASC 606, our accounting policies for revenue recognition are as follows:

With respect to home sale 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 $1.6 million and $6.4 million at May 31, 2021 and May 31, 2020, respectively, and are classified as receivables in the consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled $68.3 million and $17.6 million at May 31, 2021 and May 31, 2020, respectively. Of the customer deposit liabilities at May 31, 2020, $16.5 million was recognized as revenue during the year ended May 31, 2021 upon the closing of the related homes. The Company’s adoption of ASC 606 did not result in a change in the classification of home sale revenues on the consolidated statements of income. See Note 1(l) to our consolidated financial statements included elsewhere in this annual report for additional discussion of warranties and obligations associated with home sales revenue.

With respect to land sale 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 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 May 31, 2021 and May 31, 2020. The Company's adoption of ASC 606 did not result in a change in the classification of land sale revenues on the consolidated statements of income.

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 and in support of our operations. Other revenues consists 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, other miscellaneous customer revenue that is recognized when the related performance obligation is satisfied, and revenue from fee development, development oversight, and/or construction agreements (collectively, "fee build arrangements") entered into by the Company with third-party property owners. In accordance with ASC 606, the Company applies the percentage-of-completion method, using the cost-to-cost approach, to recognize revenue on its fee build arrangements 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 plus the applicable fee. In the course of providing 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 GAAP, are included in the Company's financial services and other revenues and cost of sales - financial services and other revenues on the consolidated statements of income. Financial services and other revenues were previously classified as other expense/(income) on the consolidated statements of income, but are classified as revenue effective June 1, 2018.

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. In addition, the expected revenue to be recognized in any future year relating to unsatisfied performance obligations with an original expected length greater than one year is not material.

*Inventories and cost of sales*

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 ASC Subtopic 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 consolidated financial statements as a component of cost of sales. The amount of the impairment is calculated by subtracting the estimated fair value of the community, less cost to sell, from the carrying value. ASC 360-10 also requires that assets held for sale be stated at the lower of cost or fair value, as determined based on active negotiations with market participants, less costs to sell. Accordingly, land held for sale is stated at the lower of accumulated cost or fair value less costs to sell.

Based on the Company's review of its inventory for impairment during the year ended May 31, 2021, the Company recognized inventory impairment charges totaling $0.1 million, which consisted of $115.8 thousand of impairments on homes in inventory, which is included as a component of cost of sales – homes in the consolidated statements of income, and $31.4 thousand of impairments on land that was held for sale, which is included as a component of cost of sales – land in the consolidated statements of income. The Company recorded inventory impairment charges of $2.9 million during the year ended May 31, 2020, which consisted of $2.7 million of impairments on homes in inventory, which is included as a component of cost of sales – homes in the consolidated statements of income, and $0.2 million of impairments on land that was held for sale, which is included as a component of cost of sales – land in the consolidated statements of income.

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, net of cancellations). This evaluation also includes assumptions with respect to future home sales prices, cost of sales, including levels of sales incentives, the monthly rate of sales, discount rates, and profit margins, which are critical in determining the fair value of the Company's real estate assets. Given the historical variability in the homebuilding industry cycle and the current impacts and uncertainties of COVID-19, 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. 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.

*Deposits and pre-acquisition costs*

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the 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. 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 consolidated statements of income and totaled $2.0 million, $3.1 million, and $2.4 million for the year ended May 31, 2021, 2020, and 2019, respectively.

*Warranty liabilities*

Warranty liabilities are initially established on a per home basis by charging cost of sales 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 consolidated balance sheets.

**Transactions with related parties**

See Note 10 to our consolidated financial statements as of May 31, 2021 for transactions with related parties.

**Pending and recently adopted accounting pronouncements**

In June 2016, the FASB issued Accounting Standards Update ("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 effective date of ASU 2016-13 was amended by the release of ASU 2019-10 in November 2019 and was extended for the Company to fiscal years beginning after December 15, 2022, and for annual and interim periods thereafter. 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 Company is currently evaluating the impact that adoption of ASU 2016-13 will have on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform* ("ASU 2020-04"), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. ASU 2020-04 was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. The Company has not elected to apply any of the expedients or exceptions of ASU 2020-04 to

date and is currently evaluating the impact the guidance under ASU 2020-04 may have on its consolidated financial statements and related disclosures in future periods.

## Item 7A. *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 and LIBOR 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 May 31, 2021, we had no outstanding borrowings under the Restated Revolver.

## Item 8. *Financial Statements and Supplementary Data*

The financial statements are presented on pages 50 through 75.

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## Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Ashton Woods USA L.L.C., which comprise the consolidated balance sheets as of May 31, 2021 and 2020, and the related consolidated statements of income, changes in members' equity, and cash flows for each of the three years in the period ended May 31, 2021, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ashton Woods USA L.L.C. at May 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2021 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

July 14, 2021

A member firm of Ernst & Young Global Limited

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

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 277,514 | $ 255,314 |
| Restricted cash | 7,141 | 3,059 |
| Receivables | 53,474 | 33,683 |
| Inventory | 1,116,391 | 882,002 |
| Property and equipment, net | 8,287 | 11,217 |
| Investments in unconsolidated entities | 7,025 | 4,608 |
| Deposits on real estate under option or contract | 192,471 | 143,989 |
| Other assets | 137,882 | 118,373 |
| Total assets | $ 1,800,185 | $ 1,452,245 |
| | | |
| **Liabilities and members' equity:** | | |
| **Liabilities:** | | |
| Accounts payable | $ 135,783 | $ 70,447 |
| Other liabilities | 201,225 | 167,375 |
| Customer deposits | 68,332 | 17,580 |
| Debt | 744,036 | 746,395 |
| Total liabilities | 1,149,376 | 1,001,797 |
| **Commitments and contingencies (Note 14)** | | |
| **Members' equity** | 650,809 | 450,448 |
| Total liabilities and members' equity | $ 1,800,185 | $ 1,452,245 |

*See accompanying notes to consolidated financial statements.*

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

| | Year ended May 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| **Revenues:** | | | |
| Home sales | $ 2,238,479 | $ 1,767,058 | $ 1,665,997 |
| Land sales | 12,862 | 8,753 | 20,805 |
| Financial services and other revenues | 39,250 | 40,291 | 8,744 |
| | 2,290,591 | 1,816,102 | 1,695,546 |
| **Cost of sales:** | | | |
| Homes | 1,739,732 | 1,449,622 | 1,386,429 |
| Land | 9,798 | 7,236 | 19,563 |
| Financial services and other revenues | 28,223 | 28,901 | 2,016 |
| | 1,777,753 | 1,485,759 | 1,408,008 |
| Gross profit | 512,838 | 330,343 | 287,538 |
| **Other expense (income):** | | | |
| Selling, general and administrative | 266,348 | 234,806 | 211,164 |
| Interest expense | 14,295 | 16,020 | 7,591 |
| Depreciation and amortization | 8,854 | 9,639 | 10,483 |
| Loss on extinguishment or modification of debt | 182 | — | 2,489 |
| Other income, net | (669) | (183) | (884) |
| | 289,010 | 260,282 | 230,843 |
| Equity in earnings of unconsolidated entities | 10,353 | 5,755 | 3,898 |
| Net income | $ 234,181 | $ 75,816 | $ 60,593 |

*See accompanying notes to consolidated financial statements.*

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

| | Class A interest | Class B interests | Class C interests | Total members' equity |
|---|---|---|---|---|
| **Members' equity at May 31, 2018** | $ 129,206 | $ 28,033 | $ 190,670 | $ 347,909 |
| Net income | 23,578 | 5,795 | 31,220 | 60,593 |
| Distributions | (8,329) | (2,047) | (11,029) | (21,405) |
| **Members' equity at May 31, 2019** | $ 144,455 | $ 31,781 | $ 210,861 | $ 387,097 |
| Net income | 29,502 | 7,251 | 39,063 | 75,816 |
| Distributions | (4,851) | (1,192) | (6,422) | (12,465) |
| **Members' equity at May 31, 2020** | $ 169,106 | $ 37,840 | $ 243,502 | $ 450,448 |
| Net income | 91,126 | 22,396 | 120,659 | 234,181 |
| Distributions | (13,160) | (3,234) | (17,426) | (33,820) |
| **Members' equity at May 31, 2021** | $ 247,072 | $ 57,002 | $ 346,735 | $ 650,809 |

*See accompanying notes to consolidated financial statements.*

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

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| | (Unaudited) | | |
| **Cash flows provided by (used in) operating activities:** | | | |
| Net income | $ 234,181 | $ 75,816 | $ 60,593 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Equity in earnings of unconsolidated entities | (10,353) | (5,755) | (3,898) |
| Returns on investments in unconsolidated entities | 7,683 | 4,503 | 1,997 |
| Long-term compensation expense | 18,838 | 7,114 | 4,427 |
| Loss on extinguishment or modification of debt | 182 | — | 2,489 |
| Inventory impairments | 147 | 2,914 | 4,304 |
| Depreciation and amortization | 8,854 | 9,639 | 10,483 |
| Changes in operating assets and liabilities: | | | |
| Inventory | (231,519) | (3,031) | (70,630) |
| Receivables | (19,791) | (7,967) | (7,141) |
| Deposits on real estate under option or contract | (48,482) | (21,660) | (42,813) |
| Other assets | (18,383) | (15,079) | 20,613 |
| Accounts payable | 65,336 | (17,096) | 22,305 |
| Other liabilities | 15,027 | 27,192 | (12,049) |
| Customer deposits | 50,752 | (3,236) | (8,715) |
| Net cash provided by (used in) operating activities | 72,472 | 53,354 | (18,035) |
| **Cash flows used in investing activities:** | | | |
| Returns of investments in unconsolidated entities | 1,225 | 1,860 | 3,749 |
| Investments in unconsolidated entities | (980) | — | — |
| Additions to property and equipment | (6,554) | (7,616) | (9,781) |
| Net cash used in investing activities | (6,309) | (5,756) | (6,032) |
| **Cash flows (used in) provided by financing activities:** | | | |
| Borrowings from revolving credit facility | — | 1,229,200 | 1,065,900 |
| Repayments of revolving credit facility | — | (1,249,627) | (1,045,473) |
| Proceeds from issuance of debt | — | 250,000 | 253,218 |
| Payment of debt issuance costs | (1,336) | (6,522) | (5,117) |
| Repayment of debt | — | — | (250,000) |
| Payment of premiums on extinguishment of debt | — | — | (585) |
| Repayment of note payable | (4,725) | — | — |
| Members' tax distributions | (33,820) | (12,465) | (21,405) |
| Net cash (used in) provided by financing activities | (39,881) | 210,586 | (3,462) |
| Change in cash, cash equivalents, and restricted cash | 26,282 | 258,184 | (27,529) |
| **Cash, cash equivalents, and restricted cash, beginning of period** | 258,373 | 189 | 27,718 |
| **Cash, cash equivalents, and restricted cash, end of period** | $ 284,655 | $ 258,373 | $ 189 |
| **Supplemental cash flow information:** | | | |
| Cash paid for interest, net of amounts capitalized | $ 20,879 | $ 10,835 | $ 7,557 |

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

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

| | As of May 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Cash and cash equivalents | $ 277,514 | $ 255,314 | $ — |
| Restricted cash | 7,141 | 3,059 | 189 |
| **Total cash, cash equivalents, and restricted cash** | $ 284,655 | $ 258,373 | $ 189 |

*Supplemental disclosures of cash flows information:*

| | Year ended May 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Right-of-use assets obtained in exchange for new operating lease liabilities | $ 3,677 | $ 99 | $ — |

*See accompanying notes to consolidated financial statements.*

**Note 1 — Basis of Presentation and Significant Accounting Policies**

***(a) Operations***

Ashton Woods USA L.L.C. (the "Company" or "Ashton Woods"), operating as Ashton Woods Homes, 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 specifically tailored to the single-family rental industry, which we typically sell under bulk sales agreements to real estate investors. We refer to such sales as our wholesale homes sales. As of May 31, 2021, the Company had operations in the following markets:

| | |
|---|---|
| **East:** | Atlanta, Coastal Carolinas, Orlando, Raleigh, and Southwest Florida |
| **Central:** | Austin, Dallas, Houston, Phoenix, and San Antonio |

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

In addition, the Company offers or plans 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 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.

***(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 consists of amounts held in restricted 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 for 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") Subtopic 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 consolidated financial statements as a component of cost of sales. The amount of the impairment is calculated by subtracting the estimated fair value of the community, less cost to sell, from the carrying value. ASC 360-10 also requires that assets held for sale be stated at the lower of cost or fair value, as determined based on active negotiations with market participants, less costs to sell. Accordingly, land held for sale is stated at the lower of accumulated cost or fair value less costs to sell.

Based on the Company's review of its inventory for impairment during the year ended May 31, 2021, the Company recognized inventory impairment charges totaling $0.1 million, which consisted of $115.8 thousand of impairments on homes in inventory, which is included as a component of cost of sales – homes in the consolidated statements of income, and $31.4 thousand of impairments on land that was held for sale, which is included as a component of cost of sales – land in the consolidated statements of income. The Company recorded inventory impairment charges of $2.9 million during the year ended May 31, 2020, which consisted of $2.7 million of impairments on homes in inventory, which is included as a component of cost of sales – homes in the consolidated statements of income, and $0.2 million of impairments on land that was held for sale, which is included as a component of cost of sales – land in the consolidated statements of income.

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, net of cancellations). This evaluation also includes assumptions with respect to future home sales prices, cost of sales, including levels of sales incentives, the monthly rate of sales, discount rates, profit margins, and potential buyers, which are critical in determining the fair value of the Company's real estate assets. Given the historical variability in the homebuilding industry cycle and the current impacts and uncertainties of COVID-19, 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. 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 May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Closing funds due | $ 1,611 | $ 6,373 |
| Land development receivables | 34,163 | 13,957 |
| MUD receivables [1] | 10,626 | 10,280 |
| Other receivables [2] | 7,074 | 3,073 |
| | $ 53,474 | $ 33,683 |

(1) Includes certain land development costs to be reimbursed by six and four Municipal Utility Districts in Houston, Texas at May 31, 2021 and May 31, 2020, respectively.

(2) Includes amounts due from utility companies, rebates due from trade partners, and drawn amounts due from salespersons.

***(f) Real estate not owned***

Real estate not owned reflects the future purchase price of lots under option purchase agreements 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 plans 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 the 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 recognize any other-than-temporary impairments during the year ended May 31, 2021 or 2020 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 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. 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 consolidated statements of income and totaled $2.0 million, $3.1 million, and $2.4 million for the year ended May 31, 2021, 2020, and 2019, respectively.

***(i) Property and equipment***

Property and equipment are 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 May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Office furniture and equipment | $ 3,134 | $ 3,852 |
| Sales offices, design studios, and model furnishings | 25,794 | 32,863 |
| Leasehold improvements | 2,576 | 2,414 |
| | 31,504 | 39,129 |
| Accumulated depreciation and amortization(1) | (23,217) | (27,912) |
| | $ 8,287 | $ 11,217 |

(1) Net of retirements and disposals.

Depreciation and amortization expense was approximately $8.9 million, $9.6 million, and $10.5 million for the year ended May 31, 2021, 2020, and 2019, respectively.

***(j) Revenue recognition***

With respect to home sale 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 $1.6 million and $6.4 million at May 31, 2021 and May 31, 2020, respectively, and are classified as receivables in the consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled $68.3 million and $17.6 million at May 31, 2021 and May 31, 2020, respectively. Of the customer deposit liabilities at May 31, 2020, $16.5 million was recognized as revenue during the year ended May 31, 2021 upon the closing of the related homes. Also included in home sale revenues are our wholesale home sales offered under our Starlight Homes brand. Wholesale home sales consist of completed homes and or land in future communities or future phases of existing communities 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 sale revenues.

With respect to land sale 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 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 May 31, 2021 and May 31, 2020.

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 in support of our operations. Other revenues consists 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, other miscellaneous customer revenue that is recognized when the related performance obligation is satisfied, and revenue from fee development, development oversight, and/or construction agreements (collectively, "fee build arrangements") entered into by the Company with third-party property owners. In accordance with ASC 606, the Company applies the percentage-of-completion method, using the cost-to-cost approach, to recognize revenue on its fee build arrangements 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 plus the applicable fee. In the course of providing 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 on the 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. In addition, the expected revenue to be recognized in any future year relating to unsatisfied performance obligations with an original expected length greater than one year is not material.

***(k) Prepaid expenses***

Included in other assets are prepaid expenses of approximately $14.0 million and $8.9 million as of May 31, 2021 and May 31, 2020, respectively, which primarily represent prepaid insurance, fees, permits, and rent.

### *(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 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 consolidated balance sheets.

Presented below are summaries of the activity in the Company’s warranty liability account for the year ended May 31, 2021, 2020, and 2019 (in thousands):

| | Year ended May 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **2019** |
| Warranty liability, beginning of period | $ 10,122 | $ 11,933 | $ 10,342 |
| Costs accrued during period | 13,033 | 11,275 | 14,037 |
| Costs incurred during period | (13,115) | (13,086) | (12,446) |
| Warranty liability, end of period | $ 10,040 | $ 10,122 | $ 11,933 |

### *(m) Advertising costs*

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expenses in the consolidated statements of income, was approximately $4.7 million, $12.5 million, and $11.9 million for the year ended May 31, 2021, 2020, and 2019, respectively.

### *(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 revolving credit facility and in the indentures governing its 6.750% Senior Notes due 2025 (the “6.750% Notes”), its 9.875% Senior Notes due 2027 (the “9.875% Notes”), and its 6.625% Senior Notes due 2028 (the “6.625% Notes” and together with the 6.750% Notes and the 9.875% Notes, the “Senior Notes”). Any tax distributions made to the members are treated as a reduction of equity. The Company made tax distributions to its members of $33.8 million, $12.5 million, and $21.4 million during the year ended May 31, 2021, 2020, and 2019, respectively.

### *(p) Use of estimates*

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

### *(q) Segments*

ASC Subtopic 280, *Segment Reporting* ("ASC 280") provides standards 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 is an operating segment. In accordance with the aggregation criteria defined in ASC 280, the Company has aggregated its homebuilding operations into two reportable segments as follows:

1) East: Atlanta, Coastal Carolinas, 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 15 for further discussion of the Company's reportable segments.

### *(r) Risks and uncertainties*

The worldwide spread of the novel coronavirus and its variants ("COVID-19") has caused broad business and social disruption across many industries and locations, both domestically and abroad. Further, the spread of COVID-19 has also caused significant volatility in U.S. and international debt and equity markets. To date, the COVID-19 pandemic has caused significant negative impacts across our industry, from trade availability, increases in the cost and availability of certain building materials and appliances, suspension of services in, and approvals by, local municipalities, delays in homes closings, increased cancellations, various and differing shelter in place orders by state, county, and other local municipalities, and disruptions in normal operating procedures, to volatile economic conditions and a decline in consumer confidence. The state and local governments in all of the markets in which we operate have designated residential construction as an essential business or as critical infrastructure, and are currently allowing the construction and sales of homes. Although there is optimism about the ongoing vaccine rollouts and decreasing infection and hospitalization rates, there remains significant uncertainty regarding how COVID-19 and its related effects will impact the U.S. and global economies going forward, including the level of unemployment, availability of debt, capital, the health of the mortgage markets, consumer confidence, and demand for our homes, and in turn, the impact it will have on our results.

### *(s) Subsequent events*

The Company has evaluated subsequent events through July 14, 2021. This date represents the date on which the consolidated financial statements were available to be issued.

Effective July 15, 2021, the Company increased the number of directors from five to seven and elected two at-large directors, R. David Kelly and Arden M. Karson.

On July 2, 2021, the Company and Ashton Woods Finance Co. (together with the Company, the "Issuers") issued a notice of conditional full redemption (the "Conditional Redemption Notice") pursuant to which the Issuers will, subject to the condition that the Issuers have received on or prior to the Redemption Date (as defined below) net proceeds from one or more debt financing transactions in an amount sufficient to purchase all Notes (as defined below) at the Redemption Price (as defined below), redeem all $250 million aggregate principal amount of their outstanding 6.750% Senior Notes due 2025 (the "Notes"), on August 2, 2021 (as such date may be extended or rescinded, the "Redemption Date") at a redemption price equal to 103.375% of the aggregate principal amount of the Notes being redeemed, plus accrued and unpaid interest on the outstanding principal amount of such Notes to, but excluding, the Redemption Date (collectively, the "Redemption Price"). In the Issuers' discretion, the Redemption Date may be delayed until such time as the condition shall be satisfied, or the redemption may not occur in the event that the condition shall not have been satisfied by the Redemption Date, or by the Redemption Date so delayed.

On July 14, 2021, the Board of Directors of the Company approved tax distributions of $25.9 million to its Members based on estimates of its Members' tax liability related to their share of the Company's taxable income.

**Note 2 — Pending and Recently Adopted Accounting Pronouncements**

In June 2016, the FASB issued Accounting Standards Update ("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 effective date of ASU 2016-13 was amended by the release of ASU 2019-10 in November 2019 and was extended for the Company to fiscal years beginning after December 15, 2022, and for annual and interim periods thereafter. 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 Company is currently evaluating the impact that adoption of ASU 2016-13 will have on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform* (“ASU 2020-04”), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. ASU 2020-04 was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. The Company has not elected to apply any of the expedients or exceptions of ASU 2020-04 to date and is currently evaluating the impact the guidance under ASU 2020-04 may have on its consolidated financial statements and related disclosures in future periods.

**Note 3 — Inventory**

Inventory consisted of the following at May 31, 2021 and May 31, 2020 (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Homes under construction and finished homes | $ 683,615 | $ 545,079 |
| Finished lots | 269,547 | 215,419 |
| Land under development | 114,931 | 86,964 |
| Land held for future development | 44,597 | 28,231 |
| Land held for sale | 3,701 | 6,309 |
| | $ 1,116,391 | $ 882,002 |

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 $14.3 million, $16.0 million, and $7.6 million for the year ended May 31, 2021, 2020, and 2019, respectively, in the consolidated statements of income.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the year ended May 31, 2021, 2020, and 2019 (in thousands):

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Capitalized interest, beginning of period | $ 21,646 | $ 19,040 | $ 13,824 |
| Interest incurred | 63,243 | 57,753 | 47,667 |
| Interest amortized to cost of sales | (45,984) | (39,127) | (34,860) |
| Interest expensed | (14,295) | (16,020) | (7,591) |
| Capitalized interest, end of period | $ 24,610 | $ 21,646 | $ 19,040 |

**Note 4 — Other Assets**

Other assets at May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Real estate not owned | $ 96,089 | $ 79,738 |
| Right-of-use assets[1] | 13,114 | 13,121 |
| Prepaid expenses | 13,993 | 8,885 |
| Architecture plans | 3,437 | 4,626 |
| Deferred financing fees | 3,210 | 2,725 |
| Pre-acquisition costs | 5,905 | 7,161 |
| Other deposits | 2,134 | 2,117 |
| | $ 137,882 | $ 118,373 |

(1) See Note 14, *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 and terms 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 benefit from potentially 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 May 31, 2021 and May 31, 2020, 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 an arrangement. In the ordinary course of business, 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 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. The Company has one lot purchase agreement with an unaffiliated investor group that is accounted for pursuant to ASC 470-40. At May 31, 2021 and May 31, 2020, the Company recorded real estate not owned of $16.0 million and $24.9 million, respectively, related to this lot purchase agreement accounted for pursuant to ASC 470-40.

Also, based on the provisions of ASC Subtopic 606-10, *Revenue From Contracts With Customers*, a seller may not recognize as a sale property it sells if an entity 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 entity 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 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 as "Liabilities for real estate not owned" within other liabilities. At May 31, 2021 and May 31, 2020, the Company recorded real estate not owned of $80.1 million and $54.9 million, respectively, for the sale of lots because its repurchase agreements related to this 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.

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 on a per home basis.

Deferred financing fees included in other assets are comprised of costs incurred in connection with financings. The Company incurred deferred financing fees of $1.3 million during the year ended May 31, 2021 as a result of the current year amendment to the Company's revolving credit facility. In addition, the Company incurred deferred financing fees of $6.5 million during the year ended May 31, 2020 as a result of the issuance of the 6.625% Notes and the amendment to the Company's revolving credit facility. See below in Note 6.

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 May 31, 2021, the Company had an equity investment in one land joint venture with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates (the beneficial owners of the Company's equity and their affiliates, individually and collectively, 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 Company's share of the unconsolidated entity's earnings on the sale of lots to the Company is deferred until homes related to the lots purchased by the Company are delivered and title passes to a homebuyer. The partners generally share profits and losses in accordance with their ownership interests. As of May 31, 2021 and May 31, 2020, the Company had recorded $0.6 million and $1.1 million, respectively, for its investment in this unconsolidated entity in the 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 $6.0 thousand for these services that is included in other income in the consolidated statements of income. The Company is also a party to a lot purchase agreement with the joint venture, which required a 10% deposit and that permits but does not require the Company to purchase finished lots owned by the land joint venture, and has no specific performance requirements for the Company. Lot prices are generally negotiated prices that approximate fair value when the purchase contract is signed. As of May 31, 2021, the total purchase price of lots remaining to be purchased under this agreement was approximately $4.7 million. As of May 31, 2021, the joint venture had no debt outstanding.

The Company offers or plans 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 the mortgage joint ventures is non-recourse to the Company.

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of May 31, 2021 and May 31, 2020 and for the year ended May 31, 2021, 2020, and 2019 was as follows (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Assets: | | |
| Cash | $ 10,829 | $ 5,650 |
| Mortgage notes receivable | 93,865 | 54,472 |
| Real estate | 1,764 | 9,384 |
| Other | 365 | 713 |
| Total assets | $ 106,823 | $ 70,219 |
| | | |
| Liabilities and equity: | | |
| Liabilities: | | |
| Accounts payable and other accruals | $ 4,960 | $ 5,274 |
| Notes payable [1] | 87,646 | 55,643 |
| Total liabilities | 92,606 | 60,917 |
| Equity | 14,217 | 9,302 |
| Total liabilities and equity | $ 106,823 | $ 70,219 |

(1) The notes payable balance at May 31, 2021 is comprised of $87.6 million outstanding on two warehouse lines which are each non-recourse to Ashton Woods. The notes payable balance at May 31, 2020 is comprised of $52.0 million outstanding on two warehouse lines and $3.6 million of secured debt, all of which are non-recourse to the Company.

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Revenues: | | | |
| Lot sales | $ 9,406 | $ 5,658 | $ 11,509 |
| Financial services | 34,912 | 20,753 | 12,842 |
| Total revenues | 44,318 | 26,411 | 24,351 |
| | | | |
| Gross profit | 24,966 | 14,824 | 10,606 |
| | | | |
| General and administrative expenses: | | | |
| Lot sales | 11 | — | 47 |
| Financial services | 3,844 | 3,164 | 2,116 |
| Total general and administrative expenses | 3,855 | 3,164 | 2,163 |
| | | | |
| Net income | $ 21,111 | $ 11,660 | $ 8,443 |

**Note 6 — Debt**

Debt at May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| 6.750% Notes [(1)] | $ 247,559 | $ 246,878 |
| 9.875% Notes [(2)] | 250,163 | 249,182 |
| 6.625% Notes [(3)] | 246,314 | 245,610 |
| Note payable | — | 4,725 |
| | $ 744,036 | $ 746,395 |

(1) Net of $2.4 million and $3.1 million of unamortized deferred financing costs as of May 31, 2021 and May 31, 2020, respectively.

(2) Net of $3.4 million and $4.2 million of unamortized deferred financing costs and $1.4 million and $1.6 million of unamortized discount as of May 31, 2021 and May 31, 2020, respectively.

(3) Net of $3.7 million and $4.4 million of unamortized deferred financing costs as of May 31, 2021 and May 31, 2020, respectively.

***The 6.750% Notes***

On August 8, 2017, the Company issued $250 million principal amount of 6.750% Senior Notes due 2025 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). The 6.750% Notes were issued at a price of 100.00% of the principal amount to yield 6.750%.

The 6.750% Notes mature on August 1, 2025. Interest is payable on February 1 and August 1 of each year. The 6.750% 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 6.750% 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 6.750% Notes are required to be guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 6.750% 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 and (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 6.750% Notes) (all such Restricted Subsidiaries providing guarantees, the "Guarantors"). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage Holdings L.L.C. ("AW Mortgage"), which holds the interests in the Company's two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 6.750% Notes. As of and for the fiscal year ended May 31, 2021, AW Mortgage had $17.1 million of revenue, $9.7 million of operating income, $6.4 million of assets and no liabilities.

The Company has the option to redeem the 6.750% Notes at any time or from time to time, in whole or in part, (a) from August 1, 2020 until August 1, 2023, at certain redemption prices set forth in the indenture governing the 6.750% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (b) on or after August 1, 2023, 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 6.750% 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 May 31, 2021, the Company was in compliance with the covenants in the indenture governing the 6.750% Notes.

*The 9.875% Notes*

On March 27, 2019, the Company issued $255.0 million principal amount of 9.875% Senior Notes due 2027 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 9.875% Notes were issued at a price of 99.301% of the principal amount to yield 10.000%.

The 9.875% Notes mature on April 1, 2027. Interest is payable on the 9.875% Notes on April 1 and October 1 of each year. The 9.875% 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 9.875% 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 9.875% Notes are jointly and severally guaranteed by the Guarantors. The obligations under the 9.875% Notes are required to be guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 9.875% 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 and (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 9.875% Notes). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage, which holds the interests in the Company's two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 9.875% Notes. As of and for the fiscal year ended May 31, 2021, AW Mortgage had $17.1 million of revenue, $9.7 million of operating income, $6.4 million of assets and no liabilities.

The indenture governing the 9.875% Notes gives the Company the option to redeem the 9.875% Notes at any time or from time to time, in whole or in part, (a) until April 1, 2022, 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 9.875% Notes, (b) on or after April 1, 2022 until April 1, 2025, at certain redemption prices set forth in the indenture governing the 9.875% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after April 1, 2025, 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 9.875% Notes contains a number of covenants, which are substantially the same as those contained in the indenture governing the 6.750% Notes.

As of May 31, 2021, the Company was in compliance with the covenants in the indenture governing the 9.875% Notes.

*The 6.625% Notes*

On January 23, 2020, the Company issued $250.0 million principal amount of 6.625% Senior Notes due 2028 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 6.625% Notes were issued at a price of 100.00% of the principal amount to yield 6.625%.

The 6.625% Notes mature on January 15, 2028. Interest is payable on the 6.625% Notes on January 15 and July 15 of each year. The 6.625% 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 6.625% 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 6.625% Notes are jointly and severally guaranteed by the Guarantors. The obligations under the 6.625% Notes are required to be guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 6.625% 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 and (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 6.625% Notes). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage, which holds the interests in the Company's two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 6.625% Notes. As of and for the fiscal year ended May 31, 2021, AW Mortgage had $17.1 million of revenue, $9.7 million of operating income, $6.4 million of assets and no liabilities.

The indenture governing the 6.625% Notes gives the Company the option to redeem the 6.625% Notes at any time or from time to time, in whole or in part, (a) until January 15, 2023, 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 6.625% Notes, (b) on or after January 15, 2023 until January 15, 2026, at certain redemption prices set forth in the indenture governing the 6.625% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) 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 6.625% Notes contains a number of covenants, which are substantially the same as those contained in the indentures governing the 6.750% Notes and 9.875% Notes.

As of May 31, 2021, the Company was in compliance with the covenants in the indenture governing the 6.625% Notes.

***Senior Unsecured Revolving Credit Facility***

On February 2, 2021, the Company entered into the Restated Revolver, which converted the Company's prior revolving credit facility from a secured to an unsecured facility, thereby releasing all of the collateral that secured the prior facility. The Restated Revolver provides for, among other things, (i) an aggregate revolving loan commitment of up to $250.0 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 $300.0 million in the future (dependent upon Company needs and available lender commitments), (ii) a maturity date of February 2, 2025, and (iii) modification of certain covenants and restating the agreement to reflect such changes.

Interest accrues on borrowings under the Restated Revolver at a London Interbank Offered Rate (LIBOR) or alternative base rate, 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;
- A maximum Leverage Ratio;
- A minimum Interest Coverage Ratio; 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.

The Restated Revolver permits certain tax distributions to Members and permits certain other distributions to Members if certain conditions are met. As of May 31, 2021, the Company was in compliance with the covenants in the Restated Revolver.

At May 31, 2021, there were no borrowings outstanding under the Restated Revolver and $6.6 million of letters of credit outstanding. As of May 31, 2021, the Company had available additional borrowing capacity of $243.4

million under the Restated Revolver based on outstanding borrowings on the Restated Revolver, outstanding letters of credit, and the borrowing base formula.

The Company recorded a $0.2 million loss on the extinguishment of debt during the year ended May 31, 2021 comprised of a write-off of unamortized deferred financing fees in connection with entering into the Restated Revolver. The Company incurred deferred financing fees during the year ended May 31, 2021 of $1.3 million in connection with entering into the Restated Revolver.

***Note Payable***

On December 13, 2019, the Company issued a $4.7 million note payable to an unaffiliated third party, related to a purchase of land, which was scheduled to mature on July 13, 2022. The note payable had an interest rate of 10.0%. The note was collateralized by the land to which it related and had no recourse to any other assets or to the Company. During the year ended May 31, 2021, the note, along with interest, was paid in full.

**Note 7 — Other Liabilities**

Other liabilities at May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Liabilities for real estate not owned (1) | $ 59,740 | $ 55,210 |
| Salaries, bonuses and benefits | 52,232 | 35,080 |
| Lease liabilities (2) | 14,616 | 14,410 |
| Accrued interest | 16,159 | 15,718 |
| Warranty accruals | 10,040 | 10,122 |
| Accrued long-term compensation | 27,844 | 12,674 |
| Accrued land development | 4,719 | 5,960 |
| Accrued real estate taxes | 3,810 | 4,027 |
| Other | 12,065 | 14,174 |
| | $ 201,225 | $ 167,375 |

(1) Net of deposits of $36.3 million and $23.3 million in May 31, 2021 and May 31, 2020, respectively.
(2) See Note 14, *Leases,* for additional information.

**Note 8 — Customer Deposits**

Customer deposits at May 31, 2021 and May 31, 2020 consisted of the following (in thousands):

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| Customer deposits - retail | $ 40,680 | $ 15,932 |
| Customer deposits - wholesale | 27,652 | 1,648 |
| | $ 68,332 | $ 17,580 |

Customer deposits - retail are deposits on retail homes that are under purchase contracts that have not yet closed. Customer deposits - wholesale 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 three 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, the majority of which are now held by Little Shots, and (3) Class C Membership Interests created in June 2010, the majority of which are held by Little Shots. 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.

Effective January 27, 2021, the Company and Little Shots entered into a fourth amendment to the Regulations to: (1) increase the maximum size of the Board of Directors from the current five directors to nine directors, (2) designate a new class of at large directors comprised of up to four members, and (3) eliminate provisions that are no longer necessary. The number of directors as of May 31, 2021 was five.

At May 31, 2021, there were 20,628,729 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 | 38.91 % | 100.00 % |
| Class B | 1,922,151 | 9.32 % | 97.43 % |
| Class C | 8,167,244 | 39.59 % | 76.84 % |
| **Total Little Shots Nevada L.L.C.** | 18,116,595 | 87.82 % | |
| | | | |
| **Various Holders** | | | |
| Class B | 50,649 | 0.25 % | 2.57 % |
| Class C | 2,461,485 | 11.93 % | 23.16 % |
| | 20,628,729 | 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 $800 per home closing quarterly, in arrears, for these services, which is included in selling, general and administrative expenses in the consolidated statements of income. The Company incurred fees of $5.2 million, $4.1 million, and $3.5 million during the years ended May 31, 2021, 2020 and 2019, respectively, under the services agreement. As of May 31, 2021 and May 31, 2020, the balance due to the Investors under the terms of the service agreement was $2.1 million and $1.4 million, respectively, and was included in other liabilities in the consolidated balance sheets.

*Office lease*

The Company is a party to a lease as a lessee with the Investors to rent approximately 8,500 square feet of commercial space in Dallas, Texas. The Company has 19 months remaining on the lease as of May 31, 2021. Total minimum lease payments due under the lease were $0.2 million and $0.3 million as of May 31, 2021 and May 31, 2020, respectively.

*Lot purchase agreements*

The Company is a party to six lot purchase agreements with the Investors. An initial deposit ranging from 10% to 20% was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is required to record three of these lot purchase agreements as real estate not owned and liabilities for real estate not owned in the consolidated balance sheets. As of May 31, 2021, the total purchase price of lots remaining to be purchased under the six lot purchase agreements was approximately $30.4 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 an equity investment of less than 50% in the joint venture and does not have a controlling interest in the unconsolidated entity. Also, the Company is a party to a lot purchase agreement with the joint venture to purchase 42 lots as of May 31, 2021. A 10% deposit was required under the purchase agreement and there are no specific performance requirements for the Company. As of May 31, 2021, the total purchase price of lots remaining to be purchased was $4.7 million. As of May 31, 2021, the joint venture had no debt outstanding.

*Sales of completed homes*

The Company entered into a sale agreement with the Investors during the year ended May 31, 2021. In accordance with the agreement, the Company reported 152 wholesale home orders to the Investors for an aggregate purchase price of $31.1 million. The Company has not closed on any of these sales during the year ended May 31, 2021. As of May 31, 2021, there was a deposit of $3.1 million in connection with this agreement.

*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 for and build a total of 252 homes for a fee. The Company did not commence construction on any of these homes during the year ended May 31, 2021.

**Note 11 — Long-Term Incentive Plan**

The Company has made grants to its executive officers and certain officers and employees under the Second Amended and Restated Performance Share Plan (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 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 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 year ended May 31, 2021:

| | Full-value shares | Appreciation-only shares | Total shares |
|---|---|---|---|
| Outstanding performance shares as of May 31, 2020 | 239,633 | 703,922 | 943,555 |
| Performance shares awarded during the period | 119,640 | 239,280 | 358,920 |
| Shares forfeited during the period | (370) | (740) | (1,110) |
| Fully vested performance shares paid | (75,106) | (83,995) | (159,101) |
| Total outstanding performance shares as of May 31, 2021 | 283,797 | 858,467 | 1,142,264 |
| | | | |
| Total vested performance shares as of May 31, 2021 | 176,198 | 643,273 | 819,471 |

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 expenses in the consolidated statements of income.

The total number of performance shares vested as of May 31, 2021 and May 31, 2020 was 819,471 and 695,110, respectively. The Company recorded $18.8 million, $7.1 million and $4.4 million for the years ended May 31, 2021, 2020 and 2019, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the years ended May 31, 2021, 2020 and 2019, $3.7 million (159,101 units), $2.9 million (144,394 units), and $2.5 million (135,933 units), respectively, of vested performance shares were paid out to employees. As of May 31, 2021 and May 31, 2020, the Company's liability for the performance shares was $27.8 million and $12.7 million, respectively, which is recorded in other liabilities in the consolidated balance sheets.

**Note 12 — Employee Benefit Plan**

The Company has a 401(k) plan for all full and eligible part-time employees who have been with the Company for a period of three months or more. Through March 31, 2020, the Company matched 50% of employees' voluntary contributions up to 6% of employees' compensation, limited by the maximum allowed under federal guidelines. On April 1, 2020, the Company suspended the match of employees' voluntary contributions, and reinstated the match effective August 1, 2020. The total amount of Company matches funded for the employees' voluntary contributions for the years ended May 31, 2021, 2020, and 2019 was $1.6 million, $1.9 million, and $2.1 million, respectively, of which approximately $246.4 thousand, $191.3 thousand, and $160.1 thousand was funded by forfeitures for the year ended May 31, 2021, 2020, and 2019, respectively. The remaining Company match is included within selling, general and administrative expenses in the consolidated statements of income.

**Note 13 — Fair Value Disclosures**

ASC Subtopic 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, notes payable (other than Senior Notes), and the Restated Revolver, as reported in the accompanying 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) 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 Senior Notes at May 31, 2021 and May 31, 2020:

| | | May 31, 2021 | | May 31, 2020 | |
|---|---|---|---|---|---|
| | **Fair Value Hierarchy** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| **Liabilities:** | | (in thousands) | | | |
| 6.750% Notes | Level 2 | $ 247,559 | $ 258,750 | $ 246,878 | $ 237,500 |
| 9.875% Notes | Level 2 | 250,163 | 288,150 | 249,182 | 263,288 |
| 6.625% Notes | Level 2 | 246,314 | 268,075 | 245,610 | 226,875 |
| | | $ 744,036 | $ 814,975 | $ 741,670 | $ 727,663 |

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

**Note 14 — 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 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 the most recent bonus paid or target 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 provides deposits under various contracts and commitments. At May 31, 2021 and May 31, 2020, the Company had letters of credit outstanding of $6.6 million and $2.7 million, respectively, and surety bonds outstanding of $139.3 million and $73.6 million, respectively. As of May 31, 2021, the Company had $43.4 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 May 31, 2021, the Company has made nonrefundable deposits of $224.3 million, which includes $36.3 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 $1.6 billion as of May 31, 2021.

*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 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 consolidated balance sheets, while lease liabilities are classified within other liabilities on the consolidated balance sheets. Right-of-use assets and lease liabilities were $13.1 million and $14.6 million at May 31, 2021, respectively, and $13.1 million and $14.4 million at May 31, 2020, respectively. During the year ended May 31, 2021 and 2020, there were $3.7 million and $0.1 million, respectively, of additions to the right-of-use assets under operating leases. Payments on lease liabilities during the year ended May 31, 2021 and 2020 totaled $4.4 million and $4.0 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 year ended May 31, 2021, 2020, and 2019, our total lease expense was approximately $5.1 million, $5.6 million, and $4.9 million, respectively, inclusive of short-term lease costs. Sublease income, short-term lease costs, and variable lease costs are not material to the consolidated financial statements.

The future minimum lease payments required under our leases as of May 31, 2021 are as follows (in thousands):

| | | |
|---|---|---|
| Year ending May 31, 2022 | $ | 3,247 |
| Year ending May 31, 2023 | | 3,427 |
| Year ending May 31, 2024 | | 2,986 |
| Year ending May 31, 2025 | | 2,803 |
| Year ending May 31, 2026 | | 2,648 |
| Thereafter | | 4,220 |
| Total future minimum lease payments[a] | | 19,331 |
| Less: Interest [b][c] | | 4,715 |
| Total future minimum lease payments less interest[c] | $ | 14,616 |

(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 4.6 years and 7.3%, respectively, at May 31, 2021.

**Note 15 — Information on Segments**

The Company’s homebuilding reportable segments are as follows:

**1) East:** Atlanta, Coastal Carolinas, 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):

| Revenues: | Year ended May 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| Homebuilding: | | | |
| East | $ 986,290 | $ 805,731 | $ 935,124 |
| Central | 1,252,189 | 961,327 | 730,873 |
| Total homebuilding revenues | 2,238,479 | 1,767,058 | $ 1,665,997 |
| Reconciling items: | | | |
| Land sales | 12,862 | 8,753 | 20,805 |
| Financial services and other revenue | 39,250 | 40,291 | 8,744 |
| Total revenues | $ 2,290,591 | $ 1,816,102 | $ 1,695,546 |
| **Gross profit:** | | | |
| Homebuilding: | | | |
| East | $ 189,523 | $ 122,180 | $ 145,767 |
| Central | 309,224 | 195,256 | 133,801 |
| Total homebuilding gross profit | 498,747 | 317,436 | 279,568 |
| Reconciling items: | | | |
| Land sales gross profit | 3,064 | 1,517 | 1,242 |
| Financial services and other revenue gross profit | 11,027 | 11,390 | 6,728 |
| Total gross profit | $ 512,838 | $ 330,343 | $ 287,538 |

| | Year ended May 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| **Depreciation and amortization:** | | | |
| East | $ 3,479 | $ 4,187 | $ 5,239 |
| Central | 5,283 | 5,358 | 5,100 |
| Total depreciation and amortization | $ 8,762 | $ 9,545 | $ 10,339 |
| **Equity in earnings of unconsolidated entities:** | | | |
| East | $ 2,004 | $ 677 | $ 202 |
| Central | 8,349 | 5,078 | 3,696 |
| Total equity in earnings of unconsolidated entities | $ 10,353 | $ 5,755 | $ 3,898 |
| **Net income:** | | | |
| East | $ 75,199 | $ 9,688 | $ 32,807 |
| Central | 173,278 | 82,147 | 37,866 |
| | 248,477 | 91,835 | 70,673 |
| Other [1] | (14,296) | (16,019) | (10,080) |
| Total net income | $ 234,181 | $ 75,816 | $ 60,593 |

(1) “Other” primarily consists of interest directly expensed.

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

| | May 31, 2021 | May 31, 2020 |
|---|---|---|
| **Assets:** | | |
| Homebuilding: | | |
| East | $ 661,069 | $ 644,009 |
| Central | 839,758 | 537,735 |
| | 1,500,827 | 1,181,744 |
| Other [(1)] | 299,358 | 270,501 |
| Total assets | $ 1,800,185 | $ 1,452,245 |

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

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

| | Year ended May 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Additions to property and equipment:** | | | |
| Homebuilding: | | | |
| East | $ 2,671 | $ 3,640 | $ 4,913 |
| Central | 3,844 | 3,746 | 4,856 |
| | 6,515 | 7,386 | 9,769 |
| Other [(1)] | 39 | 230 | 12 |
| Total additions to property and equipment | $ 6,554 | $ 7,616 | $ 9,781 |

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

## Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

## Item 9A. *Controls and Procedures*

Pursuant to section 4.03 of each of the indentures governing the 6.750% Notes, 9.875% Notes, and 6.625% 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 SEC.

## Item 9B. *Other Information*

Effective July 15, 2021, the Company increased the number of directors from five to seven and elected two at-large directors, R. David Kelly and Arden M. Karson.

Mr. Kelly and Mrs. Karson do not have any family relationships with any of the Company's directors or executive officers.

## Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections*

None.

## PART III.

## Item 10. *Directors, Executive Officers, and Corporate Governance*

Our board of directors, which we refer to as our Board, consists of five members—Messrs. Patava (Chairman), Reisman, Joffe, Miller, and Beard. As required by our Regulations, Messrs. Patava, Reisman, and Joffe are Class A Directors elected by our Class A Unit holder, Mr. Beard is a Class B Director elected by our Class B Unit holders, and Mr. Miller is an Independent Director, as defined by our Regulations, elected by our Class A, Class B, and Class C Unit holders voting as a class. Each director serves a term of one year until a successor is elected and qualified, or until his earlier death, resignation, or removal.

Our Class A Unit holders, Class B Unit holders, and Class C Unit holders elected Mr. Kelly and Mrs. Karson as at-large directors effective July 15, 2021, pursuant to our Regulations.

The following table presents information with respect to our executive officers, directors, and directors elect:

**Executive officers, directors and directors elect**

| Name | Age | Position |
|---|---|---|
| Jerry Patava | 67 | Director, Chairman of the Board |
| Elly Reisman | 71 | Director |
| Seymour Joffe | 68 | Director, Chairman of the Audit Committee |
| Kris Miller | 55 | Director |
| Joseph Beard | 60 | Director |
| R. David Kelly* | 57 | Director |
| Arden M. Karson* | 59 | Director |
| Ken Balogh | 50 | President and Chief Executive Officer |
| Cory Boydston | 62 | Chief Financial Officer |
| Deborah Danzig | 48 | Chief Legal Officer and Corporate Secretary |
| Ryan Lewis | 43 | Chief Operating Officer |

* Director elect

**Mr. Patava,** a member of our Board since February 2009, served as the Chief Executive Officer of the Great Gulf Group of Companies (the "Great Gulf Group"), an affiliate of the Company through common ownership, from July 2007 until January 2020. Mr. Patava currently serves on the Board and Investment Committee at Terra Firma Capital Corporation. Between 2005 and 2018, he served on several public company boards. Between 1998 and 2005 Mr. Patava served as Executive Vice President and Chief Financial Officer of Fairmont Hotels & Resorts Inc., between 1990 and 1998 as Vice President and Treasurer of Canadian Pacific Limited, and between 1986 and 1990 as Vice President and Director of RBC Dominion Securities. Mr. Patava has a Bachelor of Arts degree from the University of Toronto and a Master of Business Administration degree from York University.

**Mr. Reisman**, a member of our Board since April 2013, is the chair and co-founder of the Great Gulf Group. Mr. Reisman has over 40 years of real estate development and management experience throughout North America. Under his guidance, the Great Gulf Group has grown from a regional homebuilder to a broadly diversified real estate company.

**Mr. Joffe,** a member of our Board and our prior management committee since 1997, is a co-founder and principal of the Great Gulf Group. Prior to 1983, Mr. Joffe worked in real estate and public accounting. Mr. Joffe qualified as a Chartered Accountant in South Africa and a Certified Public Accountant in Canada.

**Mr. Miller,** a member of our Board since February 2009, has served as President of Ackerman & Co., a company involved in the development and acquisition of office, medical, retail, industrial and mixed use real estate space, since 1997. Mr. Miller joined Ackerman in 1996 as Chief Financial Officer. Prior to joining Ackerman, Mr. Miller was a Vice President of Citicorp, where he managed Citicorp's Atlanta real estate office. Mr. Miller is a graduate of

Harvard University with an A.B. in Economics and attended the London School of Economic and Political Science as well as Citicorp's Institute of Global Finance and Management Program.

**Mr. Beard**, a member of our Board since April 2013, co-founded in 1991 and serves as President and Chief Executive Officer of Westdale Asset Management, Ltd. an affiliate of Canada-based Westdale Properties. Westdale Asset Management is a nationwide real estate investment, property management, leasing, and development firm. Prior to forming Westdale Asset Management, Mr. Beard was responsible for the development and acquisition of over 10,000 apartment units. Mr. Beard is a graduate of Southern Methodist University where he obtained a degree in History with minors in Political Science and Psychology.

**Mr. Kelly**, whose service as a member of our Board of Directors begins on July 15, 2021, is founder and managing partner of StraightLine Partners, an alternative investment platform with holdings in real estate, financial services and venture capital. Mr. Kelly serves as board director, founder, chair and CEO of Croesus and Company; as lead director of TCW Direct Lending VII; and as lead director of Invesco's INREIT real estate platform. Mr. Kelly also currently serves as a director of the Children's Medical Center Plano Governing Board, where he is also a member of Children's Health Investment and Finance Committees. From 2007 to 2017, Mr. Kelly served as a trustee and Chair of the $150 billion Teacher's Retirement System of Texas. From 2001 to 2006, Mr. Kelly was a gubernatorial appointee to the Texas Public Finance Authority (TPFA) and served as Chair from 2002 to 2006. Mr. Kelly previously served as a special advisor to the Board of Directors of Croesus Merchants International Singapore; served as Chair of the Board of Directors of Hong Kong-based Everglory Financial Holdings; and served as a director of Dubai-based Al Masah Capital Limited. Mr. Kelly graduated as a John Harvard Scholar in Economics from Harvard University and completed a Master of Business Administration at Stanford University Graduate School of Business.

**Mrs. Karson**, whose service as a member of our Board of Directors begins on July 15, 2021, is the Founder and Managing Principal of Karson & Co, a real estate advisory and investment firm. Previously, from 2017 to 2020, Mrs. Karson served as the Senior Managing Director for CBRE. From 2011 to 2017, Mrs. Karson was a Senior Vice President at the Related Group, where she directed the development, acquisition, and financing of condominium and operating properties. From 1999 to 2011, Mrs. Karson partnered with Barrow Street Capital, a real estate private equity firm, and Advenir Real Estate. Mrs. Karson also worked at Lennar Corporation and Arvida/ JMB Partners, serving in a variety of project management and operational roles focused on homebuilding, land, and commercial development, and property/loan asset management across many asset classes and markets. Mrs. Karson started her career as a commercial lender at Bank of America. Mrs. Karson graduated *summa cum laude* from Tufts University and earned an MBA from Harvard Business School. She currently serves on the Board of Directors of the Friends of the Underline, the University of Miami Master's in Real Estate program, the Michigan Ross Real Estate Fund, and the Urban Land Institute.

**Mr. Balogh** joined our Company as an executive vice president in September 2009 and was promoted to Chief Operating Officer in March 2010. In January 2011, he was appointed President and Chief Executive Officer. Prior to joining the Company, Mr. Balogh worked for Centex Homes (now part of the PulteGroup) for 16 years, serving in various positions including as Executive Vice President of its East Region (Florida, the Carolinas, Virginia and New Jersey). Prior to that, he served in various other roles at Centex, including Division President, Division Manager, Vice President of Land Acquisitions, Entitlement and Development, Vice President of Finance, Division Controller, Assistant Controller, and Accountant. He currently sits on the Board of Directors for HomeAid, one of the nation's leading non-profit providers of housing for the homeless population. Mr. Balogh has been in the homebuilding industry for over 20 years and has a finance degree from the University of Central Florida.

**Mrs. Boydston** has served as our Chief Financial Officer since 2009. Prior to joining the Company, Mrs. Boydston worked for Starwood Land Ventures for one and a half years, where she served as Senior Vice President and Chief Financial Officer. Prior to that, she was with Beazer Homes USA Inc., where she worked for 10 years and served as Senior Vice President and Treasurer. Between 1987 and 1997, Mrs. Boydston was with Lennar Corporation, where she served as Vice President of Finance and Chief Financial Officer, Corporate Controller, and Division Controller. She was also a Senior Auditor at Arthur Andersen LLP. From 2018 to 2020 she served on the Board of Directors and Audit Committee of BMC Holdings, Inc. (Nasdaq: BMCH), and in 2021 she joined the Board of Directors and Audit Committee of Builders FirstSource, Inc. (Nasdaq: BLDR), a leading provider of diversified building products and services in the U.S. residential construction market. Mrs. Boydston is also the Co-Founder of Women's Housing Leadership Group, and serves on the Georgia Advisory Board of The Trust for Public Land. Mrs. Boydston received a B.S. in Accounting from Florida State University and holds an active CPA license in the state of Georgia.

**Mrs. Danzig** has been our Chief Legal Officer since July 2011 and our Corporate Secretary since October 2011. Prior to joining the Company, Mrs. Danzig was with Beazer Homes USA Inc. for six years where she served most recently as Vice President, Compliance Officer. Prior to joining Beazer Homes USA Inc., Mrs. Danzig was in private practice with Sutherland, Asbill & Brennan in Atlanta, Georgia and Davis Polk & Wardwell in New York. Mrs. Danzig also clerked for the Honorable Phyllis A. Kravitch of the U.S. Court of Appeals for the Eleventh Circuit. Mrs. Danzig obtained her law degree from Cornell Law School and her B.A. from Emory University.

**Mr. Lewis** joined our Company as Division President of the Company's Charleston operating division in 2013 and later also became the Division President of the Company's Raleigh operating division. In February 2017, he was appointed to the position of Chief Operating Officer. Prior to joining the Company, from 2009 to 2013, Mr. Lewis worked for PulteGroup as Area Vice President of Construction Operations—Southeast Region and Vice President of Construction Operations—Atlanta Division. From 2000 to 2009, Mr. Lewis worked for Centex Homes, in several operational roles with progressive responsibilities. Mr. Lewis holds a degree in Construction Management from Georgia Southern University.

The Company does not currently have a separately designated compensation committee or nominating and corporate governance committee. The full Board performs all functions these committees would otherwise perform. The Company has an Audit Committee of the Board of Directors comprised of Messrs. Patava and Joffe. The Audit Committee's primary function is to assist the Board in (a) the financial reporting process, including the integrity of the Company's financial statements and systems of internal controls regarding finance and accounting; (b) the qualifications and independence of the Company's independent auditors; (c) management of the Company's financial policies and procedures; and (d) the performance of the Company's independent auditors. The Audit Committee has direct responsibility for the appointment, compensation, retention, and oversight of the work of our outside accounting firm, Ernst & Young LLP. The Board has determined that each of the Audit Committee members satisfies the requirements for financial literacy under current SEC requirements. The Board has also determined that Mr. Patava and Mr. Joffe each is an "audit committee financial expert," as that term is defined by the SEC. Although neither Mr. Patava nor Mr. Joffe is an independent director, the Board chose them to serve on the Audit Committee due to their financial expertise and their expertise in the homebuilding and real estate industries, including their level of experience with financial matters related to these industries. The Audit Committee operates pursuant to a written charter.

The Company maintains a Code of Business Conduct and Ethics, which applies to all of its employees including its executive officers. The Company will provide to any person without charge, upon request to Deborah Danzig at 678-597-2122, a copy of its Code of Business Conduct and Ethics.

## Item 11. *Executive Compensation*

Pursuant to section 4.03 of each of the indentures governing the 6.750% Notes, 9.875% Notes, and 6.625% Notes, the Company is not required to provide disclosure regarding executive compensation, a description of employment agreements with officers, or a description of any incentive plans.

## Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following table sets forth certain information as of May 31, 2021 regarding the beneficial ownership of the membership interests in the Company by executive officers, directors, directors elect, and owners of greater than 5% of the Company's equity. The Company has three classes of membership interests, Class A, Class B, and Class C, which are pari passu and share ratably in the ownership of the Company. Percentages below are based on sharing ratios held directly or indirectly in the Company.

| Name and address of beneficial owner | Membership interest [1] |
|---|---|
| Seymour Joffe [2][3] | 6.27% |
| Elly Reisman [2][4] | 34.49% |
| Jerry Patava | — |
| Kris Miller | — |
| Joseph Beard [5] | 11.83% |
| R. David Kelly* | — |
| Arden M. Karson* | — |
| Ken Balogh | — |
| Cory Boydston | — |
| Deborah Danzig | — |
| Ryan Lewis | — |
| All directors and executive officers as a group | 52.60% |
| Little Shots Nevada L.L.C. [2] | 87.82% |
| Little Shots Holdings L.L.C. [2] | 18.83% |
| Westdale Properties America I, Ltd. [5] | 11.83% |
| Harry Nevada Inc. [2][6] | 6.27% |
| Norman Nevada Inc. [2][7] | 34.49% |
| Bruce Nevada Inc. [2][8] | 6.27% |

* Director elect

(1) Beneficial ownership is determined in accordance with Section 13 of the Exchange Act and the rules promulgated thereunder. Accordingly, if an individual or entity is a member of a “group” which has agreed to act together for the purpose of acquiring, holding, voting, or disposing of membership interests, such individual or entity is deemed to be the beneficial owner of the membership interests held by all members of the group. Further, if an individual or entity has or shares the power to vote or dispose of membership interests held by another entity, beneficial ownership of the interests held by such entity may be attributed to such other individuals or entities.

(2) The address of this beneficial owner is 351 King Street East, 13th Floor, Toronto, Ontario M5A 0L6 Canada.

(3) Mr. Joffe holds an interest in the Company through ownership by Seymour Nevada, Inc. of a 33.33% membership interest in Little Shots Holdings L.L.C., which holds an 18.83% interest in the Company through its 21.44% ownership interest in Little Shots Nevada L.L.C. For beneficial ownership purposes, the membership interests held by Little Shots Nevada L.L.C. are attributable to Little Shots Holdings L.L.C. based on its ownership interest and ultimately to Mr. Joffe.

(4) Mr. Reisman holds an interest in the Company through ownership by Elly Nevada Inc. of a 39.28% interest in Little Shots Nevada L.L.C.

(5) The address of this beneficial owner is 3100 Monticello Avenue, Suite 660, Dallas, Texas 75205. This interest is held of record by Westdale Properties America I, Ltd. (“Westdale”). Mr. Beard, through wholly owned entities, serves as the general partner of and has a 10% ownership interest in Westdale. Mr. Beard disclaims beneficial ownership of the interests held by Westdale except to the extent of his 10% pecuniary interest.

(6) This entity, which is owned by entities and/or family trusts associated with Harry Rosenbaum, holds an interest in the Company through its 33.33% membership interest in Little Shots Holdings L.L.C.

(7) This entity, which is owned by entities and/or family trusts associated with the Estate of Norman Reisman, holds an interest in the Company through its ownership of a 39.28% interest in Little Shots Nevada L.L.C.

(8) This entity, which is owned by entities and/or family trusts associated with Bruce Freeman, holds an interest in the Company through its 33.33% membership interest in Little Shots Holdings L.L.C.

## Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Pursuant to section 4.03 of each of the indentures governing the 6.750% Notes, 9.875% Notes, and 6.625% Notes, the Company is not required to disclose related party transactions outside of the financial statement footnotes.

We do not have any equity listed on a securities exchange, and therefore are not required to comply with any independence requirements imposed by the exchanges. Pursuant to our Regulations, we are required to have one independent director, as defined by the regulations, but are not required to have a specified number in excess of that. Our Board has concluded that for the fiscal year ended May 31, 2021, Mr. Miller was an independent director under the requirements of our Regulations and under the standards applicable to companies listed on the New York Stock Exchange.

## Item 14. *Principal Accountant Fees and Service*

Ernst & Young LLP served as the Company's independent auditor for the 2021, 2020, and 2019 fiscal years. For the year ended May 31, 2021 and 2020, total audit fees incurred were $0.8 million and $0.6 million, respectively, as well as $0.1 million of audit-related fees during the year ended May 31, 2020, related to the debt transactions discussed in Note 6 to our consolidated financial statements.

Each year, the Audit Committee approves the annual audit engagement in advance. The Audit Committee also has established procedures to pre-approve all non-audit services provided, if any, by the independent auditor.

## Item 15. *Exhibits and Financial Statement Schedules*

The consolidated financial statements are included under Part II, Item 8 of this Annual Report.

The schedules have been omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or notes thereto.

## Item 16. *Form 10-K Summary*

None.