NOT FILED WITH THE SEC

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

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

For the quarterly period ended November 30, 2021

OR

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

For the transition period from ________ to________.

Commission file Number: **N/A**

Ashton Woods USA L.L.C.

(Exact Name of Registrant as Specified in Its Charter)

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

(770) 998-9663

Registrant's telephone number, including area code

N/A

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ ] No [ ] N/A [X]

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

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

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

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

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

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

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, 2021, and the related condensed consolidated statements of income for the three- and six-month periods ended November 30, 2021 and 2020, condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2020 to November 30, 2021, and condensed consolidated statements of cash flows for the six-month periods ended November 30, 2021 and 2020.

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, 2021

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, 2021, 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 14, 2021. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2021, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

January 11, 2022

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	November 30, 2021	May 31, 2021
Assets:		
Cash and cash equivalents	$ 107,439	$ 277,514
Restricted cash	6,989	7,141
Receivables	44,940	53,474
Inventory	1,425,446	1,116,391
Property and equipment, net	7,880	8,287
Investments in unconsolidated entities	5,231	7,025
Deposits on real estate under option or contract	262,294	192,471
Other assets	154,286	137,882
Total assets	$ 2,014,505	$ 1,800,185
Liabilities and members' equity:		
Liabilities:		
Accounts payable	$ 141,990	$ 135,783
Other liabilities	201,685	201,225
Customer deposits	85,618	68,332
Debt	888,152	744,036
Total liabilities	1,317,445	1,149,376
Commitments and contingencies (Note 14)		
Members' equity:	697,060	650,809
Total liabilities and members' equity	$ 2,014,505	$ 1,800,185

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,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Home sales	$ 583,980	$ 467,995	$ 1,163,286	$ 881,820
Land sales	5,060	—	5,060	65
Financial services and other revenues	8,432	4,040	21,368	13,630
	597,472	472,035	1,189,714	895,515
Cost of sales:				
Homes	441,962	366,131	878,600	701,417
Land	5,074	—	5,074	74
Financial services and other revenues	5,621	2,224	15,680	9,428
	452,657	368,355	899,354	710,919
Gross profit	144,815	103,680	290,360	184,596
Other expense (income):				
Selling, general and administrative	71,787	60,117	142,700	115,065
Interest expense	83	5,154	566	12,583
Depreciation and amortization	1,814	2,144	3,779	4,326
Loss from early extinguishment of debt	34,900	—	45,669	—
Other income, net	(301)	(371)	(494)	(264)
	108,283	67,044	192,220	131,710
Equity in earnings of unconsolidated entities	3,055	2,146	5,212	3,646
Net income	$ 39,587	$ 38,782	$ 103,352	$ 56,532

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, 2020	$ 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	$ 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	$ 185,847	$ 41,955	$ 265,668	$ 493,470
Net income	17,531	4,308	23,213	45,052
Distributions	(3,370)	(828)	(4,462)	(8,660)
Members' equity at February 28, 2021	$ 200,008	$ 45,435	$ 284,419	$ 529,862
Net income	51,597	12,681	68,319	132,597
Distributions	(4,533)	(1,114)	(6,003)	(11,650)
Members' equity at May 31, 2021	$ 247,072	$ 57,002	$ 346,735	$ 650,809
Net income	24,812	6,098	32,854	63,764
Distributions	(10,078)	(2,477)	(13,345)	(25,900)
Members' equity at August 31, 2021	$ 261,806	$ 60,623	$ 366,244	$ 688,673
Net income	15,404	3,786	20,397	39,587
Distributions	(12,141)	(2,984)	(16,075)	(31,200)
Members' equity at November 30, 2021	$ 265,069	$ 61,425	$ 370,566	$ 697,060

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,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 103,352	$ 56,532
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(5,212)	(3,646)
Returns on investments in unconsolidated entities	5,601	4,275
Long-term compensation expense	11,323	4,709
Loss from early extinguishment of debt	45,669	—
Inventory impairments	34	114
Depreciation and amortization	3,779	4,326
Changes in operating assets and liabilities:		
Inventory	(307,489)	(114,591)
Receivables	8,534	(9,997)
Deposits on real estate under option or contract	(69,823)	(32,395)
Other assets	(17,825)	(7,662)
Accounts payable	6,207	50,618
Other liabilities	(10,175)	(11,756)
Customer deposits	17,286	36,954
Net cash used in operating activities	(208,739)	(22,519)
Cash flows from investing activities:		
Returns of investments in unconsolidated entities	1,648	—
Additions to property and equipment	(3,320)	(3,412)
Net cash used in investing activities	(1,672)	(3,412)
Cash flows from financing activities:		
Borrowings from revolving credit facility	—	—
Repayments of revolving credit facility	—	—
Proceeds from issuance of debt	650,000	—
Payment of debt issuance costs	(8,826)	(68)
Repayment of debt	(505,000)	—
Payment of premiums on extinguishment of debt	(38,890)	—
Repayment of notes payable	—	(4,725)
Members' distributions	(57,100)	(13,510)
Net cash provided by (used in) financing activities	40,184	(18,303)
Change in cash, cash equivalents, and restricted cash	(170,227)	(44,234)
Cash, cash equivalents, and restricted cash, beginning of period	284,655	258,373
Cash, cash equivalents, and restricted cash, end of period	$ 114,428	$ 214,139
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 435	$ 12,581

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,	
	2021	2020
Cash and cash equivalents	$ 107,439	$ 213,537
Restricted cash	6,989	602
Total cash, cash equivalents, and restricted cash	$ 114,428	$ 214,139

Supplemental disclosures of cash flows information:

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 665	$ 1,336	$ 665	$ 1,388

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") is a limited liability company, that through its subsidiaries, designs, builds, and markets detached and attached single-family homes under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name and offers entry-level homes under the Starlight Homes brand name. Included under the Starlight Homes brand, the Company offers construction and development services under fee arrangements specifically tailored to the single-family rental industry. In addition, the Company sells completed homes under the Starlight Homes brand, which we typically sell under bulk sales agreements, to real estate investors who purchase the homes for use as rental properties. We refer to such sales as our wholesale homes sales. As of November 30, 2021, the Company had Ashton Woods and Starlight Homes operations in the following markets:

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

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

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

(b) Basis of presentation

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

(c) Cash, cash equivalents, and restricted cash

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

(d) Inventory

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

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

Inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case the inventory is written down to fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *Property, Plant and Equipment* ("ASC 360-10"). The Company reviews its inventory in accordance with ASC 360-10, which requires long-lived assets to be assessed for impairment when facts and circumstances indicate an impairment may exist. The Company utilizes an undiscounted future cash flow model in this assessment. When the results of the undiscounted future cash flows are less than the carrying value of the community (asset group), an asset impairment must be recognized in the 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, 2021, the Company recognized inventory impairment charges on homes in inventory totaling $34.1 thousand for both the three- and six-month periods ended November 30, 2021, which is included as a component of cost of sales - homes in the unaudited condensed consolidated statements of income. The Company recognized inventory impairment charges of $0.1 million during both the three- and six-month periods ended November 30, 2020, respectively. The impairment charges of $0.1 million during the three months ended November 30, 2020 consisted of $58.0 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 for the three months ended November 30, 2020, and $31.4 thousand of impairments on land that was held for sale, which is included as a component of costs of sales - land in the unaudited condensed consolidated statements of income for the three months ended November 30, 2020. The impairment charges of $0.1 million during the six months ended November 30, 2020 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 for the six months ended November 30, 2020, and $31.4 thousand of impairments on land that was held for sale, which is included as a component of costs of sales - land in the unaudited condensed consolidated statements of income for the six months ended November 30, 2020.

In order for management to assess the fair value of its real estate assets, certain assumptions must be made that are highly subjective and susceptible to change. Management evaluates, among other things, the actual gross margins for homes closed and the estimated gross margins for homes sold in backlog (representing the number or value of sales that have not yet closed, net of cancellations). This evaluation also includes assumptions with respect to future home sales prices, cost of sales, including levels of sales incentives, the monthly rate of sales, discount rates, profit margins, and potential buyers, which are critical in determining the fair value of the Company's real estate assets. Given the historical variability in the homebuilding industry cycle and the current impact and uncertainties of COVID-19, the Company is of the view that the valuation of homebuilding inventories is sensitive to changes in economic conditions, such as interest rates, inflation, the availability of credit, and unemployment levels. Changes in these economic conditions could materially affect the projected home sales prices, the level of sales incentives, the costs to develop land and construct homes, and the monthly rate of sales. Because of these potential changes in economic and market conditions, in conjunction with the assumptions and estimates required of management in valuing housing 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, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
Closing funds due	$ 853	$ 1,611
Land development receivables	28,534	34,163
MUD receivables [(1)]	9,952	10,626
Other receivables [(2)]	5,601	7,074
	$ 44,940	$ 53,474

(1) Includes certain land development costs to be reimbursed by five and six Municipal Utility Districts ("MUD") in Houston, Texas at November 30, 2021 and May 31, 2021, respectively.

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

(f) Real estate not owned

Real estate not owned reflects lots under option purchase agreements recorded pursuant to ASC 606, *Revenue From Contracts With Customers* ("ASC 606"), ASC Subtopic 470-40 ("ASC 470-40"), *Product Financing Arrangements*, or ASC 810, *Consolidation* ("ASC 810") (see Note 5).

(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 all of its operating divisions through two unconsolidated mortgage joint ventures. The Company has an ownership interest of 49% in each of these mortgage joint ventures. The Company's investments in these mortgage joint ventures are accounted for under the equity method.

Investments in unconsolidated entities are evaluated for other-than-temporary impairment during each reporting period pursuant to ASC Subtopic 323-10, *Investments—Equity Method and Joint Ventures*. A series of operating losses or other factors may indicate an other-than-temporary decrease in the value of the Company's investment in the unconsolidated entity. The amount of impairment recognized is the excess of the investment's carrying value over its estimated fair value. The Company did not recognize any other-than-temporary impairments during the six months ended November 30, 2021 or 2020 related to its investments in unconsolidated entities.

(h) Deposits and pre-acquisition costs

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the 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, at which time the costs are transferred to inventory. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for the costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income and totaled \$0.1 million and \$0.6 million for the three and six months ended November 30, 2021, respectively, and \$1.0 million and \$1.5 million for the three and six months ended November 30, 2020, respectively.

(i) Property and equipment, net

Property and equipment is recorded at cost. Depreciation and amortization are generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the term of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at November 30, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
Office furniture and equipment	$ 3,292	$ 3,134
Sales offices, design studios, and model furnishings	25,207	25,794
Leasehold improvements	3,187	2,576
	31,686	31,504
Accumulated depreciation and amortization[1]	(23,806)	(23,217)
	$ 7,880	$ 8,287

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated $1.8 million and $3.8 million for the three and six months ended November 30, 2021, respectively, and $2.1 million and $4.3 million for the three and six months ended November 30, 2020, respectively.

(j) Revenue recognition

With respect to home sales revenues, revenue from a home sale is recognized when we have satisfied the performance obligation in the home sales contract, which is generally at the time of the closing of each sale, when title to and possession of the property are transferred to the buyer. The revenue recognized for each home sale includes the base sales price of the home, as well as any purchased options and upgrades, and is reduced for any sales incentives. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings in transit or held in escrow for our benefit, which is typically received within two days of the home closing. Home sale contract assets totaled $0.9 million and $1.6 million at November 30, 2021 and May 31, 2021, 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, which totaled $85.6 million and $68.3 million at November 30, 2021 and May 31, 2021, respectively. Of the customer deposit liabilities at May 31, 2021, $28.2 million was recognized in revenues in the six months ended November 30, 2021 upon the closing of the related homes. Also included in home sale revenues are our wholesale home sales within our Starlight Homes brand. Wholesale home sales primarily consist of completed homes sold under bulk sales agreements to real estate investors who purchase the homes for use as rental properties.

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

With respect to land sales revenues, we periodically elect to sell parcels of land or lots. These land and lot sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied. Land sale contract assets consist of cash from closed land sales in transit or held in escrow for our benefit, which is typically received within two days of closing on the land sale. Land sale contract assets are classified as receivables in the unaudited condensed consolidated balance sheets. Land sale contract liabilities consist of customer deposit liabilities related to land parcels under contract for sale. There were no land sale contract assets or liabilities at November 30, 2021 or May 31, 2021.

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 and other miscellaneous customer revenue that is recognized when the related performance obligation is satisfied. Other revenues also include 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 accounting principles generally accepted in the United States ("GAAP"), are included in the Company's financial services and other revenues and cost of sales - financial services and other revenues in the unaudited condensed consolidated statements of income.

ASC 606 provides certain practical expedients that limit some accounting treatments and disclosure requirements. Accordingly, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. 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 $8.5 million and $14.0 million as of November 30, 2021 and May 31, 2021, respectively, which primarily represent prepaid insurance, fees, and permits.

(l) Warranty costs

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

Presented below are summaries of the activity in the Company's warranty liability account for the six months ended November 30, 2021 and 2020 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Warranty liability, beginning of period	$ 10,402	$ 10,168	$ 10,040	$ 10,122
Costs accrued during period	4,221	3,060	8,132	6,049
Costs incurred during period	(4,053)	(3,214)	(7,602)	(6,157)
Warranty liability, end of period	$ 10,570	$ 10,014	$ 10,570	$ 10,014

(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 $0.6 million and $1.2 million for the three and six months ended November 30, 2021, respectively, and $1.5 million and $3.1 million for the three and six months ended November 30, 2020, 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 12 for additional discussion regarding the Company's long-term incentive plan.

(o) Income taxes

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make distributions to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's Restated Revolver and in the indentures governing its 6.625% Senior Notes due 2028 (the "2028 Notes"), its 4.625% Senior Notes due 2029 (the "2029 Notes"), and its 4.625% Senior Notes due 2030 (the "2030 Notes"). Any tax distributions made to the Members are treated as a reduction of equity. The Company made tax distributions to its Members of $57.1 million and $13.5 million during the six months ended November 30, 2021 and 2020, respectively.

(p) Use of estimates

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

(q) Segments

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

1) East:	Atlanta, Coastal Carolinas, Orlando, Raleigh, and Southwest Florida
2) Central:	Austin, Dallas, Houston, Phoenix, and San Antonio

The Company has determined that the homebuilding operating markets within its respective reportable segments have similar economic characteristics and product types, and are similar in terms of geography. The Company's homebuilding operating markets also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution. See Note 15 for further discussion of the Company's reportable segments.

(r) Risks and uncertainties

The worldwide spread of the novel coronavirus and its variants ("COVID-19") has caused broad business and social disruption across many industries and locations, both domestically and abroad. Further, the spread of COVID-19 has also caused significant volatility in U.S. and international debt and equity markets. To date, the COVID-19 pandemic has caused significant negative impacts across our industry, from trade availability, labor shortages, increases in the cost and availability of certain building materials and appliances, suspension of services in, and approvals by, local municipalities, delays in homes closings, increased cancellations, various and differing shelter in place orders by state, county, and other local municipalities, and disruptions in normal operating procedures, to volatile economic conditions and a decline in consumer confidence. Although there remains optimism about the ongoing vaccine rollouts and progress in the development of advanced therapeutics, including oral anti-viral medication, to combat COVID-19, infection and hospitalization rates have increased sharply recently due to a new variant and there remains significant uncertainty regarding how COVID-19 and its related effects will impact the U.S. and global economies going forward, including the level of unemployment, inflation, labor and supply shortages, availability of debt, capital, the health of the mortgage markets, consumer confidence, and demand for our homes, and in turn, the impact it will have on our results.

(s) Subsequent events

The Company has evaluated subsequent events through January 11, 2022. This date represents the date on which the unaudited condensed consolidated financial statements were available to be issued.

On December 1, 2021, the Company acquired substantially all of the assets of Capitol City Homes, LLC ("Capitol City Homes"), the fifth largest private homebuilder in Raleigh, North Carolina, for a purchase price of approximately $41.1 million funded in cash. The acquisition further expands the land positions and number of communities of both the Ashton Woods and Starlight Homes brands in the Raleigh market, with the acquisition of over 1,500 total lots and homes owned and controlled across 40 communities from Capitol City Homes.

On December 2, 2021, the Board of Directors of the Company (the "Board") approved a non-tax distribution totaling $35 million in the aggregate to the Company's Members, which was distributed during December 2021.

On December 17, 2021, Little Shots Nevada, L.L.C. ("Little Shots") acquired 42,495 and 28,331 Class B and Class C membership interests, respectively, from certain Class B and Class C Members. Subsequent to the acquisition of these Class B and Class C membership interests, Little Shots owns 18,187,421 membership interests representing a total ownership percentage of 88.17% in the Company.

On January 11, 2022, the Board approved tax distributions totaling $7.1 million in the aggregate to the Company's Members.

Note 2 — Debt Transactions

On August 2, 2021, Ashton Woods and Ashton Woods Finance Co., a wholly owned subsidiary of Ashton Woods ("Finance Co.", and together with Ashton Woods, the "Companies"), issued and sold, at an issue price of 100.00%, $350 million aggregate principal amount of their 4.625% Senior Notes due 2029 through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Interest on the 2029 Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year, commencing February 1, 2022. The Notes will mature on August 1, 2029. The 2029 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2028 Notes. The Company incurred deferred financing fees during the six months ended November 30, 2021 of $5.1 million in connection with the issuance of the 2029 Notes.

On August 2, 2021, the Companies redeemed all of the previously outstanding 6.750% Senior Notes due 2025 (the "2025 Notes") at a redemption price of 103.375% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the redemption date.

On September 23, 2021, the Companies issued and sold, at an issue price of 100.00%, $300 million aggregate principal amount of their 4.625% Senior Notes due 2030 through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2030 Notes is payable semi-annually in cash in arrears on April 1 and October 1 of each year, commencing April 1, 2022. The Notes will mature on April 1, 2030. The 2030 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2028 Notes and 2029 Notes. The Company incurred deferred financing fees during the six months ended November 30, 2021 of $3.7 million in connection with the issuance of the 2030 Notes.

On October 4, 2021, the Companies redeemed all of the previously outstanding 9.875% Senior Notes due 2027 (the "2027 Notes") at a redemption price of 111.94% of the principal amount thereof, comprised of the prepayment and make-whole premiums, plus accrued and unpaid interest thereon to, but excluding, the redemption date.

The Company recorded a $34.9 million and $45.7 million loss on the extinguishment of debt during the three and six months ended November 30, 2021, respectively, comprised of redemption premiums and the write-off of unamortized deferred financing fees in connection with the redemptions of all outstanding 2025 Notes and 2027 Notes.

See Note 7 for further discussion on the Company's debt.

Note 3 — Pending and Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. The effective date of ASU 2016-13 was amended by the release of ASU 2019-10 in November 2019 and was extended for the Company to fiscal years beginning after December 15, 2022, and for annual and interim periods thereafter. The standard requires an entity to recognize the effects of adopting the new standard as a cumulative effect adjustment to opening retained earnings in the period of adoption. The Company is currently evaluating the impact that adoption of ASU 2016-13 will have on its condensed consolidated financial statements and related disclosures.

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

Note 4— Inventory

Inventory consisted of the following at November 30, 2021 and May 31, 2021 (in thousands):

	November 30, 2021	May 31, 2021
Homes under construction and finished homes	$ 959,632	$ 683,615
Finished lots	240,823	269,547
Land under development	129,473	114,931
Land held for future development	91,752	44,597
Land held for sale	3,766	3,701
	$ 1,425,446	$ 1,116,391

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 $0.1 million and $0.6 million for the three and six months ended November 30, 2021, respectively, and $5.2 million and $12.6 million for the three and six months ended November 30, 2020, 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, 2021 and 2020 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Capitalized interest, beginning of period	$ 26,894	$ 21,188	$ 24,610	$ 21,646
Interest incurred	14,105	15,779	29,755	31,753
Interest amortized to cost of sales	(12,164)	(9,841)	(25,047)	(18,844)
Interest expensed	(83)	(5,154)	(566)	(12,583)
Capitalized interest, end of period	$ 28,752	$ 21,972	$ 28,752	$ 21,972

Note 5 — Other Assets

Other assets at November 30, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
Real estate not owned	$ 117,274	$ 96,089
Right-of-use assets[1]	12,183	13,114
Prepaid expenses	8,453	13,993
Architecture plans	3,286	3,437
Deferred financing fees	2,772	3,210
Pre-acquisition costs	8,149	5,905
Other deposits	2,169	2,134
	$ 154,286	$ 137,882

(1) See Note 14, *Leases,* for additional information.

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

Pursuant to ASC 810, when the Company enters into a purchase agreement to acquire land or lots from an entity and pays a non-refundable deposit, the Company has concluded that a variable interest entity ("VIE"), for which consolidation may be required, is created because the Company is deemed to have provided subordinated financial support that will absorb some or all of an entity's expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary of the VIE and thus must consolidate the entity by first determining if it has the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract; and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if it will potentially benefit from a significant amount of the VIE's expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as "Real estate not owned" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities. At November 30, 2021 and May 31, 2021, 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" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities, in connection with such option purchase agreements. The Company has one lot purchase agreement with an unaffiliated investor group that is accounted for pursuant to ASC 470-40. At November 30, 2021 and May 31, 2021, the Company recorded real estate not owned of $8.0 million and $16.0 million, respectively, related to this lot purchase agreement accounted for pursuant to ASC 470-40.

Also, based on the provisions of ASC Subtopic 606-10, *Revenue From Contracts With Customers*, a seller may not recognize as a sale property it sells if an entity has an obligation or a right to repurchase lots and if the repurchase agreement is considered to be a financing arrangement. ASC 606 considers a repurchase option contract to be a financing arrangement, in accordance with ASC 606-10-55-70, if the entity will repurchase the lots for an amount that is equal to or greater than the original selling price of the asset. Therefore, if the Company enters into lot purchase option agreements for land it has sold and determines that the repurchase agreement is considered to be a financing arrangement, the Company records the lots subject to such sale as "Real estate not owned" within other assets and the related liabilities under the option agreement, as "Liabilities for real estate not owned" within other liabilities. At November 30, 2021 and May 31, 2021, the Company recorded real estate not owned of $109.3 million and $80.1 million, respectively, for the sale of lots because its repurchase agreements related to the real estate were considered to be financing arrangements. While these option agreements contain no specific performance obligations, should the Company choose not to purchase the land, it will forfeit the deposited amount.

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

Deferred financing fees included in other assets are comprised of costs incurred in connection with obtaining financing under the Restated Revolver. The Company did not incur any deferred financing fees during the six months ended November 30, 2021 related to the Company's Restated Revolver. The Company incurred deferred financing fees of approximately $0.1 million during the six months ended November 30, 2020, as a result of an amendment to the Company's Restated Revolver.

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

Note 6 — 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, 2021, the Company had an equity investment in one land joint venture with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates (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 has entered into a lot purchase agreement with the joint venture that permits but does not require the Company to purchase finished lots owned by the land joint venture. Lot prices are generally negotiated prices that approximate fair value when the purchase contract is signed. 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, 2021, the Company had recorded $0.5 million for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company has also entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of $6,000 for these services that is included in other income, net in the unaudited condensed consolidated statements of income. As of November 30, 2021, there were no lots remaining to be purchased under the lot purchase agreement. As of November 30, 2021, the joint venture had no debt outstanding.

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

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of November 30, 2021 and May 31, 2021 and for the three and six months ended November 30, 2021 and 2020 was as follows (in thousands):

	November 30, 2021	May 31, 2021
Assets:		
Cash	$ 8,075	$ 10,829
Mortgage notes receivable	56,809	93,865
Real estate	555	1,764
Other	651	365
Total assets	$ 66,090	$ 106,823
Liabilities and equity:		
Liabilities:		
Accounts payable and other accruals	$ 2,421	$ 4,960
Notes payable [(1)]	53,094	87,646
Total liabilities	55,515	92,606
Equity	10,575	14,217
Total liabilities and equity	$ 66,090	$ 106,823

(1) The notes payable balance at November 30, 2021 is comprised of $53.1 million outstanding on three warehouse lines. The notes payable balance at May 31, 2021 is comprised of $87.6 million outstanding on two warehouse lines. The warehouse lines are non-recourse to the Company.

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Revenues:				
Lot sales	$ 2,387	$ 4,668	$ 4,385	$ 4,668
Financial services	8,946	7,831	16,469	13,430
Total revenues	11,333	12,499	20,854	18,098
Gross profit	8,161	5,821	13,434	9,312
General and administrative expenses:				
Financial services	1,417	948	2,283	1,733
Total general and administrative expenses	1,417	948	2,283	1,733
Net income	$ 6,744	$ 4,873	$ 11,151	$ 7,579

Note 7 — Debt

Debt at November 30, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
6.750% Notes due 2025 (1)	$ —	$ 247,559
9.875% Notes due 2027 (2)	—	250,163
6.625% Notes due 2028 (3)	246,653	246,314
4.625% Notes due 2029 (4)	345,114	—
4.625% Notes due 2030 (5)	296,385	—
	$ 888,152	$ 744,036

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

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

(3) Net of $3.3 million and $3.7 million of unamortized deferred financing costs as of November 30, 2021 and May 31, 2021, respectively.

(4) Net of $4.9 million of unamortized deferred financing costs as of November 30, 2021.

(5) Net of $3.6 million of unamortized deferred financing costs as of November 30, 2021.

The 2025 Notes

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

On August 2, 2021, the Companies redeemed all of the previously outstanding 2025 Notes at a redemption price of 103.375% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the redemption date. See Note 2 for further discussion on the Companies' redemption of the 2025 Notes.

The 2027 Notes

On March 27, 2019, the Companies issued $255 million principal amount of 9.875% Senior Notes due 2027 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 2027 Notes were issued at a price of 99.301% of the principal amount to yield 10.000%.

On October 4, 2021, the Companies redeemed all of the previously outstanding 2027 Notes at a redemption price of 111.94% of the principal amount thereof plus accrued and unpaid interest thereon to, but excluding, the redemption date. See Note 2 for further discussion of the Companies' redemption of the 2027 Notes.

The 2028 Notes

On January 23, 2020, the Companies issued $250 million principal amount of 6.625% Senior Notes due 2028 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 2028 Notes were issued at a price of 100.00% of the principal amount to yield 6.625%.

The 2028 Notes mature on January 15, 2028. Interest is payable on the 2028 Notes on January 15 and July 15 of each year. The 2028 Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company’s existing and future senior debt and senior in right of payment to all of the Company’s existing and future subordinated debt. The 2028 Notes are effectively subordinated to any of the Company’s existing and future secured debt, to the extent of the value of the assets securing such debt. The obligations under the 2028 Notes are jointly and severally guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 2028 Notes), other than (i) subsidiaries that have assets with a book value of not more than $2.0 million and that do not guarantee certain other indebtedness and (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 2028 Notes) (all such Restricted Subsidiaries providing guarantees, the "Guarantors"). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage, which holds the interests in the Company's two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 2028 Notes. As of and for the six months ended November 30, 2021, AW Mortgage recognized equity in earnings of $3.9 million and had $4.6 million of assets and no liabilities.

The indenture governing the 2028 Notes gives the Companies the option to redeem the 2028 Notes at any time or from time to time, in whole or in part, (a) 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 2028 Notes, (b) on or after January 15, 2023 until January 15, 2026, at certain redemption prices set forth in the indenture governing the 2028 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (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 2028 Notes contains a number of covenants, including covenants relating to the following:

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

As of November 30, 2021, the Companies were in compliance with the covenants in the indenture governing the 2028 Notes.

The 2029 Notes

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

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

The indenture governing the 2029 Notes gives the Companies the option to redeem the 2029 Notes at any time or from time to time, in whole or in part, (a) until August 1, 2024, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 2029 Notes, (b) on or after August 1, 2024 until August 1, 2025, at certain redemption prices set forth in the indenture governing the 2029 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after August 1, 2026, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

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

As of November 30, 2021, the Companies were in compliance with the covenants in the indenture governing the 2029 Notes.

The 2030 Notes

On September 23, 2021, the Companies issued $300 million principal amount of 4.625% Senior Notes due 2030 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act. The 2029 Notes were issued at a price of 100.00% of the principal amount to yield 4.625%.

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

The indenture governing the 2030 Notes gives the Companies the option to redeem the 2030 Notes at any time or from time to time, in whole or in part, (a) until April 1, 2025, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 2030 Notes, (b) on or after April 1, 2025 until October 1, 2025, at certain redemption prices set forth in the indenture governing the 2029 Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after April 1, 2027, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

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

As of November 30, 2021, the Companies were in compliance with the covenants in the indenture governing the 2030 Notes.

Senior Unsecured Revolving Credit Facility

On February 2, 2021, the Company entered into the Restated Revolver, which converted the Company's prior revolving credit facility from a secured to an unsecured facility, thereby releasing all of the collateral that secured the prior facility. The Restated Revolver provides for, among other things, (i) an aggregate revolving loan commitment of up to $250.0 million, with up to $50.0 million available for the issuance of letters of credit and up to $20.0 million available for swingline loans, and an accordion feature to permit the size of the facility to be increased up to $300.0 million in the future (dependent upon Company needs and available lender commitments), (ii) a maturity date of February 2, 2025, and (iii) modification of certain covenants and restating the agreement to reflect such changes.

As of November 30, 2021, interest accrues on borrowings under the Restated Revolver at a London Interbank Offered Rate (LIBOR) or alternative base rate, plus an applicable margin that varies based upon the leverage ratio of the Company from time to time.

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

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

- A minimum level of Tangible Net Worth;
- A maximum Leverage Ratio;
- A minimum Interest Coverage Ratio; and
- A minimum liquidity requirement.

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

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

The Restated Revolver permits certain tax distributions to Members and permits certain other distributions to Members if certain conditions are met. As of November 30, 2021, the Company was in compliance with the covenants in the Restated Revolver.

At November 30, 2021, there were no borrowings outstanding under the Restated Revolver and $6.4 million of letters of credit outstanding. As of November 30, 2021, the Company had available additional borrowing capacity of $243.6 million under the Restated Revolver based on outstanding letters of credit and the borrowing base formula.

Note 8 — Other Liabilities

Other liabilities at November 30, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
Liabilities for real estate not owned (1)	$ 71,307	$ 59,740
Accrued long-term compensation	29,898	27,844
Salaries, bonuses, and benefits	35,224	52,232
Accrued interest	14,219	16,159
Lease liabilities(2)	13,429	14,616
Warranty accruals	10,570	10,040
Accrued real estate taxes	6,174	3,810
Accrued land development	6,278	4,719
Other	14,586	12,065
	$ 201,685	$ 201,225

(1) Net of deposits of $46.4 million and $36.3 million in November 30, 2021 and May 31, 2021, respectively.
(2) See Note 14, *Leases,* for additional information.

Note 9 — Customer Deposits

Customer deposits at November 30, 2021 and May 31, 2021 consisted of the following (in thousands):

	November 30, 2021	May 31, 2021
Customer deposits - retail sales	$ 64,386	$ 40,680
Customer deposits - wholesale sales	21,232	27,652
	$ 85,618	$ 68,332

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 10 — 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, (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, 2021, there were 20,628,729 membership interests outstanding, comprised as follows:

	Membership Interests	Ownership percentage	Percentage of membership class
Little Shots Nevada L.L.C.			
Class A	8,027,200	38.91 %	100.00 %
Class B	1,922,151	9.32 %	97.43 %
Class C	8,167,244	39.59 %	76.84 %
Total Little Shots Nevada L.L.C.	18,116,595	87.82 %	
Various Holders			
Class B	50,649	0.25 %	2.57 %
Class C	2,461,485	11.93 %	23.16 %
	20,628,729	100.00 %	

See Note 1(s) for further discussion of changes to the ownership of membership interests in the Company subsequent to November 30, 2021.

Note 11 — 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 $1.3 million and $2.6 million during the three and six months ended November 30, 2021, respectively, and $1.1 million and $2.1 million during the three and six months ended November 30, 2020, respectively, under the services agreement. As of November 30, 2021 and May 31, 2021, the balance due to the Investors under the terms of the service agreement was $1.3 million and $2.1 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

Office lease

The Company is a party to a lease as a lessee with the Investors to rent approximately 8,500 square feet of commercial space in Dallas, Texas. The Company has 13 months remaining on the lease as of November 30, 2021. Total minimum lease payments due under the lease were $0.1 million and $0.2 million as of November 30, 2021 and May 31, 2021, respectively.

Lot purchase agreements

The Company is a party to seven 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 within other assets and liabilities for real estate not owned within other liabilities in the unaudited condensed consolidated balance sheets. As of November 30, 2021, the total purchase price of lots remaining to be purchased under such agreements was approximately $61.8 million.

Joint venture

The Company is a party to a land joint venture with the Investors, which is accounted for under the equity method. The Company has a limited partner equity investment of 49% in the joint venture and does not have a controlling interest in the unconsolidated entity. During the six months ended November 30, 2021, the Company was a party to a lot purchase agreement with the joint venture. A 10% deposit was required under the purchase agreement and there were no specific performance requirements for the Company. As of November 30, 2021, there were no lots remaining to be purchased under the lot purchase agreement.

Sales of completed homes

During fiscal year 2021, the Company entered into a wholesale home sales agreement with the Investors. In accordance with the agreement, the Company reported 152 wholesale home orders to the Investors for an aggregate purchase price of $31.1 million. The Company closed on 55 of these sales during the six months ended November 30, 2021. As of November 30, 2021, there was a deposit of $2.0 million in connection with this agreement.

Land sales and fee arrangements to construct homes

The Company sold two parcels of land and subsequently entered into two construction and development agreements with the Investors during the year ended May 31, 2021 to develop lots for and build a total of 252 homes for a fee. The Company commenced construction on 82 of these homes during the six months ended November 30, 2021.

Note 12— Long-Term Incentive Plan

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

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

The following table represents a rollforward of the outstanding performance shares for the six months ended November 30, 2021:

	Full-value shares	Appreciation-only shares	Total shares
Outstanding performance shares as of May 31, 2021	283,795	858,466	1,142,261
Performance shares awarded during the period	310,394	620,788	931,182
Shares forfeited during the period	—	—	—
Fully vested performance shares paid	(83,455)	(142,100)	(225,555)
Total outstanding performance shares as of November 30, 2021	510,734	1,337,154	1,847,888
Total vested performance shares as of November 30, 2021	177,659	671,005	848,664

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, 2021 and May 31, 2021 was 848,664 and 819,471, respectively. The Company recorded $5.0 million and $11.3 million for the three and six months ended November 30, 2021, respectively, and $2.9 million and $4.7 million for the three and six months ended November 30, 2020, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the six months ended November 30, 2021 and 2020, $9.4 million (225,555 units) and $3.7 million (159,101 units), respectively, of vested performance shares were paid out to employees. As of November 30, 2021 and May 31, 2021, the Company's liability for the performance shares was $29.9 million and $27.8 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 13 — Fair Value Disclosures

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

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

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

The following table presents the carrying amounts and estimated fair values of the Company's 2025 Notes, 2027 Notes, 2028 Notes, 2029 Notes, and 2030 Notes (collectively, the "Senior Notes") at November 30, 2021 and May 31, 2021:

		November 30, 2021		May 31, 2021	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Liabilities:		(in thousands)			
6.750% Notes due 2025	Level 2	$ —	$ —	$ 247,559	$ 258,750
9.875% Notes due 2027	Level 2	—	—	250,163	288,150
6.625% Notes due 2028	Level 2	246,653	264,325	246,314	268,075
4.625% Notes due 2029	Level 2	345,114	347,830	—	—
4.625% Notes due 2030	Level 2	296,385	296,250	—	—
		$ 888,152	$ 908,405	$ 744,036	$ 814,975

The Companies' 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 Companies' Senior Notes reflect their face amount, adjusted for any unamortized debt issuance costs and discount. The fair values of the Senior Notes are derived from quoted market prices by independent dealers (Level 2).

Note 14— Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are disputed and aggressively defended by the Company. The Company establishes liabilities for legal claims and related matters when such matters are both probable of occurring and any potential loss is reasonably estimable. The Company accrues for such matters based on the facts and circumstances specific to each matter and revise these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and 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 provide deposits under various contracts and commitments. At November 30, 2021 and May 31, 2021, the Company had letters of credit outstanding of $6.4 million and $6.6 million, respectively, and surety bonds outstanding of $178.5 million and $139.3 million, respectively. As of November 30, 2021, the Company had $43.6 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, 2021, the Company has made nonrefundable deposits of $308.0 million, which includes $46.4 million of nonrefundable deposits related to purchase and option agreements recorded under ASC 606 or ASC 470-40 (See Note 5). The Company would forfeit the remaining deposits if the lots are not purchased. The total purchase price of lots remaining to be purchased under option agreements with nonrefundable deposits was approximately $2.1 billion as of November 30, 2021.

Leases

The Company leases office space and equipment under various operating leases with varying commencement dates and renewal options for use in our operations. We recognize lease expense for these leases on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Right-of-use assets and lease liabilities are recorded on the 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 $12.2 million and $13.4 million at November 30, 2021, respectively, and $13.1 million and $14.6 million at May 31, 2021, respectively. During the six months ended November 30, 2021 and 2020, there were approximately $0.7 million and $1.4 million, respectively, of additions to the right-of-use assets under operating leases. Payments on lease liabilities during the six months ended November 30, 2021 and 2020 totaled $2.3 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, 2021 and 2020, our total lease expense approximated $2.3 million and $2.5 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, 2021 are as follows (in thousands):

Year ending May 31, 2022	$	1,739
Year ending May 31, 2023		3,076
Year ending May 31, 2024		2,927
Year ending May 31, 2025		2,721
Year ending May 31, 2026		2,559
Thereafter		4,313
Total future minimum lease payments[a]		17,335
Less: Interest [b][c]		3,906
Total future minimum lease payments less interest[c]	$	13,429

(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 4.8 years and 7.26%, respectively, at November 30, 2021.

Note 15 — Information on Segments

The Company's homebuilding reportable segments are as follows:

1) East:	Atlanta, Coastal Carolinas, Orlando, Raleigh, and Southwest Florida
2) Central:	Austin, Dallas, Houston, Phoenix, and San Antonio

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

	Three months ended November 30,		Six months ended November 30,	
Revenues:	**2021**	**2020**	**2021**	**2020**
Homebuilding:				
East	$ 234,935	$ 204,780	$ 446,528	$ 407,921
Central	349,045	263,215	716,758	473,899
Total homebuilding revenues	583,980	467,995	1,163,286	881,820
Land sales	5,060	—	5,060	65
Financial services and other revenue	8,432	4,040	21,368	13,630
Total revenues	$ 597,472	$ 472,035	$ 1,189,714	$ 895,515
Gross profit (loss) (1):				
Homebuilding:				
East	$ 49,774	$ 38,190	$ 91,705	$ 70,610
Central	92,244	63,674	192,981	109,793
Total homebuilding gross profit	142,018	101,864	284,686	180,403
Land sales gross profit (loss)	(14)	0	(14)	(9)
Financial services and other revenue gross profit	2,811	1,816	5,688	4,202
Total gross profit	$ 144,815	$ 103,680	$ 290,360	$ 184,596
Depreciation and amortization:				
East	$ 582	$ 850	$ 1,229	$ 1,721
Central	1,217	1,267	2,518	2,550
Total depreciation and amortization	$ 1,799	$ 2,117	$ 3,747	$ 4,271
Equity in earnings of unconsolidated entities:				
East	$ 816	$ 237	$ 1,100	$ 552
Central	2,239	1,909	4,112	3,094
Total equity in earnings of unconsolidated entities	$ 3,055	$ 2,146	$ 5,212	$ 3,646
Net income:				
East	$ 21,608	$ 11,618	$ 35,992	$ 16,170
Central	52,893	32,242	113,656	52,605
	74,501	43,860	149,648	68,775
Other (2)	(34,914)	(5,078)	(46,296)	(12,242)
Total net income	$ 39,587	$ 38,782	$ 103,352	$ 56,532

(1) Includes inventory impairments totaling $34.1 thousand for the east segment during both the three and six months ended November 30, 2021 and $58.0 thousand for the east segment during both the three and six months ended November 30, 2020. There were no inventory impairments for the central segment during the three and six months ended November 30, 2021. There were $31.4 thousand and $56.0 thousand of inventory impairments for the central segment during the three and six months ended November 30, 2020, respectively.2

(2) "Other" primarily consists of loss on extinguishment of debt and interest directly expensed.

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

	November 30, 2021	May 31, 2021
Assets:		
Homebuilding:		
East	$ 754,852	$ 661,069
Central	1,132,449	839,758
	1,887,301	1,500,827
Other [(1)]	127,204	299,358
Total assets	$ 2,014,505	$ 1,800,185

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

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

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Additions to property and equipment:				
Homebuilding:				
East	$ 1,205	$ 883	$ 1,440	$ 1,330
Central	823	770	1,868	2,043
	2,028	1,653	3,308	3,373
Other [(1)]	12	27	12	39
Total additions to property and equipment	$ 2,040	$ 1,680	$ 3,320	$ 3,412

(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 on Form 10-K for the fiscal year ended May 31, 2021. The Company's results of operations discussed below are presented in conformity with GAAP.

Forward-Looking Statements

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

A forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update or revise any forward-looking statement, to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events or new information, even if future events make it clear that any expected results that we have expressed or implied will not be realized. Though we are of the view that such forward-looking statements are reasonable, the results 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. Important factors that could cause actual results to differ materially from those in forward-looking statements and that could negatively affect our business include, but are not limited to, the following:

- The continuing impact of the novel coronavirus ("COVID-19") pandemic, fear of a similar event and the measures that federal, state and local governments and/or health authorities implement to address it;
- Deterioration in homebuilding industry conditions or adverse changes in general economic, real estate construction, or other business conditions;
- Raw materials and building supply shortages and price fluctuations;
- High inflation;
- Fluctuations in quarterly results due to seasonality and other factors;
- Fluctuations and declines in the market value of our land inventory or land under contract could result in impairments;
- Fluctuations in mortgage interest rates and the availability of mortgage financing;
- An increase in unemployment or underemployment;
- High cancellation rates;
- Our potential expansion into new markets and/or acquisitions of other homebuilding companies;
- The availability of high-quality undeveloped land and improved lots at suitable prices;
- Our lack of geographic diversification;
- The availability of reasonably priced financing;
- Physical impact of and regulations relating to climate change;
- Our dependence on key employees;
- The availability and supply of skilled labor;
- Our exposure to construction defect claims;
- The availability and performance of our subcontractors;
- Failure of our employees or agents to comply with applicable regulations and guidelines;
- Our exposure from defective products and materials supplied to us and work done for us by our subcontractors;
- Adverse weather conditions and natural disasters;
- The competitive nature of the homebuilding industry;

- Slower home sales could extend the time it takes to recover land purchase and property development costs and force us to absorb additional costs;
- Risks relating to unconsolidated joint ventures;
- Negative publicity;
- Failures in our financial and operational controls could result in cost overruns and errors in valuing sites;
- Our ability to obtain surety bonds;
- Terrorist attacks or increased domestic and international social, political or economic unrest or instability;
- Cybersecurity attacks, breaches, and/or threats, and related exposures;
- Government regulations relating to health, safety and the environment could increase the cost of, limit the availability of our development and homebuilding projects and adversely affect our financial results;
- Government regulations relating to our title and mortgage operations;
- A major health or safety incident;
- Our exposure to various litigation and legal claims;
- The potential that government rulings or legislation could make us responsible for labor law violations of our subcontractors and other parties;
- Our exposure to additional entity-level taxation by individual states and localities;
- We are not subject to various securities laws or the Sarbanes-Oxley Act of 2002;
- The level of our indebtedness;
- A downgrade in our credit ratings;
- Our ability to incur additional indebtedness;
- Our ability to generate cash to service existing indebtedness;
- The ability or our controlling shareholders to select our board members and influence our business, including in ways that may conflict with the interests of our bondholders;
- Restrictive covenants included in our bond indentures and revolving credit agreement; and
- Other factors, including those discussed elsewhere in our annual report for the fiscal year ended May 31, 2021 under the caption "Risk Factors", 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, an increase in the unemployment rate, supply chain disruptions, rising inflation, 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. We are following recommended health and safety protocols and continue largely 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.

The continued strong demand in the new home market has likely been affected by increased buyer urgency due to low interest rates on mortgage loans and the limited supply of homes at affordable price points across our markets. 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 have been, and may continue to be, adversely impacted by elongated cycle times due to lack of availability of trade labor and building materials and appliances, as well as the responsiveness of government services such as zoning, permitting and related government approvals. We have also been and may continue to be impacted by rising costs of trade labor, appliances, and building materials. 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, the resurgence of demand has caused an increase in home construction activity and the pricing of building materials, as well as constraints in the availability of appliances and building materials.

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 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,	
	2021	2020	2021	2020
Net new home orders (units):				
Entry-Level - Starlight Homes	1,085	1,139	1,940	1,898
Entry-Level - Ashton Woods	93	237	159	609
Move-up - Ashton Woods	695	599	1,145	1,176
Multi-Move-Up - Ashton Woods	144	164	267	359
Company Total	2,017	2,139	3,511	4,042
Homes closed (units):				
Entry-Level - Starlight Homes	959	695	1,857	1,271
Entry-Level - Ashton Woods	86	249	150	444
Move-up - Ashton Woods	449	364	915	742
Multi-Move-Up - Ashton Woods	121	103	304	196
Company Total	1,615	1,411	3,226	2,653

	As of November 30,	
	2021	2020
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	1,566	1,110
Entry-Level - Ashton Woods	152	462
Move-up - Ashton Woods	1,521	994
Multi-Move-Up - Ashton Woods	441	331
Company Total	3,680	2,897

	As of November 30,	
	2021	2020
Active communities:		
Entry-Level - Starlight Homes	38	35
Entry-Level - Ashton Woods	12	25
Move-up - Ashton Woods	52	50
Multi-Move-Up - Ashton Woods	13	18
Company Total	115	128

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Average monthly sales per average active community: (1)				
Entry-Level - Starlight Homes	9.2	11.5	8.0	9.7
Entry-Level - Ashton Woods	2.3	3.0	2.0	3.9
Move-up - Ashton Woods	5.0	4.0	4.2	3.6
Multi-Move-Up - Ashton Woods	3.8	2.6	3.6	3.0
Company Average	6.0	5.5	5.2	5.0

(1) Average active community for the three months ended November 30, 2021 is calculated by averaging the active community counts at November 30, 2021 and August 31, 2021 and for the three months ended November 30, 2020 by averaging the active community counts at November 30, 2020 and August 31, 2020. For the six months ended November 30, 2021, the average active community is calculated by averaging the active community counts at November 30, 2021 and May 31, 2021 and for the six months ended November 30, 2020 by averaging the active community counts at November 30, 2020 and May 31, 2020.

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Average sales price per home closed (in thousands):				
Entry-Level - Starlight Homes	$ 289	$ 238	$ 280	$ 234
Entry-Level - Ashton Woods	$ 312	$ 304	$ 311	$ 301
Move-up - Ashton Woods	$ 435	$ 422	$ 425	$ 423
Multi-Move-Up - Ashton Woods	$ 703	$ 713	$ 686	$ 701
Company Average	$ 362	$ 332	$ 361	$ 332

During the six months ended November 30, 2021, we closed 3,226 homes. Of those closings, 2,791 (87%) were single-family detached homes, while the remaining 435 (13%) homes closed were single-family attached homes.

During the six months ended November 30, 2021, the Company added 32 new active communities, while closing out 25 communities. Of the 32 active communities added during the six months ended November 30, 2021, 3 (9%) are considered to be entry-level Starlight Homes, 7 (22%) are considered to be entry-level Ashton Woods Homes, 20 (63%) are considered to be move-up Ashton Woods Homes, and 2 (6%) are considered to be multi-move-up Ashton Woods Homes.

Wholesale home sales, which are within our Starlight Homes brand, are included in consolidated net new home orders (new home orders less cancellations), 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,	
	2021	2020	2021	2020
Wholesale (units):				
Net new home orders	339	421	485	431
Homes closed	317	53	536	101
Backlog at end of period	909	412	909	412

Operating Results

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Revenues:		(in thousands)		
Home sales	$ 583,980	$ 467,995	$ 1,163,286	$ 881,820
Land sales	5,060	—	5,060	65
Financial services and other revenues	8,432	4,040	21,368	13,630
	$ 597,472	$ 472,035	$ 1,189,714	$ 895,515
Gross profit (loss):				
Home sales	$ 142,018	$ 101,864	$ 284,686	$ 180,403
Land sales	(14)	—	(14)	(9)
Financial services and other revenues	2,811	1,816	5,688	4,202
	$ 144,815	$ 103,680	$ 290,360	$ 184,596
Selling, general and administrative	$ 71,787	$ 60,117	$ 142,700	$ 115,065
Net income [1]	$ 39,587	$ 38,782	$ 103,352	$ 56,532

(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 $31.2 million and $57.1 million during the three and six months ended November 30, 2021, respectively, and $9.6 million and $13.5 million during the three and six months ended November 30, 2020, respectively.

Supplemental data:	Three months ended November 30, 2021	Three months ended November 30, 2020	Six months ended November 30, 2021	Six months ended November 30, 2020
	($ in thousands)			
Active communities at end of period	115	128	115	128
Net new home orders (in units)	2,017	2,139	3,511	4,042
Homes closed (in units) [(1)]	1,615	1,411	3,226	2,653
Average sales price per home closed	$ 362	$ 332	$ 361	$ 332
Backlog at end of period (in units)	3,680	2,897	3,680	2,897
Sales value of backlog at end of period	$ 1,499,839	$ 1,080,227	$ 1,499,839	$ 1,080,227
Home gross margin percentage [(2)]	24.3 %	21.8 %	24.5 %	20.5 %
Adjusted home gross margin percentage [(3)]	26.4 %	23.9 %	26.6 %	22.6 %
Ratio of selling, general and administrative expenses to home sales revenue	12.3 %	12.8 %	12.3 %	13.0 %
Interest incurred [(4)]	$ 14,105	$ 15,779	$ 29,755	$ 31,753
Adjusted EBITDA [(5)]	$ 88,548	$ 55,921	$ 178,413	$ 92,285
Adjusted EBITDA margin [(5)]	14.8 %	11.8 %	15.0 %	10.3 %
Total debt to total capitalization [(6)]	56.4 %	60.5 %	56.4 %	60.5 %
Total net debt to net capitalization [(7)]	53.0 %	52.3 %	53.0 %	52.3 %
Cancellation rate (as a percentage of gross sales)[(8)]	9.6 %	12.6 %	10.3 %	14.1 %

(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 percentage is defined as the difference between home sales revenues and cost of sales—homes, expressed as a percentage of home sales revenues. Cost of sales—homes includes the land costs, home construction costs, indirect costs of construction, previously capitalized interest, 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 percentage, which is defined as adjusted home gross margin expressed as a percentage of home sales revenues, is not a financial measure under GAAP and should not be considered an alternative to home gross margin percentage determined in accordance with GAAP as an indicator of operating performance. We use this measure to evaluate our performance against other companies in the homebuilding industry and believe it is also relevant and useful to investors. Adjusted home gross margin is home gross margin that is adjusted to remove 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, 2021	Three months ended November 30, 2020	Six months ended November 30, 2021	Six months ended November 30, 2020
	(in thousands)			
Home sales revenues	$ 583,980	$ 467,995	$ 1,163,286	$ 881,820
Cost of sales homes	441,962	366,131	878,600	701,417
Home gross margin	142,018	101,864	284,686	180,403
Add: Inventory impairments - homes	34	58	34	83
Interest amortized to cost of sales	12,164	9,841	25,047	18,844
Adjusted home gross margin	$ 154,216	$ 111,763	$ 309,767	$ 199,330

(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, 2021 and 2020:

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
	(in thousands)			
Capitalized interest, beginning of period	$ 26,894	$ 21,188	$ 24,610	$ 21,646
Interest incurred	14,105	15,779	29,755	31,753
Interest amortized to cost of sales	(12,164)	(9,841)	(25,047)	(18,844)
Interest expensed	(83)	(5,154)	(566)	(12,583)
Capitalized interest, end of period	$ 28,752	$ 21,972	$ 28,752	$ 21,972

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

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

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
	(in thousands)			
Net income	$ 39,587	$ 38,782	$ 103,352	$ 56,532
Depreciation and amortization	1,814	2,144	3,779	4,326
Interest amortized to cost of sales	12,164	9,841	25,047	18,844
Interest expensed	83	5,154	566	12,583
EBITDA	$ 53,648	$ 55,921	$ 132,744	$ 92,285
Loss on early extinguishment of debt	34,900	—	45,669	—
Adjusted EBITDA	$ 88,548	$ 55,921	$ 178,413	$ 92,285

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

	As of November 30,	
	2021	2020
	($ in thousands)	
Total debt	$ 900,000	$ 755,000
Total Members' equity	697,060	493,470
Total capitalization	$ 1,597,060	$ 1,248,470
Total debt to total capitalization	56.4 %	60.5 %

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

	As of November 30,	
	2021	2020
	($ in thousands)	
Total debt	$ 900,000	$ 755,000
Less cash, cash equivalents, and restricted cash	114,428	214,139
Net debt	$ 785,572	$ 540,861
Total Members' equity	697,060	493,470
Total net capitalization	$ 1,482,632	$ 1,034,331
Total net debt to net capitalization	53.0 %	52.3 %

(8) The following table summarizes the cancellation rates (as a percentage of gross sales) by buyer profile for the three and six months ended November 30, 2021 and 2020:

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Entry-Level - Starlight Homes	11.0 %	16.7 %	11.7 %	19.6 %
Entry-Level - Ashton Woods	8.8 %	9.8 %	10.2 %	10.2 %
Move-up - Ashton Woods	7.6 %	6.6 %	8.6 %	8.0 %
Multi-Move-Up - Ashton Woods	8.9 %	12.2 %	6.6 %	10.5 %
Consolidated	9.6 %	12.6 %	10.3 %	14.1 %

Operating results - Segments

We have grouped our homebuilding operating divisions into two reportable segments, east and central. At November 30, 2021, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

1) East:	Atlanta, Coastal Carolinas, Orlando, Raleigh, and Southwest Florida
2) Central:	Austin, Dallas, Houston, Phoenix, and San Antonio

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

Net new home orders (units):

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
East:				
Entry-Level - Starlight Homes	361	528	712	857
Entry-Level - Ashton Woods	39	47	57	131
Move-up - Ashton Woods	232	218	432	402
Multi-Move-Up - Ashton Woods	47	88	105	221
Total east	679	881	1,306	1,611
Central:				
Entry-Level - Starlight Homes	724	611	1,228	1,041
Entry-Level - Ashton Woods	54	190	102	478
Move-up - Ashton Woods	463	381	713	774
Multi-Move-Up - Ashton Woods	97	76	162	138
Total central	1,338	1,258	2,205	2,431
Company total	2,017	2,139	3,511	4,042

Homes closed (units):

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
East:				
Entry-Level - Starlight Homes	443	357	745	677
Entry-Level - Ashton Woods	14	56	22	118
Move-up - Ashton Woods	159	111	336	246
Multi-Move-Up - Ashton Woods	55	75	136	151
Total east	671	599	1,239	1,192
Central:				
Entry-Level - Starlight Homes	516	338	1,112	594
Entry-Level - Ashton Woods	72	193	128	326
Move-up - Ashton Woods	290	253	579	496
Multi-Move-Up - Ashton Woods	66	28	168	45
Total central	944	812	1,987	1,461
Company total	1,615	1,411	3,226	2,653

Average sales price per home closed:

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
East:				
Entry-Level - Starlight Homes	$ 281	$ 239	$ 274	$ 235
Entry-Level - Ashton Woods	$ 292	$ 291	$ 287	$ 294
Move-up - Ashton Woods	$ 420	$ 427	$ 412	$ 429
Multi-Move-Up - Ashton Woods	$ 722	$ 744	$ 721	$ 720
Total east	$ 350	$ 342	$ 360	$ 342
Central:				
Entry-Level - Starlight Homes	$ 296	$ 237	$ 284	$ 232
Entry-Level - Ashton Woods	$ 316	$ 308	$ 316	$ 304
Move-up - Ashton Woods	$ 443	$ 420	$ 432	$ 420
Multi-Move-Up - Ashton Woods	$ 687	$ 629	$ 658	$ 640
Total central	$ 370	$ 324	$ 361	$ 324
Company total	$ 362	$ 332	$ 361	$ 332

Backlog (units) at end of period:

	As of November 30,	
	2021	2020
East:		
Entry-Level - Starlight Homes	645	444
Entry-Level - Ashton Woods	58	93
Move-up - Ashton Woods	707	324
Multi-Move-Up - Ashton Woods	170	171
Total east	1,580	1,032
Central:		
Entry-Level - Starlight Homes	921	666
Entry-Level - Ashton Woods	94	369
Move-up - Ashton Woods	814	670
Multi-Move-Up - Ashton Woods	271	160
Total central	2,100	1,865
Company total	3,680	2,897

Active communities:

	As of November 30,	
	2021	2020
East:		
Entry-Level - Starlight Homes	15	15
Entry-Level - Ashton Woods	2	4
Move-up - Ashton Woods	17	16
Multi-Move-Up - Ashton Woods	3	13
Total east	37	48
Central:		
Entry-Level - Starlight Homes	23	20
Entry-Level - Ashton Woods	10	21
Move-up - Ashton Woods	35	34
Multi-Move-Up - Ashton Woods	10	5
Total central	78	80
Company total	115	128

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

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
East:				
Entry-Level - Starlight Homes	8.0	11.4	7.7	8.9
Entry-Level - Ashton Woods	3.7	3.1	3.2	3.6
Move-up - Ashton Woods	5.7	4.8	5.1	3.9
Multi-Move-Up - Ashton Woods	5.2	1.8	5.0	2.4
Total east	6.5	5.7	6.0	4.9
Central:				
Entry-Level - Starlight Homes	9.9	11.6	8.2	10.5
Entry-Level - Ashton Woods	1.8	3.0	1.6	4.0
Move-up - Ashton Woods	4.7	3.6	3.8	3.4
Multi-Move-Up - Ashton Woods	3.4	5.1	3.0	5.1
Total central	5.8	5.3	4.9	5.1
Company total	6.0	5.5	5.2	5.0

(1) Average active community for the three months ended November 30, 2021 is calculated by averaging the active community counts at November 30, 2021 and August 31, 2021 and for the three months ended November 30, 2020 by averaging the active community counts at November 30, 2020 and August 31, 2020. For the six months ended November 30, 2021, the average active community is calculated by averaging the active community counts at November 30, 2021 and May 31, 2021 and for the six months ended November 30, 2020 by averaging the active community counts at November 30, 2020 and May 31, 2020.

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 GAAP measure, to our segments' adjusted home gross margin:

	Three months ended November 30,		Six months ended November 30,	
	2021	**2020**	**2021**	**2020**
Homebuilding East:	(in thousands)		(in thousands)	
Home sales revenues	$234,935	$204,780	$446,528	$407,921
Cost of sales homes	185,161	166,590	354,823	337,311
Home gross margin	49,774	38,190	91,705	70,610
Add: Inventory impairments	34	58	34	58
Interest amortized to cost of sales	5,228	5,212	10,853	10,457
Adjusted home gross margin	$ 55,036	$ 43,460	$102,592	$ 81,125
Ratio of home gross margin to home sales revenues	21.2 %	18.6 %	20.5 %	17.3 %
Ratio of adjusted home gross margin to home sales revenues	23.4 %	21.2 %	23.0 %	19.9 %

	Three months ended November 30,		Six months ended November 30,	
	2021	**2020**	**2021**	**2020**
Homebuilding Central:	(in thousands)		(in thousands)	
Home sales revenues	$349,045	$263,215	$716,758	$473,899
Cost of sales homes	256,801	199,541	523,777	364,106
Home gross margin	92,244	63,674	192,981	109,793
Add: Inventory impairments	—	—	—	25
Interest amortized to cost of sales	6,936	4,629	14,194	8,387
Adjusted home gross margin	$ 99,180	$ 68,303	$207,175	$118,205
Ratio of home gross margin to home sales revenues	26.4 %	24.2 %	26.9 %	23.2 %
Ratio of adjusted home gross margin to home sales revenues	28.4 %	25.9 %	28.9 %	24.9 %

Operating results - Discussion

Three and Six Months Ended November 30, 2021 Compared to Three and Six Months Ended November 30, 2020

Active Communities - Consolidated

During the twelve months ended November 30, 2021, the number of active communities, on a consolidated basis, decreased from 128 at November 30, 2020 to 115 at November 30, 2021. The decrease in active communities primarily occurred in our east segment where active communities decreased from 48 at November 30, 2020 to 37 at November 30, 2021, compared to the central segment where active communities decreased from 80 to 78 at November 30, 2020 and November 30, 2021, respectively. The decrease in our active communities is primarily the result of selling out of communities at a faster pace due to the strong demand for new homes, coupled with elongated development times to open new communities due to the availability of trade labor and building materials, and the delayed responsiveness of government such as zoning, permitting and related approvals.

This decrease in active communities has resulted in a decrease in our supply of available homesites and inventory to sell during the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020. While demand for new homes remains strong as reflected in the consolidated average monthly sales per average active community increasing from 5.5 and 5.0 for the three and six months ended November 30, 2020 to 6.0 and 5.2 for the three and six months ended November 30, 2021, the reduction in available homesites and inventory to sell has impacted our operating results for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020 as discussed in further detail below on a consolidated and reportable segment basis.

Home sales revenues - Consolidated

Home sales revenues increased 24.8% ($116.0 million) and 31.9% ($281.5 million) for the three and six months ended November 30, 2021, to $584.0 million and $1.2 billion, respectively, from $468.0 million and $881.8 million for the three and six months ended November 30, 2020, respectively. The increase in revenues for the three and six months ended November 30, 2021, as compared to the three and six months ended November 30, 2020, was due to an increase in the number of homes closed, in addition to an increase in the average sales price of homes closed.

The number of homes closed increased 14.5% (204 homes) and 21.6% (573 homes) for the three and six months ended November 30, 2021 to 1,615 and 3,226, respectively, from 1,411 and 2,653 for the three and six months ended November 30, 2020, respectively. The increase in closings was largely driven by an increase in demand during the prior fiscal year ended May 31, 2021, and continuing throughout the three and six months ended November 30, 2021.

Included in the number of homes closed are 317 and 536 wholesale home closings to real estate investors for the three and six months ended November 30, 2021, respectively, and 53 and 101 wholesale home closings for the three and six months ended November 30, 2020, respectively. Excluding wholesale home closings to real estate investors, the number of homes closed decreased 4.4% (60 homes) and increased 5.4% (138 homes) during the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. The number of home closings during the three and six months ended November 30, 2021 was impacted by elongated construction cycles resulting from labor and supply chain constraints.

The average sales price of homes closed increased 9.0% and 8.7% to an average of $362,000 and $361,000 for the three and six months ended November 30, 2021, respectively, from an average of $332,000 for both the three and six months ended November 30, 2020. Excluding wholesale home closings to real estate investors, the average sales price of homes closed increased 16.7% and 14.2% to an average of $392,000 and $386,000 for the three and six months ended November 30, 2021, respectively, from an average of $336,000 and $338,000 for the three and six months ended November 30, 2020, respectively. The increase in the average sales price of homes closed on a consolidated basis for the three and six months ended November 30, 2021, compared to the three and six months ended November 30, 2020, reflected our ability to raise prices in most of our communities across all of our markets due to the strong demand for new homes throughout the fiscal year ended May 31, 2021 and continuing through the six months ended November 30, 2021.

Home sales revenues - East segment

Home sales revenues for the east segment increased by 14.7% ($30.2 million) and 9.5% ($38.6 million) for the three and six months ended November 30, 2021, to $234.9 million and $446.5 million, respectively, from $204.8 million and $407.9 million for the three and six months ended November 30, 2020, respectively. The increase in revenues for the six months ended November 30, 2021, as compared to the six months ended November 30, 2020, was due to an increase in the number of homes closed, in addition to an increase in the average sales price of homes closed.

The number of homes closed during the three and six months ended November 30, 2021 increased 12.0% (72 homes) and 3.9% (47 homes), respectively, as compared to the three and six months ended November 30, 2020. Included in the number of homes closed are 164 and 255 wholesale home closings to real estate investors for the three and six months ended November 30, 2021, respectively, and 45 and 77 wholesale home closings for the three and six months ended November 30, 2020, respectively. Excluding wholesale home closings to real estate investors, the number of homes closed decreased 8.5% (47 homes) and 11.7% (131 homes) during the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. Closings for the east segment during the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020 were negatively impacted by elongated construction cycles due to labor and supply chain constraints.

The average sales price of homes closed increased 2.3% and 5.3% for the three and six months ended November 30, 2021 to an average of $350,000 and $360,000, respectively, from an average of $342,000 for both the three and six months ended November 30, 2020. Excluding wholesale home closings to real estate investors, the average sales price of homes closed increased 8.2% and 10.8% to an average of $383,000 and $390,000 for the three and six months ended November 30, 2021, respectively, from an average of $354,000 and $352,000 for the three and six months ended November 30, 2020, respectively. The increase in the average sales price of homes closed in the east segment for the three and six months ended November 30, 2021, compared to the three and six months ended November 30, 2020, reflected our ability to raise prices in most of our communities across all of our markets in the east segment due to the strong demand for new homes throughout the fiscal year ended May 31, 2021 and continuing through the six months ended November 30, 2021.

Home sales revenues - Central segment

Home sales revenues for the central segment increased by 32.6% ($85.8 million) and 51.2% ($242.9 million) for the three and six months ended November 30, 2021 to $349.0 million and $716.8 million, respectively, from $263.2 million and $473.9 million for the three and six months ended November 30, 2020, respectively. The increase in revenues for the three and six months ended November 30, 2021, as compared to the three and six months ended November 30, 2020, was due to both an increase in the number of homes closed and an increase in the average sales price of homes closed.

The number of homes closed during the three and six months ended November 30, 2021 increased 16.3% (132 homes) and 36.0% (526 homes), respectively, as compared to the three and six months ended November 30, 2020. The increase in closings was largely driven by an increase in demand during the prior fiscal year ended May 31, 2021, and continuing throughout the three and six months ended November 30, 2021.

Included in the number of homes closed are 153 and 281 wholesale home closings to real estate investors for the three and six months ended November 30, 2021, respectively, and 8 and 24 wholesale home closings for the three and six months ended November 30, 2020, respectively. Excluding wholesale home closings to real estate investors, the number of homes closed decreased 1.6% (13 homes) and increased 18.7% (269 homes) during the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. The timing of home closings during the three and six months ended November 30, 2021 was impacted by elongated construction cycles resulting from labor and supply chain constraints.

The average sales price of homes closed increased 14.2% and 11.4% in the three and six months ended November 30, 2021 to $370,000 and $361,000, respectively, from an average of $324,000 in both the three and six months ended November 30, 2020. Excluding wholesale home closings to real estate investors, the average sales price of homes closed increased 22.8% and 17.8% to an average of $398,000 and $384,000 for the three and six months ended November 30, 2021, respectively, from an average of $324,000 and $326,000 for the three and six months ended November 30, 2020, respectively. The increase in the average sales price of homes closed for the three and six months ended November 30, 2021, compared to the three and six months ended November 30, 2020, reflected our ability to raise prices in most of our communities across all of our markets due to the strong demand for new homes throughout the fiscal year ended May 31, 2021 and continuing through the six months ended November 30, 2021.

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 decreased 5.7% (122 homes) and 13.1% (531 homes) for the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. The decrease in net new home orders was due to a decrease in the number of active communities, and a decrease in the average monthly sales per average active community among our entry-level buyer profiles on a consolidated basis. The number of active communities decreased from 128 at November 30, 2020 to 115 at November 30, 2021, driven primarily by selling out of communities at a faster pace due to the strong demand for new homes, coupled with elongated development times to open new communities. Demand remained high as reflected in the consolidated average monthly sales per average active community increasing from 5.5 and 5.0 for the three and six months ended November 30, 2020 to 6.0 and 5.2 for the three and six months ended November 30, 2021; at the same time, however, net new home orders decreased on a consolidated basis due to a lack of available homesites and inventory to sell.

Included in the net new home orders are 339 and 485 wholesale home sales to real estate investors for the three and six months ended November 30, 2021, respectively, and 421 and 431 wholesale home sales to real estate investors for the three and six months ended November 30, 2020, respectively. These homes were sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements). In the normal course of business we may also elect to sell one or more homes to buyers who may be real estate investors pursuant to individual retail purchase and sale agreements, which are not included in the wholesale home sales reported herein. Sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from period to period. Excluding the wholesale home sales to real estate investors, net new home orders decreased 2.3% (40 homes) and decreased 16.2% (585 homes) for the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. As previously discussed, the decreases in net new home orders for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020 are primarily the result of the decrease in the number of active communities, and therefore, the number of available homesites and inventory to sell.

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, 2021 compared to the three and six months ended November 30, 2020 was in our Starlight Homes business, driven in part by the inclusion of the wholesale home sales which had no cancellations during the three and six months ended November 30, 2021 or November 30, 2020, respectively. Excluding wholesale home sales to real estate investors, the cancellation rates in our Starlight Homes business decreased from 24.3% and 24.0% for the three and six months ended November 30, 2020, respectively, to 15.2% and 15.0% for the three and six months ended November 30, 2021, respectively.

Backlog consists of homes that are under purchase contracts that have not yet closed. Backlog increased 27.0% from 2,897 homes in backlog at November 30, 2020 to 3,680 homes in backlog at November 30, 2021. Excluding wholesale home sales to real estate investors, backlog increased 11.5% from 2,485 homes in backlog at November 30, 2020 to 2,771 homes in backlog at November 30, 2021. The increase in backlog was a result of the continued strong demand for new homes, as well as elongated cycle times due to lack of availability of trade labor, building materials, and appliances.

The sales value of backlog at November 30, 2021 was $1.5 billion, a 38.8% increase from the sales value of backlog at November 30, 2020 of $1.1 billion. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2021 was $1.3 billion, a 29.1% increase from the sales value of backlog excluding wholesale home sales contracts with real estate investors at November 30, 2020 of $1.0 billion. The increase in the sales value of backlog, excluding wholesale home sales to real estate investors, is primarily due to the 27.0% increase in the number of homes in backlog, as discussed above, and an increase in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, from $397,000 at November 30, 2020 to $460,000 at November 30, 2021.

Net new home orders and backlog - East segment

Net new home orders in the east segment decreased 22.9% (202 homes)and 18.9% (305 homes) during the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. Excluding the wholesale home sales to real estate investors, net new home orders decreased 7.4% (50 homes) and 17.8% (248 homes) for the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. The decrease in net new home orders was largely driven by a decrease in the number of active communities and reduced inventory available to sell, offset in part by an increase in the average sales pace per active community for the three and six months ended November 30, 2021, as compared to the three and six months ended November 30, 2020. The number of active communities decreased to 37 at November 30, 2021 from 48 at November 30, 2020. The average sales pace per active community increased to 6.5 and 6.0 for the three and six months ended November 30, 2021, from 5.7 and 4.9 for the three and six months ended November 30, 2020, due to the continued strong demand for new homes. The increased sales pace that has resulted in closing out of communities earlier than anticipated, along with the delayed timing of new communities opening for sales, has caused the decrease in the number of active communities.

	As of November 30,	
	2021	2020
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	645	444
Entry-Level - Ashton Woods	58	93
Move-up	707	324
Multi-Move-Up	170	171
Segment Total	1,580	1,032

Backlog consisted of 1,580 homes at November 30, 2021, which is an 53.1% increase from 1,032 homes in backlog at November 30, 2020. Included in backlog at November 30, 2021 and November 30, 2020 were 396 and 206 wholesale home sales contracts with real estate investors, respectively. Excluding wholesale home sales contracts with real estate investors, backlog increased 43.3% from 826 homes in backlog at November 30, 2020 to 1,184 homes in backlog at November 30, 2021. The increase in backlog is a result of the continued strong demand for new homes, coupled with elongated cycle times.

The sales value of backlog at November 30, 2021 was $619.8 million, a 49.4% increase compared to the sales value of backlog at November 30, 2020 of $414.8 million. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2021 was $521.1 million, a 42.9% increase from the sales value of backlog excluding wholesale home sales contracts with real estate investors at November 30, 2020 of $364.8 million. The increase in the sales value of backlog, excluding wholesale home sales to real estate investors, is primarily due to an increase in the number of homes in backlog, partially offset by a decrease in the average sales price of homes in backlog. The average sales price of homes in backlog, excluding wholesale home sales to real estate investors, at November 30, 2021 was $440,000 compared to $442,000 at November 30, 2020. The decrease in the average sales price of homes in backlog, excluding wholesale home sales to real estate investors, is primarily due to the mix of communities with homes in backlog, offset, in part, by the continued strong demand for new homes, which allowed us to raise prices in most of our communities across all of our markets in the east segment. Of the 1,184 homes in backlog, excluding wholesale home sales to real estate investors, at November 30, 2021, 707 (59.7%) of the homes were considered move-up, compared to 324 (39.2%) of the 826 homes in backlog, excluding wholesale home sales to real estate investors, at November 30, 2020. The increase in the percentage of move-up homes in backlog at November 30, 2021, excluding wholesale home sales to real estate investors, was primarily driven by decreases in both entry-level and multi-move-up homes in backlog, due to the mix of active communities in the east segment, as well as availability of homesites and inventory to sell.

Net new home orders and backlog - Central segment

Net new home orders in the central segment increased 6.4% (80 homes) and decreased 9.3% (226 homes) during the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. Excluding the wholesale home sales contracts with real estate investors, net new home orders increased 1.0% (10 homes) and decreased 15.2% (337 homes) for the three and six months ended November 30, 2021, respectively, compared to the three and six months ended November 30, 2020. The increase in net new home orders during the three months ended November 30, 2021 compared to the three months ended November 30, 2020 was primarily due to an increase in the average sales pace per active community from 5.3 during the three months ended November 30, 2020 to 5.8 during the three months ended November 30, 2021. The decrease in net new home orders during the six months ended November 30, 2021 compared to the six months ended November 30, 2020 was largely driven by a decrease in the average sales pace per active community from 5.1 during the six months ended November 30, 2020 to 4.9 during the six months ended November 30, 2021 due to reduced availability of inventory to sell, as well as a decrease in the number of active communities from 80 at November 30, 2020 to 78 at November 30, 2021.

	As of November 30,	
	2021	2020
Backlog (units) at end of period:		
Entry-Level - Starlight Homes	921	666
Entry-Level - Ashton Woods	94	369
Move-up	814	670
Multi-Move-Up	271	160
Segment Total	2,100	1,865

Backlog consisted of 2,100 homes at November 30, 2021, which is a 12.6% increase from 1,865 homes in backlog at November 30, 2020. Included in backlog at November 30, 2021 and November 30, 2020 were 513 and 206 wholesale home sales contracts with real estate investors, respectively. Excluding wholesale home sales contracts with real estate investors, backlog decreased 4.3% from 1,659 homes in backlog at November 30, 2020 to 1,587 homes in backlog at November 30, 2021, which is primarily due to the reduced availability of inventory to sell and the decreased number of active communities, as discussed in further detail above.

The sales value of backlog at November 30, 2021 was $880.1 million, a 32.3% increase over the sales value of backlog at November 30, 2020 of $665.4 million. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2021 was $752.4 million, a 21.0% increase from the sales value of backlog at November 30, 2020 of $621.8 million. The increase in the sales value of backlog, excluding wholesale home sales to real estate investors, is due primarily to an increase in the average sales price of homes in backlog. The average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, at November 30, 2021 was $474,000 compared to $375,000 at November 30, 2020. The increase in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, is primarily a result of the continued strong demand for new homes, which allowed us to raise prices and decrease incentives in most communities across all of our markets in the central segment, as well as the mix of types of communities with homes in backlog. Of the 1,587 homes in backlog, excluding wholesale home sales to real estate investors, at November 30, 2021, 1,085 (68.4%) of the homes were considered move-up or multi-move-up, compared to 830 (50.0%) of the 1,659 homes in backlog, excluding wholesale home sales to real estate investors, at November 30, 2020.

Home gross margins - Consolidated

The average gross margin percentage from homes closed for the three and six months ended November 30, 2021 increased to 24.3% and 24.5%, respectively, from 21.8% and 20.5% for the three and six months ended November 30, 2020. The increase in average gross margin percentage for the three and six months ended November 30, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices in most communities across all of our markets. As a result, the average sales prices of homes closed on a consolidated basis increased for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020, more than covering increases in the cost of materials and labor, thus increasing the average gross margin percentage.

Adjusted gross margin percentage from homes closed for the three and six months ended November 30, 2021 increased to 26.4% and 26.6%, respectively, from 23.9% and 22.6% for the three and six months ended November 30, 2020. This increase in the adjusted gross margin percentage was due to the improvement in gross margins as described above.

Home gross margins - East segment

The average gross margin percentage from homes closed in the east segment for the three and six months ended November 30, 2021 increased to 21.2% and 20.5%, respectively, from 18.6% and 17.3% for the three and six months ended November 30, 2020. The increase in average gross margin percentage for the three and six months ended November 30, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices in most communities across all of our markets in the east segment. As a result, the average sales prices of homes closed for the east segment increased for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020, more than covering increases in the cost of materials and labor, thus increasing the average gross margin percentage.

Home gross margins - Central segment

The average gross margin percentage from homes closed in the central segment for the three and six months ended November 30, 2021 increased to 26.4% and 26.9%, respectively, from 24.2% and 23.2% for the three and six months ended November 30, 2020. The increase in average gross margin percentage for the three and six months ended November 30, 2021 was due primarily to the strong demand for new homes, which enabled us to raise prices in most communities across all of our markets in the central segment. As a result, the average sales prices of homes closed for the central segment increased for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020, more than covering increases in the cost of materials and labor, thus increasing the average gross margin percentage.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") totaled $71.8 million and $142.7 million for the three and six months ended November 30, 2021, respectively, compared to $60.1 million and $115.1 million for the three and six months ended November 30, 2020, respectively. The increase in SG&A for the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020 was primarily due to increases in salary and benefit related expenses, sales commissions due to an increase in the number of home closings and higher sales prices. This increase was partially offset by a decrease in legal fees and settlements paid in the normal course of business.

While SG&A expenses increased for the three and six months ended November 30, 2021 compared to the three and six months ended November 30, 2020, SG&A as a percentage of home sales revenue decreased to 12.3% for both the three and six months ended November 30, 2021, respectively, from 12.8% and 13.0% for the three and six months ended November 30, 2020. The decrease in SG&A as a percentage of home sales revenue for the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020 was primarily due to the decrease, as a percentage of home sales revenues, in advertising and marketing costs, and sales commissions due to the increase in wholesale home closings to real estate investors for which we typically pay no commissions, as well as a decrease in legal fees and settlements paid in the normal course of business.

Land sales

We periodically elect to sell parcels of land or lots. We had $5.1 million in sales of land and lots during the three months ended November 30, 2021, and no sales of land and lots during the three months ended November 30, 2020. We had $5.1 million in sales of land and lots during the six months ended November 30, 2021, and $0.1 million sales of land and lots during the during the six months ended November 30, 2020.

Loss from early extinguishment of debt

We recognized losses from the early extinguishment of debt of $34.9 million and $45.7 million for the three and six months ended November 30, 2021, respectively, comprised of redemption premiums and the write-off of unamortized deferred financing fees in connection with the redemptions of all outstanding 2025 Notes and 2027 Notes.

Net income

Net income increased $0.8 million and $46.8 million for the three and six months ended November 30, 2021, respectively, as compared to the three and six months ended November 30, 2020. The increase in net income for the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020 is primarily attributable to an increase in revenues for the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020, as a result of the 14.5% and 21.6% increase in the number of homes closed during the three and six months ended November 30, 2021, respectively, as compared to the three and six months ended November 30, 2020, as well as the significant increase in home gross margins for the three and six months ended November 30, 2021 as compared to the three and six months ended November 30, 2020, partially offset by the losses from the early extinguishment of debt of $34.9 million and $45.7 million during the three and six months ended November 30, 2021, respectively.

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, redemptions of our senior notes, interest costs, overhead, and distributions to our Members. 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 utilize the Restated Revolver to fund operations during the six months ended November 30, 2021 and had no borrowings outstanding under the Restated Revolver as of November 30, 2021. The Company's total liquidity including cash, cash equivalents, restricted cash, and available additional borrowing capacity, was $358.0 million as of November 30, 2021.

Operating cash flows

Net cash used in operating activities for the six months ended November 30, 2021 was $208.7 million compared to $22.5 million of net cash used in operating activities for the six months ended November 30, 2020. The primary source of funds from operations is from the closing of homes. The increase in net cash used in operations for the six months ended November 30, 2021 was primarily due to an increase in the capital invested for inventory and real estate deposits as a result of new land investments, the construction of homes, and the elongation of construction times.

Investing cash flows

Net cash used in investing activities was $1.7 million for the six months ended November 30, 2021 and $3.4 million for the six months ended November 30, 2020. Net cash used in investing activities for the six months ended November 30, 2021 was primarily to furnish and/or update furnishings in model homes and sales offices.

Financing cash flows

Net cash provided by financing activities was $40.2 million for the six months ended November 30, 2021, compared to $18.3 million of cash used in financing activities for the six months ended November 30, 2020. The funds provided by financing activities during the six months ended November 30, 2021 consisted of $350.0 million related to the issuance of the 2029 Notes and $300.0 million related to the issuance of the 2030 Notes, offset in part by the redemption of $250.0 million of the 2025 Notes and the redemption of $255.0 million of the 2027 Notes, tax distributions of $57.1 million to our Members, prepayment premiums on the early extinguishment of the 2025 Notes and the 2027 Notes of $38.9 million, and the payment of $8.8 million of debt issuance costs in connection with the issuance of the 2029 Notes and the 2030 Notes. At November 30, 2021, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $243.6 million based on outstanding letters of credit and the borrowing base formula.

The total debt to total capitalization ratio consists of total debt divided by total capitalization (debt plus members' equity). Our ratio of total debt to total capitalization decreased to 56.4% at November 30, 2021 from 60.5% at November 30, 2020. The net debt to net capitalization ratio, which, as discussed above, is a non-GAAP financial measure, consists of total debt, net of cash and restricted cash, divided by net capitalization (debt plus members' equity), net of cash and restricted cash. Our ratio of net debt to net capitalization increased to 53.0% at November 30, 2021 from 52.3% at November 30, 2020, reflecting lower cash balances from the deployment of capital for real estate and construction investments.

Inventory

As of November 30, 2021, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			Completed Homes			
	Unsold	Models(1)	Sold	Unsold	Models(2)	Sold	Total Homes
East	746	20	1,319	13	42	41	2,181
Central	1,314	16	1,600	32	70	75	3,107
Company total	2,060	36	2,919	45	112	116	5,288

(1) Includes 31 models under the Ashton Woods brand name and 5 sales offices under the Starlight Homes brand name.
(2) Includes 74 models under the Ashton Woods brand name and 38 sales offices under the Starlight Homes brand name.

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

	As of November 30,	
	2021	2020
Entry-Level - Starlight Homes	1,218	558
Entry-Level - Ashton Woods	91	167
Move-up	711	308
Multi-Move-Up	85	135
Consolidated	2,105	1,168

As of November 30, 2021, 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	2,181	1,108	763	967	5,019	17,782	22,801
Central	3,107	1,745	3,929	3,127	11,908	25,736	37,644
Total Company	5,288	2,853	4,692	4,094	16,927	43,518	60,445
Percentage of total controlled	8.7 %	4.7 %	7.8 %	6.8 %	28.0 %	72.0 %	100.0 %

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 %

In addition to the 16,927 lots we owned, we controlled, through the use of purchase and option agreements, 43,518 lots at November 30, 2021. Purchase and option agreements that did not require consolidation under ASC 810, ASC 606, or ASC 470-40 at November 30, 2021 had an aggregate remaining purchase price of $2.1 billion. In connection with these agreements, we had cash deposits of $262.3 million at November 30, 2021. In addition, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $199.9 million and cash deposits of $46.4 million (see Note 5 to our unaudited condensed consolidated financial statements as of November 30, 2021).

During the six months ended November 30, 2021, we acquired 6,633 lots for a total purchase price of $304.5 million. We spent $90.5 million on land development during the six months ended November 30, 2021. We spent $3.3 million during the six months ended November 30, 2021 to furnish and/or update furnishings in model homes and sales offices.

Aggregate contractual commitments and off-balance sheet arrangements

As of November 30, 2021, other than the issuances of the 2029 Notes and 2030 Notes and the redemptions of the 2025 Notes and 2027 Notes discussed previously, there have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments compared to those contained in our audited consolidated financial statements for the year ended May 31, 2021. Our debt obligations are fully discussed in Note 7 to our unaudited condensed consolidated financial statements as of November 30, 2021.

In the ordinary course of business, we provide letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At November 30, 2021, we had letters of credit and surety bonds outstanding of $6.4 million and $178.5 million, respectively. As of November 30, 2021, we had $43.6 million of unused letter of credit capacity under the Restated Revolver.

At November 30, 2021, we controlled 60,445 lots and homes available to close. Of the 60,445 lots and homes controlled, we owned 28.0%, or 16,927 lots and homes, and 72.0%, or 43,518 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, 2021, these agreements had an aggregate remaining purchase price of $2.1 billion, net of deposits of $262.3 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $199.9 million and cash deposits of $46.4 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, 2021, real estate not owned totaled $117.3 million related to thirteen lot purchase agreements with $46.4 million of non-refundable deposits. Refer to our discussion in Note 5 to our unaudited condensed consolidated financial statements as of November 30, 2021.

As of November 30, 2021, 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, 2021, we participated in two mortgage joint ventures in which the Company offers residential mortgage services to its homebuyers and the public at large in all of its operating divisions. The Company does not have a controlling interest in these joint ventures. We account for our interests in the mortgage joint ventures under the equity method. Our share of profits is included within equity in earnings of unconsolidated entities in the unaudited condensed consolidated statements of income.

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 second quarter of each calendar 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, 2021, compared with those disclosed in our annual report for the fiscal year ended May 31, 2021.

Transactions with related parties

See Note 11 to our unaudited condensed consolidated financial statements as of November 30, 2021 for information about transactions with related parties.

Pending accounting pronouncements

See Note 3 to our unaudited condensed consolidated financial statements as of November 30, 2021.

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, LIBOR and other similar reference rates. For our variable-rate debt, our primary exposure is in interest expense.

The borrowings under the Restated Revolver accrue interest at a variable rate. As of November 30, 2021, we had no outstanding borrowings under the Restated Revolver.

Item 4. *Controls and Procedures*

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Information with respect to legal proceedings is incorporated into this Part II, Item 1 from Note 14 to our unaudited condensed consolidated financial statements in Part I, Item 1 of this quarterly report.

Item 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report for the year ended May 31, 2021, 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.

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

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