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

For the quarterly period ended November 30, 2020

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

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. (Check One): N/A [X]

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

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

ASHTON WOODS USA L.L.C.
INDEX TO FORM 10-Q

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Review Report of Independent Auditors

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

We have reviewed the condensed consolidated financial information of Ashton Woods USA L.L.C., which comprise the condensed consolidated balance sheet as of November 30, 2020, and the related condensed consolidated statements of income for the three- and six-month periods ended November 30, 2020 and 2019, condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2019 to November 30, 2020, and condensed consolidated statements of cash flows for the six-month periods ended November 30, 2020 and 2019.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Report on Condensed Consolidated Balance Sheet as of May 31, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2020, and the related consolidated statements of income, changes in members' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 15, 2020. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2020, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

January 12, 2021

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	November 30, 2020	May 31, 2020
Assets:		
Cash and cash equivalents	$ 213,537	$ 255,314
Restricted cash	602	3,059
Receivables	43,680	33,683
Inventory	998,115	882,002
Property and equipment, net	9,999	11,217
Investments in unconsolidated entities	4,047	4,608
Deposits on real estate under option or contract	176,384	143,989
Other assets	125,330	118,373
Total assets	$ 1,571,694	$ 1,452,245
Liabilities and members' equity:		
Liabilities:		
Accounts payable	$ 121,065	$ 70,447
Other liabilities	159,760	167,375
Customer deposits	54,534	17,580
Debt	742,865	746,395
Total liabilities	1,078,224	1,001,797
Commitments and contingencies (Note 13)		
Members' equity:	493,470	450,448
Total liabilities and members' equity	$ 1,571,694	$ 1,452,245

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended November 30,		Six months ended November 30,	
	2020	**2019**	**2020**	**2019**
	(Unaudited)			
Revenues:				
Home sales	$ 467,995	$ 375,974	$ 881,820	$ 739,409
Land sales	—	5,970	65	5,970
Financial services and other revenues	4,040	12,651	13,630	14,979
	472,035	394,595	895,515	760,358
Cost of sales:				
Homes	366,131	308,694	701,417	613,869
Land	—	4,501	74	4,529
Financial services and other revenues	2,224	10,390	9,428	10,390
	368,355	323,585	710,919	628,788
Gross profit	103,680	71,010	184,596	131,570
Other expense (income):				
Selling, general and administrative	60,117	53,355	115,065	107,177
Interest expense	5,154	3,170	12,583	5,946
Depreciation and amortization	2,144	2,656	4,326	5,008
Other income	(371)	(27)	(264)	(612)
	67,044	59,154	131,710	117,519
Equity in earnings of unconsolidated entities	2,146	1,083	3,646	2,051
Net income	$ 38,782	$ 12,939	$ 56,532	$ 16,102

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Class A interest	Class B interests	Class C interests	Total members' equity
Members' equity at May 31, 2019 (Audited)	$ 144,455	$ 31,781	$ 210,861	$ 387,097
Net income	1,231	302	1,630	3,163
Distributions	(2,704)	(665)	(3,581)	(6,950)
Members' equity at August 31, 2019 (Unaudited)	$ 142,982	$ 31,418	$ 208,910	$ 383,310
Net income	5,035	1,237	6,667	12,939
Distributions	(628)	(155)	(832)	(1,615)
Members' equity at November 30, 2019 (Unaudited)	$ 147,389	$ 32,500	$ 214,745	$ 394,634
Net income	5,710	1,403	7,561	14,674
Distributions	(1,518)	(373)	(2,009)	(3,900)
Members' equity at February 28, 2020 (Unaudited)	$ 151,581	$ 33,530	$ 220,297	$ 405,408
Net income	17,525	4,310	23,205	45,040
Members' equity at May 31, 2020 (Audited)	$ 169,106	$ 37,840	$ 243,502	$ 450,448
Net income	6,907	1,698	9,145	17,750
Distributions	(1,537)	(378)	(2,035)	(3,950)
Members' equity at August 31, 2020 (Unaudited)	$ 174,476	$ 39,160	$ 250,612	$ 464,248
Net income	15,091	3,709	19,982	38,782
Distributions	(3,720)	(914)	(4,926)	(9,560)
Members' equity at November 30, 2020 (Unaudited)	$ 185,847	$ 41,955	$ 265,668	$ 493,470

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended November 30, 2020	Six months ended November 30, 2019
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 56,532	$ 16,102
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(3,646)	(2,051)
Returns on investments in unconsolidated entities	4,275	2,752
Long-term compensation expense	4,709	2,543
Inventory impairments	114	592
Depreciation and amortization	4,326	5,008
Changes in operating assets and liabilities:		
Inventory	(114,591)	(142,008)
Receivables	(9,997)	(1,445)
Deposits on real estate under option or contract	(32,395)	(6,180)
Other assets	(7,662)	422
Accounts payable	50,618	582
Other liabilities	(11,756)	(11,781)
Customer deposits	36,954	3,500
Net cash used in operating activities	(22,519)	(131,964)
Cash flows from investing activities:		
Returns of investments in unconsolidated entities	—	1,860
Additions to property and equipment	(3,412)	(4,486)
Net cash used in investing activities	(3,412)	(2,626)
Cash flows from financing activities:		
Borrowings from revolving credit facility	—	586,700
Repayments of revolving credit facility	—	(441,770)
Payment of debt issuance costs	(68)	(1,880)
Repayment of note payable	(4,725)	—
Members' distributions	(13,510)	(8,565)
Net cash (used in) provided by financing activities	(18,303)	134,485
Change in cash, cash equivalents, and restricted cash	(44,234)	(105)
Cash, cash equivalents, and restricted cash, beginning of period	258,373	189
Cash, cash equivalents, and restricted cash, end of period	$ 214,139	$ 84
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 12,581	$ 4,831

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

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

	As of November 30,	
	2020	2019
Cash and cash equivalents	$ 213,537	$ —
Restricted cash	602	84
Total cash, cash equivalents, and restricted cash	$ 214,139	$ 84

Supplemental disclosures of cash flows information:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 1,336	$ 25	$ 1,388	$ 25

See accompanying notes to unaudited condensed 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 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. As of November 30, 2020, the Company has Ashton Woods and Starlight Homes operations in the following markets:

East:	Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota, and Naples)
Central:	Houston, Dallas, Austin, San Antonio, and Phoenix

The Company also offers title services to its homebuyers in its Austin, Dallas, Houston, San Antonio, Charleston, Raleigh, Orlando, Southwest Florida, and Atlanta operating divisions through two wholly-owned title agencies.

In addition, the Company offers residential mortgage services to its homebuyers and the public at large in Austin, Dallas, Houston, San Antonio, Charleston, Raleigh, Orlando, Phoenix, and Southwest Florida through an unconsolidated mortgage joint venture. The Company has an ownership interest of 49% in this mortgage joint venture.

(b) Basis of presentation

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

(c) Cash, cash equivalents, and restricted cash

The Company considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Restricted cash consists of amounts held in restricted accounts as collateral for letters of credit issued and outstanding, as permitted by the Company's senior secured revolving credit facility, and other investments.

(d) Inventory

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

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

Inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case the inventory is written down to fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 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 six months ended November 30, 2020, the Company recognized inventory impairment charges totaling $0.1 million,which consisted of $82.6 thousand of impairments on homes in inventory, which is included as a component of cost of sales – homes in the unaudited condensed 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 unaudited condensed consolidated statements of income. The Company recorded inventory impairment charges of $0.6 million during the six months ended November 30, 2019, which consisted of $0.4 million of impairments on homes in inventory, which is included as a component of cost of sales – homes in the unaudited condensed 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 unaudited condensed 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 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, 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 November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
Closing funds due	$ 8,501	$ 6,373
Land development receivables	19,916	13,957
MUD receivables (1)	9,137	10,280
Other receivables (2)	6,126	3,073
	$ 43,680	$ 33,683

(1) Includes certain land development costs to be reimbursed by five and four, respectively, Municipal Utility Districts in Houston, Texas.

(2) Includes amounts due from utility companies, insurance companies, refundable deposits, 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 residential mortgage services to its homebuyers and the public at large in Austin, Dallas, Houston, San Antonio, Charleston, Raleigh, Orlando, Phoenix, and Southwest Florida through an unconsolidated mortgage joint venture. The Company has an ownership interest of 49% in this mortgage joint venture. The Company's investment in this mortgage joint venture is 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 six months ended November 30, 2020 and 2019 related to its investments in unconsolidated entities.

(h) Deposits and pre-acquisition costs

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the unaudited condensed consolidated balance sheets as deposits on real estate under option or contract (for deposits) and other assets (for pre-acquisition costs) until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for the costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income and totaled $1.0 million and $1.5 million for the three and six months ended November 30, 2020, respectively, and $0.2 million and $0.9 million for the three and six months ended November 30, 2019, respectively.

(i) Property and equipment

Property and equipment is recorded at cost. Depreciation and amortization is 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 November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
Office furniture and equipment	$ 3,915	$ 3,852
Sales offices, design studios, and model furnishings	31,210	32,863
Leasehold improvements	2,740	2,414
	37,865	39,129
Accumulated depreciation and amortization(1)	(27,866)	(27,912)
	$ 9,999	$ 11,217

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated $2.1 million and $4.3 million for the three and six months ended November 30, 2020, respectively, and $2.7 million and $5.0 million for the three and six months ended November 30, 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 $8.5 million and $6.4 million at November 30, 2020 and May 31, 2020, respectively, and are classified as receivables in the unaudited condensed 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 $54.5 million and $17.6 million at November 30, 2020 and May 31, 2020, respectively. Of the customer deposit liabilities at May 31, 2020, $15.5 million was recognized in revenues in the six months ended November 30, 2020 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 intend to use the homes 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 unaudited condensed consolidated balance sheets. Land sale contract liabilities consist of customer deposit liabilities related to land parcels under contract for sale. There were no land sale contract assets or liabilities at November 30, 2020 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. 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 entered into by the Company with third-party property owners. For these types of contracts, the Company recognizes revenue based on the actual total costs it has incurred plus the applicable fee. In accordance with ASC 606, the Company applies the percentage-of-completion method, using the cost-to-cost approach, as it most accurately measures the progress of our efforts in satisfying our obligations within the fee building agreements. Under this approach, revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred. In the course of providing fee development, development oversight, and/or construction services, the Company routinely subcontracts for services and incurs other direct costs. These costs are typically passed through to the property owners and, in accordance with 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 $14.5 million and $8.9 million as of November 30, 2020 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 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 unaudited condensed consolidated balance sheets.

Presented below are summaries of the activity in the Company's warranty liability account for the three and six months ended November 30, 2020 and 2019 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2020	**2019**	**2020**	**2019**
Warranty liability, beginning of period	$ 10,168	$ 10,693	$ 10,122	$ 11,933
Costs accrued during period	3,060	2,766	6,049	5,315
Costs incurred during period	(3,214)	(3,801)	(6,157)	(7,590)
Warranty liability, end of period	$ 10,014	$ 9,658	$ 10,014	$ 9,658

(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 unaudited condensed consolidated statements of income, was approximately $1.5 million and $3.1 million for the three and six months ended November 30, 2020, respectively, and $3.2 million and $6.8 million for the three and six months ended November 30, 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 senior secured 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 6.75% 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 $13.5 million and $8.6 million during the six months ended November 30, 2020 and 2019, respectively.

(p) Use of estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(q) Segments

ASC 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:	Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota, and Naples)
2) Central:	Houston, Dallas, Austin, San Antonio, and Phoenix

The Company has determined that the homebuilding operating markets within its respective reportable segments have similar economic characteristics and product types, and are similar in terms of geography. The Company's homebuilding operating markets also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution. See Note 14 for further discussion of the Company's reportable segments.

(r) Risks and uncertainties

The worldwide spread of the COVID-19 virus 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, COVID-19 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 to normal operating procedures, to volatile economic conditions and a decline in consumer confidence. There is significant uncertainty around the breadth, severity, and duration of COVID-19 and the business disruptions related to COVID-19, as well as its impact on the U.S. and international economies, consumer confidence and, in turn, the impact it will have on our results.

(s) Subsequent events

The Company has evaluated subsequent events through January 12, 2021. This date represents the date on which the consolidated financial statements were available to be issued.

On January 12, 2021, the Board of Directors of the Company approved tax distributions of $8.7 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 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 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 U.S. 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 November 30, 2020 and May 31, 2020 (in thousands):

	November 30, 2020	May 31, 2020
Homes under construction and finished homes	$ 651,500	$ 545,079
Finished lots	223,796	215,419
Land under development	99,078	86,964
Land held for future development	17,628	28,231
Land held for sale	6,113	6,309
	$ 998,115	$ 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 $5.2 million and $12.6 million for the three and six months ended November 30, 2020, respectively, and $3.2 million and $5.9 million for the three and six months ended November 30, 2019, respectively, in the unaudited condensed consolidated statements of income.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three and six months ended November 30, 2020 and 2019 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Capitalized interest, beginning of period	$ 21,188	$ 20,484	$ 21,646	$ 19,040
Interest incurred	15,779	13,471	31,753	26,434
Interest amortized to cost of sales	(9,841)	(8,462)	(18,844)	(17,205)
Interest expensed	(5,154)	(3,170)	(12,583)	(5,946)
Capitalized interest, end of period	$ 21,972	$ 22,323	$ 21,972	$ 22,323

Note 4 — Other Assets

Other assets at November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
Real estate not owned	$ 85,860	$ 79,738
Right-of-use assets[1]	12,485	13,121
Prepaid expenses	14,481	8,885
Architecture plans	4,136	4,626
Deferred financing fees	2,338	2,725
Pre-acquisition costs	4,004	7,161
Other deposits	2,026	2,117
	$ 125,330	$ 118,373

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

In the ordinary course of business, the Company enters into lot purchase agreements in order to procure lots for the construction of homes in the future. Pursuant to these lot purchase agreements, the Company generally will provide a deposit to the seller as consideration for the right, but not the obligation, to purchase lots at different times in the future, usually at predetermined prices. Depending on the circumstances 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 is required, may be created because it 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” and the related liabilities as “Liabilities related to real estate not owned.” At November 30, 2020 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. From time to time, 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” and the related liabilities as “Liabilities related to real estate not owned” 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 November 30, 2020 and May 31, 2020, the Company recorded real estate not owned of $22.8 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” and the related liabilities, under option agreement, as “Liabilities related to real estate not owned.” At November 30, 2020 and May 31, 2020, the Company recorded real estate not owned of $63.1 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 closing basis.

Deferred financing fees included in other assets are comprised of costs incurred in connection with obtaining financing under the senior secured revolving credit facility. The Company incurred deferred financing fees of $1.9 million during the six months ended November 30, 2019 as a result of the amendment to the Company's senior secured revolving credit facility as discussed 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 November 30, 2020, 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 (individually and collectively, the “Investors”). The Company has a 49% limited partner interest in this joint venture, does not have a controlling interest in this unconsolidated entity, 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 November 30, 2020, the Company had recorded $1.5 million for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company has entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of $6.0 thousand for these services that is included in other income in the unaudited condensed consolidated statements of income. The Company is also a party to a lot purchase agreement with the joint venture, which required a 10% deposit, 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 November 30, 2020, the total purchase price of lots remaining to be purchased under this agreement was approximately $9.7 million. As of November 30, 2020, the joint venture had $0.5 million of debt outstanding, which is non-recourse to the joint venture and to the

Company. The loan was obtained to fund land development for one phase of the property. The Company provided the lender with a performance guarantee for the substantial completion of this phase of development. The guarantee of performance may include the payment of money for costs incurred during the completion of the development. In the event the Company pays money or performs any services pursuant to the guarantee, the joint venture has agreed to indemnify and reimburse the Company for any such costs incurred.

The Company offers residential mortgage services to its homebuyers and the public at large in Austin, Dallas, Houston, San Antonio, Charleston, Raleigh, Orlando, Phoenix, and Southwest Florida through an unconsolidated mortgage joint venture. The Company has an ownership interest of 49% in this mortgage joint venture. The Company's investment in this mortgage joint venture is accounted for under the equity method. The debt of the mortgage joint venture is non-recourse to the Company.

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of November 30, 2020 and May 31, 2020 and for the three and six months ended November 30, 2020 and 2019 was as follows (in thousands):

	November 30, 2020	May 31, 2020
Assets:		
Cash	$ 4,483	$ 5,650
Mortgage notes receivable	40,456	54,472
Real estate	5,589	9,384
Other	890	713
Total assets	$ 51,418	$ 70,219
Liabilities and equity:		
Liabilities:		
Accounts payable and other accruals	$ 3,776	$ 5,274
Notes payable (1)	39,485	55,643
Total liabilities	43,261	60,917
Equity	8,157	9,302
Total liabilities and equity	$ 51,418	$ 70,219

(1) The notes payable balance at November 30, 2020 is comprised of $39.0 million outstanding on two warehouse lines and $0.5 million of secured debt, all of which is non-recourse to the Company. The notes payable balance at May 31, 2020 is comprised of $52.0 million outstanding on two warehouse lines and $3.7 million of secured debt, all of which is non-recourse to the Company.

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Revenues:				
Lot sales	$ 4,668	$ 2,653	$ 4,668	$ 5,631
Financial services	7,831	4,108	13,430	7,748
Total revenues	12,499	6,761	18,098	13,379
Gross profit	5,821	3,195	9,312	6,081
General and administrative expenses:				
Financial services	948	707	1,733	1,382
Total general and administrative expenses	948	707	1,733	1,382
Net earnings	$ 4,873	$ 2,488	$ 7,579	$ 4,699

Note 6 — Debt

Debt at November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
6.750% Notes (1)	$ 247,221	$ 246,878
9.875% Notes (2)	249,679	249,182
6.625% Notes (3)	245,965	245,610
Note payable	—	4,725
	$ 742,865	$ 746,395

(1) Net of $2.8 million and $3.1 million of unamortized deferred financing costs as of November 30, 2020 and May 31, 2020, respectively.

(2) Net of $3.8 million and $4.2 million of unamortized deferred financing costs and $1.5 million and $1.6 million of unamortized discount as of November 30, 2020 and May 31, 2020, respectively.

(3) Net of $4.0 million and $4.4 million of unamortized deferred financing costs as of November 30, 2020 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 (the "6.750% Notes") in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. 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 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, including the senior secured revolving credit facility, to the extent of the value of the assets securing such debt. The obligations under the 6.750% Notes are jointly and severally guaranteed by each Restricted Subsidiary, as defined, other than certain Restricted Subsidiaries that have assets with a book value of less than $2.0 million. All of the Company's subsidiaries are Restricted Subsidiaries with respect to the 6.750% Notes, with the exception of AW Mortgage Holdings L.L.C., which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 6.750% Notes.

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;
- Limitations on dividends;
- Limitations on transactions with affiliates;
- Limitations on liens;
- Limitations on asset sales;
- Limitations on designation of unrestricted subsidiaries; and
- Limitations on mergers.

As of November 30, 2020, 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 (the "9.875% Notes") in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. 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 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, including the Company's senior secured revolving credit facility, 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 each Restricted Subsidiary, as defined, other than certain Restricted Subsidiaries that have assets with a book value of less than $2.0 million. All of the Company's subsidiaries are Restricted Subsidiaries with respect to the 9.875% Notes, with the exception of AW Mortgage Holdings L.L.C., which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 9.875% Notes.

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, including covenants relating to the following:

- Limitations on indebtedness;
- Limitations on restricted payments;
- Limitations on dividends;
- Limitations on transactions with affiliates;
- Limitations on liens;
- Limitations on asset sales;
- Limitations on designation of unrestricted subsidiaries; and
- Limitations on mergers.

As of November 30, 2020, 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 (the "6.625% Notes") in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. 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 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, including the Company's senior secured revolving credit facility, 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 each Restricted Subsidiary, as defined, other than certain Restricted Subsidiaries that have assets with a book value of less than $2.0 million. All of the Company's subsidiaries are Restricted Subsidiaries with respect to the 6.625% Notes, with the exception of AW Mortgage Holdings L.L.C., which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 6.625% Notes.

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, including covenants relating to the following:

- Limitations on indebtedness;
- Limitations on restricted payments;
- Limitations on dividends;
- Limitations on transactions with affiliates;
- Limitations on liens;
- Limitations on asset sales;
- Limitations on designation of unrestricted subsidiaries; and
- Limitations on mergers.

As of November 30, 2020, the Company was in compliance with the covenants in the indenture governing the 6.625% Notes.

Senior Secured Revolving Credit Facility

On August 28, 2019, the Company amended its senior secured revolving credit facility by entering into its Second Amendment to the Fifth Amended and Restated Credit Agreement (as amended, the “Restated Revolver”), providing for, among other things, (i) an aggregate revolving loan commitment of up to $350.0 million with up to $50.0 million available for the issuance of letters of credit and a $20.0 million swingline facility, and with an accordion feature to permit the size of the facility to be increased in the future up to $420.0 million (dependent upon Company needs and available lender commitments), (ii) a maturity date of August 28, 2023, and (iii) modification of certain covenants and restating the agreement to reflect such changes. The Restated Revolver limits the principal amount of the aggregate commitment available at any time to the amount that is permitted by the indentures governing the Company's Senior Notes, which is 30% of Consolidated Tangible Assets, as defined therein.

Interest accrues on borrowings under the Restated Revolver at the London Interbank Offered Rate (LIBOR) plus an applicable margin that ranges from 275 to 335 basis points. Letters of credit may be issued under the Restated Revolver at a rate of 100 basis points if secured by cash, or at a rate of 275 to 335 basis points if not secured by cash. The Restated Revolver has a maturity date of August 28, 2023, subject to an extension in accordance with the terms set forth therein. The Restated Revolver is secured by a continuing first priority security interest in the real property of certain operating divisions selected by the Company for inclusion in the borrowing base, and the personal property of the Company and its subsidiaries affixed to, placed upon, used in connection with, arising from or appropriated for use on the pledged real property and the continuing guarantee of substantially all of its subsidiaries. The Company may pledge additional collateral as needed to increase the borrowing base consistent with the maximum availability under the Restated Revolver.

The Restated Revolver contains the following material financial covenants:

- A minimum level of Tangible Net Worth;
- A maximum Leverage Ratio;
- A minimum Interest Coverage Ratio;
- Minimum liquidity;
- Maximum level of land supply; and
- Maximum level of Speculative Housing Units and Model Housing Units.

Availability under the Restated Revolver is based upon a borrowing base formula. The Restated Revolver contains other affirmative and negative covenants in addition to the financial covenants noted above. The Restated

Revolver permits sales and transfers of ownership interests in the Company so long as no change of control, as defined in the Restated Revolver, occurs, permits certain tax distributions to Members and permits certain other distributions to Members if certain Leverage Ratio and other conditions are met. As of November 30, 2020, the Company was in compliance with the covenants in the Restated Revolver.

At November 30, 2020, there were no borrowings outstanding under the Restated Revolver and $0.3 million of letters of credit outstanding. As of November 30, 2020, the Company had available additional borrowing capacity of $221.1 million under the Restated Revolver based on outstanding borrowings on the Restated Revolver, outstanding letters of credit, the value of collateral pledged to secure the facility, and the borrowing base formula.

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 10.00%. 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 six months ended November 30, 2020, the note, along with interest, was paid in full.

Note 7 — Other Liabilities

Other liabilities at November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
Liabilities related to real estate not owned (1)	$ 55,474	$ 55,210
Salaries, bonuses, and benefits	26,917	35,080
Lease liabilities(2)	14,109	14,410
Accrued interest	16,133	15,718
Warranty accruals	10,014	10,122
Accrued long-term compensation	13,715	12,674
Accrued real estate taxes	6,153	4,027
Other	17,245	20,134
	$ 159,760	$ 167,375

(1) Net of deposits of $30.4 million and $23.3 million in November 30, 2020 and May 31, 2020, respectively.
(2) See Note 13, *Leases,* for additional information.

Note 8 — Customer Deposits

Customer deposits at November 30, 2020 and May 31, 2020 consisted of the following (in thousands):

	November 30, 2020	May 31, 2020
Customer deposits - retail sales	$ 30,230	$ 14,713
Customer deposits - wholesale sales	24,304	2,867
	$ 54,534	$ 17,580

Customer deposits - retail sales are deposits on retail homes that are under purchase contracts that have not yet closed. Customer deposits - wholesale sales 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 created 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.

At November 30, 2020, 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 unaudited condensed consolidated statements of income. The Company incurred fees of $1.1 million and $2.1 million during the three and six months ended November 30, 2020, respectively, and $0.9 million and $1.7 million during the three and six months ended November 30, 2019, respectively, under the services agreement. As of November 30, 2020 and May 31, 2020, the balance due to the Investors under the terms of the service agreement was $1.1 million and $1.4 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

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 25 months remaining on the lease as of November 30, 2020. Total minimum lease payments due under the lease were $0.3 million as of both November 30, 2020 and May 31, 2020.

Lot purchase agreements

The Company is a party to nine lot purchase agreements with the Investors. A 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 two of these lot purchase agreements as real estate not owned in the unaudited condensed consolidated balance sheets. As of November 30, 2020, the total purchase price of lots remaining to be purchased under the nine lot purchase agreements was approximately $45.9 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 88 lots. A 10% deposit was required under the purchase agreement and there are no specific performance requirements for the Company. As of November 30, 2020, the total purchase price of lots remaining to be purchased was $9.7 million. As of November 30, 2020, the joint venture had $0.5 million of debt outstanding, which is non-recourse to the joint venture and to the Company. The loan was obtained to fund land development for one phase of the property. The Company provided the lender with a performance guarantee for the substantial completion of this phase of development. The guarantee of performance may include the payment of money for costs incurred during the completion of the development. In the event the Company pays money or performs any services pursuant to the guarantee, the joint venture has agreed to indemnify and reimburse the Company for any such costs incurred.

Note 11 — Long-Term Incentive Plan

In July 2012, the Board of Directors adopted the Ashton Woods USA L.L.C. 2013 Performance Share Plan (the "2013 Plan"), 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. In July 2013, the Board of Directors adopted the Amended and Restated Performance Share Plan (the "First Amended Plan"), and in July 2016, the Board of Directors adopted the Second Amended and Restated Performance Share Plan, with an effective date of June 1, 2016 (the "Second Amended Plan") (together with the 2013 Plan and the First Amended Plan, the "Plan"). 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. In each July of 2013 through 2020, the Board of Directors awarded outstanding performance shares to the Company's executive officers, and certain officers and members of the corporate and operating division senior management teams.

The value of a performance share under the Second Amended 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 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 six months ended November 30, 2020:

	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	119,274	238,548	357,822
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 November 30, 2020	283,431	857,735	1,141,166
Total vested performance shares as of November 30, 2020	128,894	548,665	677,559

The Company has elected to account for performance shares awarded under the Plan using the intrinsic value method. The Company's liability for performance shares awarded under the Plan is remeasured quarterly to reflect the intrinsic value of the performance shares awarded 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 unaudited condensed consolidated statements of income.

The total number of performance shares vested as of November 30, 2020 and May 31, 2020 was 677,559 and 695,110, respectively. The Company recorded $2.9 million and $4.7 million for the three and six months ended November 30, 2020, respectively, and $1.5 million and $2.5 million for the three and six months ended November 30, 2019, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the six months ended November 30, 2020 and 2019, $3.7 million (159,101 units) and $2.9 million (142,240 units), respectively, of vested performance shares were paid out to employees. As of November 30, 2020 and May 31, 2020, the Company's liability for the performance shares was $13.7 million and $12.7 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 12 — 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 unaudited condensed consolidated balance sheets, approximate their fair values due to their short-term maturity or floating interest rate terms, as applicable. The factors considered in determining fair values of the Company's communities when necessary under ASC 360-10 are described in the discussion of the Company's inventory impairment analysis (see Note 1) and are classified as Level 2 or Level 3 valuations. The following table summarizes ranges for the significant quantitative unobservable inputs we utilized in our fair value measurements with respect to the inventory impairments recorded during the periods presented:

Unobservable Inputs:	Six months ended November 30, 2020
Average selling price	$300,000 - $847,000
Annual discount rate	12%

The following table presents the carrying amounts and estimated fair values of the Company's Senior Notes at November 30, 2020 and May 31, 2020:

		November 30, 2020		May 31, 2020	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:		(in thousands)			
6.750% Notes	Level 2	$ 247,221	$ 260,625	$ 246,878	$ 237,500
9.875% Notes	Level 2	249,679	286,238	249,182	263,288
6.625% Notes	Level 2	245,965	258,750	245,610	226,875
		$ 742,865	$ 805,613	$ 741,670	$ 727,663

The Company's Senior Notes are recorded at their carrying values in the unaudited condensed 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 13 — Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are 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 November 30, 2020 and May 31, 2020, the Company had letters of credit outstanding of $0.3 million and $2.7 million, respectively, and surety bonds outstanding of $96.2 million and $73.6 million, respectively. As of November 30, 2020, the Company had $49.7 million of unused letter of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, as of November 30, 2020, the Company has made nonrefundable deposits of $205.4 million, which includes $30.4 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 $1.4 billion as of November 30, 2020.

Leases

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

Right-of-use assets are classified within other assets on the unaudited condensed consolidated balance sheets, while Lease liabilities are classified within other liabilities on the unaudited condensed consolidated balance sheets. Right-of-use assets and Lease liabilities were $12.5 million and $14.1 million at November 30, 2020, respectively, and $13.1 million and $14.4 million at May 31, 2020, respectively. During the six months ended November 30, 2020 and 2019, there was $1.4 million and $24.8 thousand, respectively, of additions to the right-of-use assets under operating leases. Payments on Lease liabilities during the six months ended November 30, 2020 and 2019 totaled $2.0 million and $2.0 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 six months ended November 30, 2020 and 2019 our total lease expense approximated $2.5 million and $2.9 million, respectively, inclusive of short-term lease costs. Sublease income, short-term lease costs, and variable lease costs are not material to the unaudited condensed consolidated financial statements.

The future minimum lease payments required under our leases as of November 30, 2020 are as follows (in thousands):

Year ending May 31, 2021	$	1,665
Year ending May 31, 2022		3,611
Year ending May 31, 2023		3,357
Year ending May 31, 2024		2,506
Year ending May 31, 2025		2,315
Thereafter		5,340
Total future minimum lease payments[(a)]		18,794
Less: Interest [(b)(c)]		4,685
Total future minimum lease payments less interest[(c)]	$	14,109

(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 4.7 years and 7.8%, respectively, at November 30, 2020.

Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

1) East: Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota, and Naples)
2) Central: Houston, Dallas, Austin, San Antonio, and Phoenix

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

	Three months ended November 30,		Six months ended November 30,	
Revenues:	**2020**	**2019**	**2020**	**2019**
Homebuilding:				
East	$ 204,780	$ 179,214	$ 407,921	$ 365,842
Central	263,215	196,760	473,899	373,567
Total homebuilding revenues	467,995	375,974	881,820	739,409
Land sales	—	5,970	65	5,970
Financial services and other revenue	4,040	12,651	13,630	14,979
Total revenues	$ 472,035	$ 394,595	$ 895,515	$ 760,358
Gross profit [(1)]:				
Homebuilding:				
East	$ 38,190	$ 28,448	$ 70,610	$ 54,471
Central	63,674	38,832	109,793	71,069
Total homebuilding gross profit	101,864	67,280	180,403	125,540
Land sales gross profit (loss)	—	1,469	(9)	1,441
Financial services and other revenue gross profit	1,816	2,261	4,202	4,589
Total gross profit	$ 103,680	$ 71,010	$ 184,596	$ 131,570

Depreciation and amortization:				
East	$ 850	$ 1,146	$ 1,721	$ 2,220
Central	1,267	1,488	2,550	2,748
Total depreciation and amortization	$ 2,117	$ 2,634	$ 4,271	$ 4,968
Equity in earnings of unconsolidated entities:				
East	$ 237	$ 93	$ 552	$ 188
Central	1,909	990	3,094	1,863
Total equity in earnings of unconsolidated entities	$ 2,146	$ 1,083	$ 3,646	$ 2,051
Net income (loss):				
East	$ 10,804	$ 2,148	$ 14,476	$ 788
Central	29,609	11,863	48,340	17,184
	40,413	14,011	62,816	17,972
Other (2)	(1,631)	(1,072)	(6,284)	(1,870)
Total net income	$ 38,782	$ 12,939	$ 56,532	$ 16,102

(1) Includes inventory impairments on homes totaling $58.0 thousand for the east segment during both the three and six months ended November 30, 2020 and $37.0 thousand and $379.0 thousand for the east segment during the three and six months ended November 30, 2019, respectively. There were no impairments for the central segment during the three months ended November 30, 2020 and 2019, respectively. There were $56.0 thousand and $41.0 thousand of impairments for the central segment during the six months ended November 30, 2020 and 2019, respectively.

(2) "Other" primarily consists of interest directly expensed.

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

	November 30, 2020	May 31, 2020
Assets:		
Homebuilding:		
East	$ 652,090	$ 644,009
Central	693,361	537,735
	1,345,451	1,181,744
Other (1)	226,243	270,501
Total assets	$ 1,571,694	$ 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 reportable segments for the periods presented (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Additions to property and equipment:				
Homebuilding:				
East	$ 883	$ 1,016	$ 1,330	$ 1,807
Central	770	974	2,043	2,463
	1,653	1,990	3,373	4,270
Other (1)	27	216	39	216
Total additions to property and equipment	$ 1,680	$ 2,206	$ 3,412	$ 4,486

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

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

The following management's discussion and analysis is intended to assist the reader in understanding the Company's business and is provided as a supplement to, and should be read in conjunction with, the Company's unaudited condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and with our annual report for the fiscal year ended May 31, 2020. The Company's results of operations discussed below are presented in conformity with U.S. GAAP.

Forward-Looking Statements

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

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

- The potential negative impact of the COVID-19 pandemic, which, in addition to exacerbating each of the risks listed below, may include a significant decrease in demand for our homes or consumer confidence generally with respect to purchasing a home, an inability to sell, build, and close homes in a typical manner or at all, increased costs or decreased supply of building materials or disruptions in the availability of subcontractors, housing inspectors, and other third-parties we rely on to support our operations, the availability of residential mortgage financing, and the recognition of charges in future periods, which may be material, for inventory impairments and/or land option contract abandonments;
- Reversal of the previous homebuilding recovery or continued or further decline in economic conditions;
- Fluctuations in mortgage interest rates and the availability of mortgage financing;
- The availability of high-quality undeveloped land and improved lots at suitable prices;
- The volatility of the capital markets and the banking industry;
- An ownership change, which could have unfavorable implications for our debt instruments;
- The availability of qualified employees, skilled labor, qualified subcontractors, and raw materials;
- The competitive nature of the homebuilding industry;
- Deterioration of the economic climate either nationally or in the regions in which we operate, which could impact growth and expansion opportunities, impact the price of labor and materials, impact the value of our inventory, impact inflation, consumer confidence, and consumer preferences;
- Government regulatory and other actions, which could affect tax laws, including laws designed to incentivize home ownership, and could result in delays or increased costs in obtaining necessary permits and complying with environmental laws;
- Timing of permits and other regulatory approvals;
- Our substantial indebtedness and our ability to comply with the related financial and other covenants and our ability to obtain replacement financing as these instruments mature;
- The cost and availability of insurance and the level of warranty claims;
- Cybersecurity attacks, breaches, and/or threats, and related exposures;
- Judgments or other costs and exposure with respect to litigation and claims;
- Changes in accounting guidelines or our interpretation of those guidelines;

- Adverse weather conditions, epidemics or pandemics, social or political unrest or uncertainty, and acts of war or terror; and
- Other factors, including those discussed elsewhere in our annual report for the fiscal year ended May 31, 2020, over which the Company has little or no control.

Overview and Outlook

COVID-19

COVID-19 has had a material impact on the global and United States economies and has impacted our business operations. There has been continuing business uncertainty surrounding COVID-19, due to rapidly changing governmental orders, public health concerns, the resulting market reactions, a significant increase in the unemployment rate, and the behavior of potential homebuyers. 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 have substantially restricted daily activities and have required many businesses to curtail or cease normal operations.

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 is the health and well-being of our employees, customers, business partners, and the communities we serve. In particular, between March and April of 2020, we closed our sales centers, model homes, and Design Studios to the general public, and our sales teams shifted to a virtual or appointment-only home sales process and leveraged digital sales tools to connect with our customers online. While we have since re-opened our sales centers, model homes, and Design Studios to the general public, we are currently limiting the number of individuals in these venues and are following other public health recommendations in an effort to protect our employees and customers. The state and local governments in all of the markets in which we operate have designated residential construction as an essential business as part of critical infrastructure and are currently allowing the construction and sales of homes. We are following recommended social distancing and other health and safety protocols when meeting in person with customers and continue to operate our corporate and division office functions remotely. In the field, we have implemented construction site health and safety guidelines in an effort to adhere to social distancing and other public health-related recommendations and requirements.

As restrictions on our business and normal daily activities began to be put in place in March 2020, we made a number of strategic decisions that focused on cash generation and preservation, including drawing down funds under our revolving credit facility, slowing and delaying the construction of homes, delaying openings of new communities, and restructuring and delaying land investments. While we saw a slowdown in sales through late April with the emergence of COVID-19 in March, sales began to increase in late April and May, and our cancellation rates returned to normal levels. Sales have remained strong through November 2020. With the strong demand for new homes beginning in late April, and continuing through November 2020, 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 uncertain times ahead. During the three and six months ended November 30, 2020, our new home sales orders increased by 74% and 56%, respectively, compared to the three and six months ended November 30, 2019.

The demand in the new home market has likely been affected by increased buyer urgency due to low interest rates on mortgage loans, the limited supply of homes at affordable price points across our markets and, to some extent the lower levels of home sales from mid-March through late April, which caused some pent-up demand. In addition, resale home inventory levels remain low in our markets, adding to the demand for finished new homes.

Even with the resurgence of demand, we remain cautious as to the impact that COVID-19 may have on our operations and on the overall economy in the future. There is significant uncertainty regarding the extent to which and how long COVID-19 and its related effects will impact the U.S. and global economy, and 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 impacted by elongated cycle times due to lack of availability of trade labor and building materials, as well as the responsiveness of government services such as zoning, permitting and related government approvals. We may also be impacted by lack of availability and rising costs of trade labor. The extent to which these impact our operational and financial performance will depend upon future developments, including the duration and spread of COVID-19 and the impact on our customers, trade partners and employees. In addition, as the resurgence of demand has caused an increase in the construction of new homes, the pricing of building materials, most notably lumber, has increased significantly. While a lot of these increases are impacting homes that have not yet closed, we anticipate future closings to be impacted by the rising costs.

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. 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.

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

	Three months ended November 30,		Six months ended November 30,	
	2020	**2019**	**2020**	**2019**
Net new home orders (units):				
Entry-Level - Starlight Homes	1,139	514	1,898	1,098
Entry-Level - Ashton Woods	237	211	609	434
Move-Up - Ashton Woods	599	396	1,176	851
Multi-Move-Up - Ashton Woods	164	107	359	204
Company Total	2,139	1,228	4,042	2,587
Homes closed (units):				
Entry-Level - Starlight Homes	695	435	1,271	893
Entry-Level - Ashton Woods	249	148	444	283
Move-Up - Ashton Woods	364	386	742	728
Multi-Move-Up - Ashton Woods	103	108	196	215
Company Total	1,411	1,077	2,653	2,119

	As of November 30,	
	2020	**2019**
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	1,110	527
Entry-Level - Ashton Woods	462	359
Move-Up - Ashton Woods	994	707
Multi-Move-Up - Ashton Woods	331	183
Company Total	2,897	1,776

	As of November 30,	
	2020	**2019**
Active communities:		
Entry-Level - Starlight Homes	35	28
Entry-Level - Ashton Woods	25	26
Move-Up - Ashton Woods	50	59
Multi-Move-Up - Ashton Woods	18	22
Company Total	128	135

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Average monthly sales per average active community: [(1)]				
Entry-Level - Starlight Homes	11.5	6.6	9.7	6.8
Entry-Level - Ashton Woods	3.0	3.1	3.9	3.6
Move-Up - Ashton Woods	4.0	2.1	3.6	2.2
Multi-Move-Up - Ashton Woods	2.6	1.7	3.0	1.5
Company Average	5.5	3.1	5.0	3.2

(1) Average active community for the three months ended November 30 is calculated by averaging the active community counts at November 30 and August 31. For the six months ended November 30, the average active community is calculated by averaging the active community counts at November 30 and May 31.

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Average sales price per home closed (in thousands):				
Entry-Level - Starlight Homes	$ 238	$ 220	$ 234	$ 219
Entry-Level - Ashton Woods	$ 304	$ 334	$ 301	$ 284
Move-Up - Ashton Woods	$ 422	$ 410	$ 423	$ 431
Multi-Move-Up - Ashton Woods	$ 713	$ 672	$ 701	$ 699
Company Average	$ 332	$ 349	$ 332	$ 349

During the six months ended November 30, 2020, we closed 2,653 homes. Of those closings, 2,190 (83%) were single-family detached homes, while the remaining 463 (17%) homes closed were single-family attached homes.

During the twelve months ended November 30, 2020, the Company added 78 new active communities, while closing out 85 communities. Of the 78 active communities added during the twelve months ended November 30, 2020, 26 (34%) are considered to be entry-level Starlight Homes, 15 (19%) are considered to be entry-level Ashton Woods Homes, 29 (37%) are considered to be move-up Ashton Woods Homes, and 8 (10%) 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, as discussed in Note 1(j) to our unaudited condensed consolidated financial statements. 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:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Wholesale (units):				
Net new home orders	421	155	431	316
Homes closed	53	59	101	83
Backlog at end of period	412	262	412	262

Results of operations

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Revenues:	(in thousands)			
Home sales	$ 467,995	$ 375,974	$ 881,820	$ 739,409
Land sales	—	5,970	65	5,970
Financial services and other revenues	4,040	12,651	13,630	14,979
	$ 472,035	$ 394,595	$ 895,515	$ 760,358
Gross profit (loss):				
Home sales	$ 101,864	$ 67,280	$ 180,403	$ 125,540
Land sales	—	1,469	(9)	1,441
Financial services and other revenues	1,816	2,261	4,202	4,589
	$ 103,680	$ 71,010	$ 184,596	$ 131,570
Selling, general and administrative	$ 60,117	$ 53,355	$ 115,065	$ 107,177
Net income (1)	$ 38,782	$ 12,939	$ 56,532	$ 16,102

(1) Because we are 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 $13.5 million and $8.6 million during the six months ended November 30, 2020 and 2019, respectively.

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Supplemental data:	($ in thousands)			
Active communities at end of period	128	135	128	135
Net new home orders (in units)	2,139	1,228	4,042	2,587
Homes closed (in units) (1)	1,411	1,077	2,653	2,119
Average sales price per home closed	$ 332	$ 349	$ 332	$ 349
Backlog at end of period (in units)	2,897	1,776	2,897	1,776
Sales value of backlog at end of period	$1,080,227	$ 654,928	$1,080,227	$ 654,928
Home gross margin (2)	21.8 %	17.9 %	20.5 %	17.0 %
Adjusted home gross margin (3)	23.9 %	20.2 %	22.6 %	19.4 %
Ratio of selling, general and administrative expenses to home sales revenue	12.8 %	14.2 %	13.0 %	14.5 %
Interest incurred (4)	$ 15,779	$ 13,471	$ 31,753	$ 26,434
EBITDA (5)	$ 55,921	$ 27,227	$ 92,285	$ 44,261
EBITDA margin (5)	11.8 %	6.9 %	10.3 %	5.8 %
Total debt to total capitalization	60.5 %	62.9 %	60.5 %	62.9 %
Total net debt to net capitalization	52.3 %	62.9 %	52.3 %	62.9 %
Cancellation rate (as a percentage of gross sales)(6)	12.6 %	17.3 %	14.1 %	18.9 %

(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.

(3) 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 and interest amortized to cost of sales. The following is a reconciliation of home gross margin, which is the most directly comparable GAAP measure, to adjusted home gross margin:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
	(in thousands)			
Home sales revenues	$ 467,995	$ 375,974	$ 881,820	$ 739,409
Cost of sales homes	366,131	308,694	701,417	613,869
Home gross margin	101,864	67,280	180,403	125,540
Add: Inventory impairments - homes	89	37	114	420
Interest amortized to cost of sales	9,841	8,462	18,844	17,205
Adjusted home gross margin	$ 111,794	$ 75,779	$ 199,361	$ 143,165

(4) Interest incurred for any period is the aggregate amount of interest that is capitalized or charged directly to interest expense during such period. The following table summarizes interest costs incurred, amortized to cost of sales, and expensed during the three and six months ended November 30, 2020 and 2019:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
	(in thousands)			
Capitalized interest, beginning of period	$ 21,188	$ 20,484	$ 21,646	$ 19,040
Interest incurred	15,779	13,471	31,753	26,434
Interest amortized to cost of sales	(9,841)	(8,462)	(18,844)	(17,205)
Interest expensed	(5,154)	(3,170)	(12,583)	(5,946)
Capitalized interest, end of period	$ 21,972	$ 22,323	$ 21,972	$ 22,323

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

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

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	$ 38,782	$ 12,939	$ 56,532	$ 16,102
Depreciation and amortization	2,144	2,656	4,326	5,008
Interest amortized to cost of sales	9,841	8,462	18,844	17,205
Interest expensed	5,154	3,170	12,583	5,946
EBITDA	$ 55,921	$ 27,227	$ 92,285	$ 44,261

(6) The following table presents the cancellation rates (as a percentage of gross sales) by buyer profile for the three and six months ended November 30, 2020 and 2019:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Entry-Level - Starlight Homes	16.7 %	23.5 %	19.6 %	26.5 %
Entry-Level - Ashton Woods	9.8 %	13.9 %	10.2 %	11.8 %
Move-Up - Ashton Woods	6.6 %	12.0 %	8.0 %	12.4 %
Multi-Move-Up - Ashton Woods	12.2 %	9.3 %	10.5 %	12.4 %
Consolidated	12.6 %	17.3 %	14.1 %	18.9 %

Results of operations - Segments

We have aggregated our homebuilding operating divisions into two reportable segments, east and central. At November 30, 2020, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

1) East:	Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota, and Naples)
2) Central:	Houston, Dallas, Austin, San Antonio, and Phoenix

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

Net new home orders (units):

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
East:				
Entry-Level - Starlight Homes	528	254	857	656
Entry-Level - Ashton Woods	47	45	131	83
Move-Up - Ashton Woods	218	119	402	259
Multi-Move-Up - Ashton Woods	88	85	221	156
Total east	881	503	1,611	1,154
Central:				
Entry-Level - Starlight Homes	611	260	1,041	442
Entry-Level - Ashton Woods	190	166	478	351
Move-Up - Ashton Woods	381	277	774	592
Multi-Move-Up - Ashton Woods	76	22	138	48
Total central	1,258	725	2,431	1,433
Company total	2,139	1,228	4,042	2,587

Homes closed (units):

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
East:				
Entry-Level - Starlight Homes	357	239	677	505
Entry-Level - Ashton Woods	56	27	118	66
Move-Up - Ashton Woods	111	124	246	269
Multi-Move-Up - Ashton Woods	75	89	151	157
Total east	599	479	1,192	997
Central:				
Entry-Level - Starlight Homes	338	196	594	388
Entry-Level - Ashton Woods	193	121	326	217
Move-Up - Ashton Woods	253	262	496	459
Multi-Move-Up - Ashton Woods	28	19	45	58
Total central	812	598	1,461	1,122
Company total	1,411	1,077	2,653	2,119

Average sales price per home closed:

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
		(in thousands)		
East:				
Entry-Level - Starlight Homes	$ 239	$ 220	$ 235	$ 218
Entry-Level - Ashton Woods	$ 291	$ 307	$ 294	$ 304
Move-Up - Ashton Woods	$ 427	$ 477	$ 429	$ 471
Multi-Move-Up - Ashton Woods	$ 744	$ 665	$ 720	$ 692
Average east	$ 342	$ 374	$ 342	$ 367
Central:				
Entry-Level - Starlight Homes	$ 237	$ 220	$ 232	$ 219
Entry-Level - Ashton Woods	$ 308	$ 340	$ 304	$ 278
Move-Up - Ashton Woods	$ 420	$ 379	$ 420	$ 407
Multi-Move-Up - Ashton Woods	$ 629	$ 703	$ 640	$ 716
Average central	$ 324	$ 329	$ 324	$ 333
Company average	$ 332	$ 349	$ 332	$ 349

Backlog (units) at end of period:

	As of November 30,	
	2020	2019
East:		
Entry-Level - Starlight Homes	444	330
Entry-Level - Ashton Woods	93	64
Move-Up - Ashton Woods	324	182
Multi-Move-Up - Ashton Woods	171	137
Total east	1,032	713
Central:		
Entry-Level - Starlight Homes	666	197
Entry-Level - Ashton Woods	369	295
Move-Up - Ashton Woods	670	525
Multi-Move-Up - Ashton Woods	160	46
Total central	1,865	1,063
Company total	2,897	1,776

Active communities:

	As of November 30,	
	2020	2019
East:		
Entry-Level - Starlight Homes	15	14
Entry-Level - Ashton Woods	4	7
Move-Up - Ashton Woods	16	19
Multi-Move-Up - Ashton Woods	13	18
Total east	48	58
Central:		
Entry-Level - Starlight Homes	20	14
Entry-Level - Ashton Woods	21	19
Move-Up - Ashton Woods	34	40
Multi-Move-Up - Ashton Woods	5	4
Total central	80	77
Company total	128	135

Average monthly sales per average active community: [(1)]

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
East:				
Entry-Level - Starlight Homes	11.4	6.5	8.9	7.8
Entry-Level - Ashton Woods	3.1	2.5	3.6	2.1
Move-Up - Ashton Woods	4.8	2.1	3.9	2.0
Multi-Move-Up - Ashton Woods	1.8	1.7	2.4	1.5
Average east	5.7	3.0	4.9	3.3
Central:				
Entry-Level - Starlight Homes	11.6	6.7	10.5	5.7
Entry-Level - Ashton Woods	3.0	3.4	4.0	4.3
Move-Up - Ashton Woods	3.6	2.1	3.4	2.3
Multi-Move-Up - Ashton Woods	5.1	1.8	5.1	1.6
Average central	5.3	3.2	5.1	3.2
Company average	5.5	3.1	5.0	3.2

(1) Average active community for the three months ended November 30 is calculated by averaging the active community counts at November 30 and August 31. For the six months ended November 30, the average active community is calculated by averaging the active community counts at November 30 and May 31.

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

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Homebuilding East:	(in thousands)			
Home sales revenues	$ 204,780	$ 179,214	$ 407,921	$ 365,842
Cost of sales homes	166,590	150,766	337,311	311,371
Home gross margin	38,190	28,448	70,610	54,471
Add: Inventory impairments	58	37	58	379
Interest amortized to cost of sales	5,212	4,730	10,457	9,981
Adjusted home gross margin	$ 43,460	$ 33,215	$ 81,125	$ 64,831
Ratio of home gross margin to home sales revenues	18.6 %	15.9 %	17.3 %	14.9 %
Ratio of adjusted home gross margin to home sales revenues	21.2 %	18.5 %	19.9 %	17.7 %

	Three months ended November 30,		Six months ended November 30,	
	2020	2019	2020	2019
Homebuilding Central:	(in thousands)			
Home sales revenues	$ 263,215	$ 196,760	$ 473,899	$ 373,567
Cost of sales homes	199,541	157,928	364,106	302,498
Home gross margin	63,674	38,832	109,793	71,069
Add: Inventory impairments	31	—	56	41
Interest amortized to cost of sales	4,629	3,732	8,387	7,224
Adjusted home gross margin	$ 68,334	$ 42,564	$ 118,236	$ 78,334
Ratio of home gross margin to home sales revenues	24.2 %	19.7 %	23.2 %	19.0 %
Ratio of adjusted home gross margin to home sales revenues	26.0 %	21.6 %	24.9 %	21.0 %

Results of operations - Discussion

Three and Six Months Ended November 30, 2020 Compared to Three and Six Months Ended November 30, 2019

Home sales revenues - Consolidated

Home sales revenues increased by 24.5% ($92.0 million) and 19.3% ($142.4 million) for the three and six months ended November 30, 2020, to $468.0 million and $881.8 million, respectively, from $376.0 million and $739.4 million for the three and six months ended November 30, 2019, respectively. The increase in revenues for the three and six months ended November 30, 2020, as compared to the three and six months ended November 30, 2019, 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 31.0% (334 homes) and 25.2% (534 homes) for the three and six months ended November 30, 2020 to 1,411 and 2,653, respectively, from 1,077 and 2,119 for the three and six months ended November 30, 2019, respectively. The increase in closings was primarily due to an increase in the number of entry-level active communities, which typically have higher sales paces. The number of entry-level active communities increased from 54 at November 30, 2019 to 60 at November 30, 2020. In addition, on a consolidated basis the average monthly sales per average active community increased across all of our buyer profiles for the six months ended November 30, 2020, compared to the six months ended November 30, 2019, due to the strong demand for new homes during the six months ended November 30, 2020.

The average sales price of homes closed decreased 4.9% for both the three and six months ended November 30, 2020 to an average of $332,000 from an average of $349,000. The decrease in the average sales price of homes closed on a consolidated basis reflected our continued, planned shift toward communities with lower average sales prices. For the three and six months ended November 30, 2020, 944 (66.9%) and 1,715 (64.6%) closings, respectively, were from entry-level communities, with generally lower average sales prices, compared to 583 (54.1%) and 1,176 (55.5%) closings for the three and six months ended November 30, 2019, respectively. Notwithstanding the shift to communities with lower average sales prices, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets, which resulted in increased average sales prices for our entry-level product on a consolidated basis.

Home sales revenues - East segment

Home sales revenues for the east segment increased by 14.3% ($25.6 million) and 11.5% ($42.1 million) for the three and six months ended November 30, 2020, to $204.8 million and $407.9 million, respectively, from $179.2 million and $365.8 million for the three and six months ended November 30, 2019, respectively. 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 three and six months ended November 30, 2020 increased 25.1% (120 homes) and 19.6% (195 homes), respectively, as compared to the three and six months ended November 30, 2019. The average sales price of homes closed decreased 8.6% and 6.8% to an average of $342,000 for both the three and six months ended November 30, 2020, respectively, from an average of $374,000 and $367,000 for the three and six months ended November 30, 2019, respectively. The increase in closings was primarily due to an increase in the average monthly sales per average active community from 3.0 and 3.3 for the three and six months ended November 30, 2019, respectively, to 5.7 and 4.9 for the three and six months ended November 30, 2020, respectively, and was partially offset by a decrease in the number of active communities. The total number of active communities in the east segment decreased to 48 at November 30, 2020 from 58 at November 30, 2019.

The decrease in the average sales price of homes closed for the three and six months ended November 30, 2020, compared to the three and six months ended November 30, 2019, 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 three and six months ended November 30, 2020, 413 (68.9%) and 795 (66.7%), respectively, of the homes closed were considered entry-level, compared to 266 (55.5%) and 571 (57.3%) for the three and six months ended November 30, 2019, respectively. Notwithstanding the shift communities with lower average sales prices, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets, which resulted in increased aggregate average sales prices for our entry-level product in the east segment.

Home sales revenues - Central segment

Home sales revenues for the central segment increased by 33.8% ($66.5 million) and 26.9% ($100.3 million) for the three and six months ended November 30, 2020, respectively, to $263.2 million and $473.9 million, respectively, from $196.8 million and $373.6 million for the three and six months ended November 30, 2019, respectively. The increase in revenues for the three and six months ended November 30, 2020, as compared to the three and six months ended November 30, 2019, 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 three and six months ended November 30, 2020 increased 35.8% (214 homes) and 30.2% (339 homes), respectively, as compared to the three and six months ended November 30, 2019. The average sales price of homes closed decreased 1.5% and 2.7% to an average of $324,000 in both the three and six months ended November 30, 2020, respectively, from an average of $329,000 and $333,000 for the three and six months ended November 30, 2019, respectively. The increase in closings was primarily due to an increase in the number of active communities, particularly the number of entry-level active communities, which typically have higher sales paces, as well as an increase in the average monthly sales per average active community. The number of active communities in the central segment increased from 77 at November 30, 2019 to 80 at November 30, 2020, which included 33 entry-level active communities at November 30, 2019 and 41 entry-level active communities at November 30, 2020. In addition, the average monthly sales per average active community increased from 3.2 for both the three and six months ended November 30, 2019 to 5.3 and 5.1 for the three and six months ended November 30, 2020, respectively.

The decrease in the average sales price of homes closed during the three and six months ended November 30, 2020, compared to the three and six months ended November 30, 2019, was primarily due to the continued, planned shift to a higher percentage of closings in entry-level communities, with generally lower average sales prices and a higher sales pace. During the three and six months ended November 30, 2020, 531 (65.4%) and 920 (63.0%), respectively, of the homes closed were considered entry-level, compared to 317 (53.0%) and 605 (53.9%) for the three and six months ended November 30, 2019, respectively. Notwithstanding the shift to lower price communities, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets, which resulted in increased aggregate average sales prices for our entry-level product in the central segment.

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 74.2% (911 homes) and 56.2% (1,455 homes) for the three and six months ended November 30, 2020, respectively, compared to the three and six months ended

November 30, 2019. Included in the net new home orders are 421 and 431 wholesale home sales to real estate investors for the three and six months ended November 30, 2020, respectively, and 155 and 316 for the three and six months ended November 30, 2019, respectively. These homes were sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements). These sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from quarter to quarter. Excluding the wholesale home sales to real estate investors, net new home orders increased 60.1% (645 homes) and 59.0% (1,340 homes) for the three and six months ended November 30, 2020, respectively, compared to the three and six months ended November 30, 2019. The increase in net new home orders was primarily due to an increase in the average monthly sales per average active community among 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.

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 three and six months ended November 30, 2020 compared to the three and six months ended November 30, 2019 was in our Starlight Homes business.

Our backlog consists of homes that are under purchase contracts that have not yet closed. Backlog increased 63.1% from 1,776 homes in backlog at November 30, 2019 to 2,897 homes in backlog at November 30, 2020. Excluding wholesale home sales to real estate investors, backlog increased 64.1% from 1,514 homes in backlog at November 30, 2019 to 2,485 homes in backlog at November 30, 2020. The increase in backlog was a result of the continued strong demand for new homes as well as elongated construction cycles, resulting in the Company selling 6,764 homes during the twelve months ended November 30, 2020, which is 1,121 more homes than were closed (5,643 homes) during the twelve months ended November 30, 2020. The sales value of backlog at November 30, 2020 was $1,080.2 million, a 64.9% increase from the sales value of backlog at November 30, 2019 of $654.9 million. The increase in the sales value of backlog is primarily due to the 63.1% increase in the number of homes in backlog, as discussed above, as well as an increase in the average sales price of homes in backlog from $369,000 at November 30, 2019 to $373,000 at November 30, 2020. Although our communities have continued to shift to a higher percentage of entry-level communities, the increase in the average sales price of homes in backlog is primarily related to the continued strong demand for new homes, which has enabled us to raise prices and reduce incentives in certain communities across all of our markets. In response to the emergence of COVID-19 as discussed above, the Company slowed and delayed the construction of homes through March and April 2020. This coupled with elongated construction cycle times due to the availability and costs of trade labor and building materials, as well as the responsiveness of government services such as zoning, permitting and related government approvals, has resulted in homes staying in backlog longer than in prior periods.

Net new home orders and backlog - East segment

Net new home orders in the east segment increased 75.1% (378 homes) and 39.6% (457 homes) during the three and six months ended November 30, 2020, respectively, compared to the three and six months ended November 30, 2019. The increase in net new home orders was largely driven by an increase in the average sales pace per 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 three and six months ended November 30, 2020, as compared to the three and six months ended November 30, 2019. The number of entry-level active communities in the east segment increased from 19 at November 30, 2019 to 21 at November 30, 2020.

	As of November 30,	
	2020	**2019**
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	444	330
Entry-Level - Ashton Woods	93	64
Move-Up	324	182
Multi-Move-Up	171	137
Segment Total	1,032	713

Backlog consisted of 1,032 homes at November 30, 2020, which is a 44.7% increase from 713 homes in backlog at November 30, 2019. Included in backlog at November 30, 2020 and November 30, 2019 were 206 and 192 wholesale home sales with real estate investors, respectively. The increase in backlog is a result of selling 319 more homes than we closed during the twelve months ended November 30, 2020. The east segment sold 2,727 homes, while closing 2,408 homes during the twelve months ended November 30, 2020.

The sales value of backlog at November 30, 2020 was $414.8 million, a 52.8% increase compared to the sales value of backlog at November 30, 2019 of $271.5 million, due primarily to an increase in the average sales price of homes in backlog and an increase in the number of homes in backlog. The average sales price of homes in backlog at November 30, 2020 was $402,000 compared to $381,000 at November 30, 2019. The increase in the average sales price of homes in backlog is primarily a result of the mix of types of communities with homes in backlog, as well as continued strong demand for new homes. Of the 1,032 homes in backlog at November 30, 2020, 324 (31.4%) of the homes were considered move-up, compared to 182 (25.5%) of the 713 homes in backlog at November 30, 2019. Of the 1,032 homes in backlog at November 30, 2020, 537 (52.0%) of the homes were considered entry-level (including 206 wholesale home sales), compared to 394 (55.3%) of the 713 homes in backlog at November 30, 2019 (including 192 wholesale home sales).

Net new home orders and backlog - Central segment

Net new home orders in the central segment increased 73.5% (533 homes) and 69.6% (998 homes) during the three and six months ended November 30, 2020, respectively, compared to the three and six months ended November 30, 2019. The increase in net new home orders was largely driven by an increase in the average sales pace per active community due to continued strong demand for new homes, as well as an increase in the number of active communities for the three and six months ended November 30, 2020, as compared to the three and six months ended November 30, 2019. As discussed above, our strategy has driven a shift in the mix of active communities at November 30, 2020, as compared to November 30, 2019, to a higher percentage of entry-level communities, which typically have a higher sales pace. The number of entry-level active communities in the central segment increased from 33 at November 30, 2019 to 41 at November 30, 2020.

	As of November 30,	
	2020	**2019**
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	666	197
Entry-Level - Ashton Woods	369	295
Move-Up	670	525
Multi-Move-Up	160	46
Segment Total	1,865	1,063

Backlog consisted of 1,865 homes at November 30, 2020, which is a 75.4% increase from 1,063 homes in backlog at November 30, 2019. Included in backlog at November 30, 2020 and November 30, 2019 were 206 and 70 wholesale home sales with real estate investors, respectively. The increase in backlog is the result of selling 802 more homes than were closed during the twelve months ended November 30, 2020. The central segment sold 4,037 homes, while closing 3,235 homes during the twelve months ended November 30, 2020.

The sales value of backlog at November 30, 2020 was $665.4 million, a 73.6% increase over the sales value of backlog at November 30, 2019 of $383.4 million due to the 75.4% increase in the number of homes in backlog as discussed above, offset in part by a decrease in the average sales price of homes in backlog. The average sales price of homes in backlog at November 30, 2020 was $357,000 compared to $361,000 at November 30, 2019. The decrease in the average sales price of homes in backlog is a result of the mix of types of communities with homes in backlog. Of the 1,865 homes in backlog at November 30, 2020, 1,035 (55.5%) of the homes were considered entry-level (including 206 wholesale home sales), compared to 492 (46.3%) of the 1,063 homes in backlog at November 30, 2019 (including 70 wholesale home sales).

Home gross margins - Consolidated

The average gross margin from homes closed for the three and six months ended November 30, 2020 increased to 21.8% and 20.5%, respectively, from 17.9% and 17.0% for the three and six months ended November 30, 2019, respectively. The increase in average gross margin for the three and six months ended November 30, 2020 was due primarily to the shift in community mix toward entry-level communities. We have generally experienced higher demand for our entry level and lower priced homes, while offering fewer incentives, resulting in higher gross margins in our entry-level communities. During the three and six months ended November 30, 2020, 66.9% and 64.6%, respectively, of closings were from entry-level communities, compared to 54.1% and 55.5% of closings during the three and six months ended November 30, 2019, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets.

Adjusted gross margin from homes closed for the three and six months ended November 30, 2020 increased to 23.9% and 22.6%, respectively, from 20.2% and 19.4% for the three and six months ended November 30, 2019, respectively. This increase in the adjusted gross margin was due to the improvement in gross margins as described above, along with an increase in the interest amortized through cost of sales, offset in part by a decrease in impairment charges during the six months ended November 30, 2020 as compared to the six months ended November 30, 2019.

Home gross margins - East segment

The average gross margin from homes closed in the east segment for the three and six months ended November 30, 2020 increased to 18.6% and 17.3%, respectively, from 15.9% and 14.9% for the three and six months ended November 30, 2019, respectively. The increase in average gross margin for the three and six months ended November 30, 2020 as compared to the three and six months ended November 30, 2019 was due primarily to the shift in community mix to more entry-level communities, which typically have a higher gross margin. During the three and six months ended November 30, 2020, 68.9% (413 homes) and 66.7% (795 homes), respectively, of closings were from entry-level communities compared to 55.5% (266 homes) and 57.3% (571 homes) of closings for the three and six months ended November 30, 2019, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across the east segment.

Home gross margins - Central segment

The average gross margin from homes closed in the central segment for the three and six months ended November 30, 2020 increased to 24.2% and 23.2%, respectively, from 19.7% and 19.0% for the three and six months ended November 30, 2019, respectively. The increase in average gross margin for the three and six months ended November 30, 2020 as compared to the three and six months ended November 30, 2019 was due primarily to the shift in community mix to more entry-level communities, which typically have a higher gross margin. During the three and six months ended November 30, 2020, 65.4% (531 homes) and 63.0% (920 homes), respectively, of closings were from entry-level communities compared to 53.0% (317 homes) and 53.9%% (605 homes) of closings for the three and six months ended November 30, 2019, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across the central segment.

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

SG&A totaled $60.1 million and $115.1 million for the three and six months ended November 30, 2020, respectively, compared to $53.4 million and $107.2 million for the three and six months ended November 30, 2019, respectively. SG&A as a percentage of home sales revenue decreased to 12.8% and 13.0% for the three and six months ended November 30, 2020, respectively, from 14.2% and 14.5% for the three and six months ended November 30, 2019, respectively. The decrease in SG&A as a percentage of home sales revenue was primarily related to a decrease in sales and marketing costs as a percentage of revenue 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. This was partially offset by an increase in sales commissions due to an increase in the number of home closings, as well as an increase in legal settlements and fees incurred in the normal course of business.

Land sales

We periodically elect to sell parcels of land or lots. We had no sales of land and lots during the three months ended November 30, 2020, and $6.0 million in sales of land and lots during the three months ended November 30, 2019. We had $0.1 million in sales of land and lots during the six months ended November 30, 2020 and $6.0 million sales of land and lots during the six months ended November 30, 2019.

Net income

Net income increased $25.8 million and $40.4 million for the three and six months ended November 30, 2020, respectively, as compared to the three and six months ended November 30, 2019. The increase in net income for the three and six months ended November 30, 2020 as compared to the three and six months ended November 30, 2019 is primarily attributable to an increase in revenues for the three and six months ended November 30, 2020 as compared to the three and six months ended November 30, 2019, as a result of the 31.0% and 25.2% increase in the number of homes closed during the three and six months ended November 30, 2020, respectively, as compared to the three and six months ended November 30, 2019, as well as an increase in home gross margins for the three and six months ended November 30, 2020 as compared to the three and six months ended November 30, 2019.

Liquidity and capital resources

We currently fund our operations with proceeds from the sales of homes and land, borrowings under our Restated Revolver, and long-term financing. 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 six months ended November 30, 2020 and had no borrowings outstanding under the Restated Revolver as of November 30, 2020. The Company's total liquidity, including cash and cash equivalents, restricted cash, and available additional borrowing capacity, was $435.2 million as of November 30, 2020.

Operating cash flows

Net cash used in operating activities for the six months ended November 30, 2020 was $22.5 million compared to $132.0 million of net cash used in operating activities for the six months ended November 30, 2019. The primary sources of funds from operations are from the closing of home sales. The decrease in net cash used in operations for the six months ended November 30, 2020 was primarily due to an increase in customer deposits from both retail and wholesale customers due to strong demand for new homes, as well as elongated cycle times due to lack of availability of trade labor and building materials.

Investing cash flows

Net cash used in investing activities was $3.4 million for the six months ended November 30, 2020 and $2.6 million for the six months ended November 30, 2019. Net cash used in investing activities for the six months ended November 30, 2020 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 $18.3 million for the six months ended November 30, 2020, compared to $134.5 million of cash provided by financing activities for the six months ended November 30, 2019. The funds used in financing activities during the six months ended November 30, 2020 consisted primarily of (i) tax distributions of approximately $13.5 million to our Members and (ii) a $4.7 million repayment of a note payable. At November 30, 2020, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $221.1 million based on outstanding letters of credit and the value of collateral pledged to secure the facility.

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 60.5% at November 30, 2020 from 62.9% at November 30, 2019. 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 52.3% at November 30, 2020 from 62.9% at November 30, 2019.

Inventory

As of November 30, 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	488	12	635	114	43	120	1,412
Central	517	7	1,266	49	72	105	2,016
Company total	1,005	19	1,901	163	115	225	3,428

(1) Includes 15 models under the Ashton Woods brand name and 4 sales offices under the Starlight Homes brand name.
(2) Includes 83 models under the Ashton Woods brand name and 32 sales offices under the Starlight Homes brand name.

As of November 30, 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	1,412	1,168	1,813	643	5,036	14,148	19,184
Central	2,016	1,468	2,221	333	6,038	15,180	21,218
Total Company	3,428	2,636	4,034	976	11,074	29,328	40,402
Percentage of total controlled	8.5 %	6.5 %	10.0 %	2.4 %	27.4 %	72.6 %	100.0 %

As of November 30, 2020 and 2019, we had the following unsold homes in inventory (in units):

	As of November 30,	
	2020	2019
Entry-Level - Starlight Homes	558	697
Entry-Level - Ashton Woods	167	272
Move-Up	308	537
Multi-Move-Up	135	227
Consolidated	1,168	1,733

The total number of unsold homes in inventory decreased from 1,733 at November 30, 2019 to 1,168 at November 30, 2020. As discussed above, during the three months ended May 31, 2020 the Company made a number of strategic decisions focused on cash generation and preservation in the wake of COVID-19, one of which included a halt in construction of unsold homes for a time period. As a result of this decision, as well as the strong demand beginning during the latter part of the spring season and continuing through November 30, 2020, the number of unsold homes in inventory decreased at November 30, 2020 compared to November 30, 2019.

In addition to the 11,074 lots we owned, we controlled, through the use of purchase and option agreements, 29,328 lots at November 30, 2020. Purchase and option agreements that did not require consolidation at November 30, 2020 under ASC 810, ASC 606, or ASC 470-40 had an aggregate remaining purchase price of $1.4

billion. In connection with these agreements, we had cash deposits of $176.4 million at November 30, 2020. In addition, as of November 30, 2020, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $134.2 million and cash deposits of $30.4 million (See Note 4 to our unaudited condensed consolidated financial statements).

During the six months ended November 30, 2020, we acquired 4,152 lots for a total purchase price of $233.1 million. We spent $40.9 million on land development during the six months ended November 30, 2020. We spent $3.4 million during the six months ended November 30, 2020 to furnish and/or update furnishings in model homes and sales offices.

Aggregate contractual commitments and off-balance sheet arrangements

As of November 30, 2020, there have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments as of November 30, 2020, 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 unaudited condensed consolidated financial statements as of November 30, 2020.

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 November 30, 2020, we had letters of credit and surety bonds outstanding of $0.3 million and $96.2 million, respectively. As of November 30, 2020, we had $49.7 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 10.00%. 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 six months ended November 30, 2020, the note, along with interest, was paid in full.

At November 30, 2020, we controlled 40,402 lots and homes available to close. Of the 40,402 lots and homes controlled, we owned 27.4%, or 11,074 lots and homes, and 72.6%, or 29,328 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 November 30, 2020, these agreements had an aggregate remaining purchase price of $1.4 billion, net of deposits of $176.4 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $134.2 million and cash deposits of $30.4 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 to record the land under option as if we own it.

As of November 30, 2020, real estate not owned totaled $85.9 million related to thirteen lot purchase agreements with $30.4 million of non-refundable deposits. Refer to our discussion in Note 4 to our unaudited condensed consolidated financial statements as of November 30, 2020.

As of November 30, 2020, we participated 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 November 30, 2020, we participated in a mortgage joint venture in which the Company offers residential mortgage services to its homebuyers and the public at large in Austin, Dallas, Houston, San Antonio, Charleston, Raleigh, Orlando, Phoenix, and Southwest Florida. The Company does not have a controlling interest in the joint venture. We account for our interest in the mortgage joint venture under the equity method. Our share of profits is included within equity in earnings in unconsolidated entities in the unaudited condensed 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 calendar second quarter of each 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

There have been no significant changes to our critical accounting policies and estimates during the six months ended November 30, 2020, compared with those disclosed in our audited consolidated financial statements for the fiscal year ended May 31, 2020.

Transactions with related parties

See Note 10 to our unaudited condensed consolidated financial statements as of November 30, 2020 for transactions with related parties. The Company is a party to nine lot purchase agreements with the Investors. A 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 a party to a lease as a lessee with the Investors to rent approximately 8,500 square feet of commercial space in Dallas, Texas. See the audited consolidated financial statements for the fiscal year ended May 31, 2020 for transactions existing at such date.

Pending accounting pronouncements

See Note 2 to our unaudited condensed consolidated financial statements as of November 30, 2020.

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

We maintain a mix of variable-rate and fixed-rate debt and our primary market risk exposure for these financial instruments relates to fluctuations in interest rates, which include changes in the U.S. Treasury 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 November 30, 2020, we had no outstanding borrowings under the Restated Revolver.

Item 4. *Controls and Procedures*

Pursuant to section 4.03 of each of the indentures governing the 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 Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1. *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 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 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report for the year ended May 31, 2020, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, financial condition, and / or operating results.