NOT FILED WITH THE SEC

THIS QUARTERLY REPORT IS BEING PREPARED PURSUANT TO REQUIREMENTS CONTAINED IN THE INDENTURE, DATED AS OF FEBRUARY 6, 2013 GOVERNING THE 6.875% SENIOR NOTES DUE 2021 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 February 29, 2016

OR

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

For the transition period from ________ to________.

Ashton Woods USA L.L.C.

(Exact Name of Registrant as Specified in Its Charter)

Commission file Number: **N/A**

Nevada	**37-1590746**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1405 Old Alabama Road Suite 200 Roswell, GA	**30076**
(Address of Principal Executive Offices)	(Zip Code)

(770) 998-9663

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:	Securities registered pursuant to Section 12(g) of the Act:
Title of Each Class	Title of Each Class
NONE	**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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post 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 or a smaller reporting company. See definition of "accelerated filer, "large accelerated filer" and smaller company: in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer _X_ Smaller reporting company ___

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

ASHTON WOODS USA L.L.C.
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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 February 29, 2016, and the related condensed consolidated statements of income for the three-month and nine-month periods ended February 29, 2016 and February 28, 2015, condensed consolidated statements of cash flows for the nine-month periods ended February 29, 2016 and February 28, 2015, and the condensed consolidated statement of members' equity for each of the three-month periods in the nine-month period ended February 29, 2016.

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.

A member firm of Ernst & Young Global Limited

Report on Condensed Balance Sheet as of May 31, 2015

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, 2015, and the related consolidated statements of income, 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 22, 2015. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2015, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

April 13, 2016

A member firm of Ernst & Young Global Limited

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	February 29, 2016	May 31, 2015
Assets:	(Unaudited)	
Cash and cash equivalents	$ —	$ —
Restricted cash	196	3
Receivables	15,772	17,074
Inventory	717,006	546,255
Real estate not owned	98,293	38,278
Property and equipment, net	27,214	27,062
Investments in unconsolidated entities	9,419	9,427
Deposits on real estate under option or contract	63,316	65,538
Other assets	30,905	32,365
Total assets	$ 962,121	$ 736,002
Liabilities and members’ equity:		
Liabilities:		
Accounts payable	$ 64,712	$ 44,367
Other liabilities	31,546	41,017
Customer deposits	33,989	25,727
Liabilities related to real estate not owned	74,599	30,449
Debt	501,869	347,519
Total liabilities	706,715	489,079
Members' equity:	255,406	246,923
Total liabilities and members' equity	$ 962,121	$ 736,002

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		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(Unaudited)			
Revenues:				
Home sales	$ 262,375	$ 227,174	$ 711,836	$ 600,553
Land sales	1,436	7,500	1,891	11,438
	263,811	234,674	713,727	611,991
Cost of sales:				
Cost of sales - homes	213,282	184,035	580,351	483,309
Cost of sales - land	1,523	7,227	1,978	10,757
	214,805	191,262	582,329	494,066
Gross profit	49,006	43,412	131,398	117,925
Other expense (income):				
Selling, general and administrative	34,756	32,191	101,739	91,646
Interest expense	2,765	2,875	8,600	7,074
Depreciation and amortization	3,112	2,912	9,518	8,279
Other income	(753)	(1,034)	(2,167)	(2,179)
	39,880	36,944	117,690	104,820
Equity in earnings in unconsolidated entities	336	225	984	840
Net income	$ 9,462	$ 6,693	$ 14,692	$ 13,945

See accompanying notes to unaudited condensed consolidated financial statements.

ASHTON WOODS USA L.L.C.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

(In thousands)

	Class A interest	Class B interests	Class C interests	Total members' equity
		(Unaudited)		
Members' equity at May 31, 2015	$ 89,920	$ 18,377	$ 138,626	$ 246,923
Net income	240	59	318	617
Contributions	—	—	41	41
Distributions	(1,490)	(365)	(1,988)	(3,843)
Members' equity at August 31, 2015	$ 88,670	$ 18,071	$ 136,997	$ 243,738
Net income	1,795	441	2,377	4,613
Distributions	(937)	(230)	(1,240)	(2,407)
Members' equity at November 30, 2015	$ 89,528	$ 18,282	$ 138,134	$ 245,944
Net income	3,682	905	4,875	9,462
Members' equity at February 29, 2016	$ 93,210	$ 19,187	$ 143,009	$ 255,406

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine months ended	
	February 29, 2016	February 28, 2015
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 14,692	$ 13,945
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings in unconsolidated entities	(984)	(840)
Return on investments in unconsolidated entities	774	346
Increase in liability for long-term compensation	678	760
Depreciation and amortization	9,518	8,279
Changes in operating assets and liabilities:		
Inventory	(166,235)	(148,034)
Receivables	1,302	2,362
Deposits on real estate under option or contract	2,222	(13,232)
Real estate not owned, net	(15,865)	(1,685)
Other assets	1,147	(8,274)
Accounts payable	20,345	25,191
Other liabilities	(10,252)	(7,554)
Customer deposits	8,262	6,858
Net cash used in operating activities	(134,396)	(121,878)
Cash flows from investing activities:		
Return of investments in unconsolidated entities	1,278	1,232
Investments in unconsolidated entities	(957)	—
Additions to property and equipment	(9,785)	(16,051)
Changes in restricted cash	(193)	3,114
Net cash used in investing activities	(9,657)	(11,705)
Cash flows from financing activities:		
Borrowings from revolving credit facility	587,000	291,300
Repayments of revolving credit facility	(435,260)	(205,799)
Payments of debt issuance costs	(1,478)	(1,323)
Members' contributions	41	—
Members' distributions	(6,250)	(14,700)
Net cash provided by financing activities	144,053	69,478
Change in cash and cash equivalents	—	(64,105)
Cash and cash equivalents, beginning of period	—	64,105
Cash and cash equivalents, end of period	$ —	$ —
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 10,050	$ 6,662
Supplemental disclosure of non-cash financing activity:		
Assumption of loan upon real estate acquisition	$ 2,338	$ —

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1 — Basis of Presentation and Significant Accounting Policies

(a) Operations

Ashton Woods USA L.L.C. (the "Company" or "Ashton Woods"), operating as Ashton Woods Homes, is a limited liability company that designs, builds and markets attached and detached single-family homes under the Ashton Woods Homes brand name. The Company has operations in the following markets:

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

The Company provides title services to buyers in certain of its Texas markets through two unconsolidated entities in which the Company has 49.0% ownership interests. In addition, the Company offers title services in its Atlanta, Southwest Florida, Raleigh, and Orlando markets through a wholly-owned title agency.

(b) Basis of presentation and reclassifications

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. Certain reclassifications have been made to the prior year balances to conform to the current year presentation. On the unaudited condensed consolidated balance sheets and the unaudited condensed consolidated statement of cash flows, the land development receivables and Municipal Utility Districts ("MUD") receivables have been reclassified from other assets to receivables (see Note 1(*e*)). Further, on the unaudited condensed consolidated statement of cash flows for the three and nine months ended February 28, 2015, the change in real estate not owned, net, has been reclassified to it's own line item from other assets. 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 and cash equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

(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 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 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 the Financial Accounting Standards Board ("FASB") Accounting

Standard Codification ("ASC") Subtopic 360-10, *Property, Plant and Equipment*. The Company reviews its inventory in accordance with ASC Subtopic 360-10, which requires long-lived assets to be assessed for impairment when facts and circumstances indicate an impairment may exist. The Company utilizes an undiscounted future cash flow model in this assessment. When the results of the undiscounted future cash flows are less than the carrying value of the community (asset group), an asset impairment must be recognized in the unaudited condensed consolidated financial statements as a component of cost of sales. The amount of the impairment is calculated by subtracting the estimated fair value, less cost to sell, of the community from the carrying value. ASC Subtopic 360-10 also requires that assets held for sale be stated at the lower of cost or fair value less costs to sell. Accordingly, land held for sale is stated at the lower of accumulated cost or fair value less costs to sell.

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

(e) Receivables

Receivables at February 29, 2016 and May 31, 2015 consisted of the following (in thousands):

	February 29, 2016	May 31, 2015
Closing funds due	$ 6,038	$ 9,025
Land development receivables	4,842	4,841
MUD receivables [(1)]	3,572	1,738
Other receivables [(2)]	1,320	1,470
	$ 15,772	$ 17,074

(1) Includes certain land development costs to be reimbursed by three Municipal Utility Districts ("MUD") in Houston, Texas.

(2) Includes amounts due from utility companies, insurance companies, escrow deposits, and drawn amounts due from salespersons.

(f) Real estate not owned

Real estate not owned is based on the future purchase price of lots under option purchase agreements with entities under common control or with third parties pursuant to (depending on the circumstances) ASC Subtopic 360-20, *Property, Plant and Equipment – Real Estate Sales,* ASC Subtopic 470-40, *Product Financing Arrangements* or ASC Subtopic 810, *Consolidation* (see Note 4).

(g) Investments in unconsolidated entities

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

entity. The Company's share of profits from lots purchased by other parties is recognized immediately and included within equity in earnings in unconsolidated entities in the unaudited condensed consolidated statements of income (see Note 6).

The Company's investments in its two title service joint ventures are accounted for under the equity method. Under the equity method, the Company's share of the unconsolidated entities' income or loss is recognized as earned or incurred and is included within equity in earnings in unconsolidated entities in the unaudited condensed consolidated statements of income.

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.

(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 contract (for deposits) and other assets (for pre-acquisition costs) until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for these 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 was $0.4 million and $0.1 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and $0.6 million and $0.7 million for the nine months ended February 29, 2016 and February 28, 2015, respectively.

(i) Property and equipment

Property and equipment is recorded at cost. Depreciation is generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the life of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at February 29, 2016 and May 31, 2015 consisted of the following (in thousands):

	February 29, 2016	May 31, 2015
Office furniture and equipment	$ 3,736	$ 3,134
Sales offices, design studios and model furnishings	44,782	40,876
Leasehold improvements	1,572	1,255
	50,090	45,265
Accumulated depreciation and amortization[(1)]	(22,876)	(18,203)
	$ 27,214	$ 27,062

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated $3.1 million and $2.9 million for both the three months ended February 29, 2016 and February 28, 2015, respectively, and $9.5 million and $8.3 million for the nine months ended February 29, 2016 and February 28, 2015, respectively.

(j) Revenue recognition

Revenues from homebuilding and land sales are recognized at the time of the closing of each sale, when title to and possession of the property are transferred to the buyer. Internal and external sales commissions are included in selling, general and administrative expenses in the unaudited condensed consolidated statement of income. Typically all homebuilding and land net sales proceeds are received in cash within two business days of closing.

(k) Prepaid expenses

Included in other assets are prepaid expenses of approximately $9.5 million and $9.3 million as of February 29, 2016 and May 31, 2015, respectively, which primarily represent prepaid insurance, fees, permits, and rent.

(l) Warranty costs

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

Presented below are summaries of the activity in the Company’s warranty liability account for the three and nine months ended February 29, 2016 and February 28, 2015 (in thousands):

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Warranty liability, beginning of period	$ 6,323	$ 6,047	$ 7,032	$ 6,500
Costs accrued during period	2,663	1,832	6,722	5,171
Costs incurred during period	(1,917)	(1,592)	(6,685)	(5,384)
Warranty liability, end of period	$ 7,069	$ 6,287	$ 7,069	$ 6,287

(m) Advertising costs

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income, was approximately $1.8 million and $1.7 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and $5.0 million and $5.4 million for the nine months ended February 29, 2016 and February 28, 2015, 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 718-30, *Compensation – Awards Classified as Liabilities*. The Company measures the value of the performance shares on a quarterly basis using the intrinsic value method. Compensation expense is recorded on a straight-line basis over the vesting period based on the intrinsic value of the shares. Additional compensation expense may be recognized subsequent to completion of the vesting period for appreciation-only

performance shares, based on the intrinsic value through the settlement date. See Note 11 for additional discussion regarding the Company's long-term incentive plan.

(o) Income taxes

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make a distribution to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's senior secured revolving credit facility and in the indenture governing its 6.875% Senior Notes due 2021 (the "6.875% Notes"). Any tax distribution made to the Members is treated as a reduction of equity. The Company made distributions of $6.3 million and $14.7 million during the nine months ended February 29, 2016 and February 28, 2015, respectively, based on estimated taxable income.

(p) Use of estimates

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

(q) Segments

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

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

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

(r) Subsequent events

The Company has evaluated subsequent events through April 13, 2016. This date represents the date on which the financial statements were available to be issued.

Note 2 — Pending and Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The allowable methods of adoption are full retrospective adoption or modified retrospective adoption. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date by one year while providing the option to early adopt the standard on the original effective date. Accordingly, the effective date for ASU 2015-14

for the Company is for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. The Company is currently evaluating the impact that ASU 2014-09 will have on its consolidated financial position, results of operations, cash flows, and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company's adoption of ASU 2014-15 is not expected to have a material effect on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"), which changed the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The amendments in ASU 2015-02 are effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company's adoption of ASU 2015-02 is not expected to have a material effect on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest* ("ASU 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The effective date for ASU 2015-03 for the Company is for annual periods beginning after December 15, 2015. The Company's adoption of ASU 2015-03 is not expected to have a material effect on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for ASU 2016-01 for the Company is for annual periods beginning after December 15, 2019. The Company's adoption of ASU 2016-01 is not expected to have a material effect on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* ("ASU 2016-02"), which requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. The effective date of ASU 2016-02 for the Company is for annual periods beginning after December 15, 2019, and for annual and interim periods thereafter. The Company's adoption of ASU 2016-02 is not expected to have a material effect on its consolidated financial statements and related disclosures.

Note 3 — Inventory

Inventory consisted of the following at February 29, 2016 and May 31, 2015 (in thousands):

	February 29, 2016	May 31, 2015
Homes under construction and finished homes	$ 455,790	$ 309,984
Finished lots	221,303	204,684
Land under development	33,533	27,676
Land held for future development	4,324	1,996
Commercial land	1,330	1,352
Land held for sale	726	563
	$ 717,006	$ 546,255

The Company capitalizes all interest incurred to the extent its qualifying assets 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 $2.8 million and $8.6 million for the three and nine months ended February 29, 2016, respectively, and $2.9 million and $7.1 million for the three and nine months ended February 28, 2015, 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 nine months ended February 29, 2016 and February 28, 2015 (in thousands):

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Capitalized interest, beginning of period	$ 11,021	$ 12,343	$ 10,241	$ 10,592
Interest incurred	8,445	8,042	23,815	22,444
Interest amortized to cost of sales	(4,731)	(4,965)	(13,486)	(13,417)
Interest expensed	(2,765)	(2,875)	(8,600)	(7,074)
Capitalized interest, end of period	$ 11,970	$ 12,545	$ 11,970	$ 12,545

Note 4 — Real Estate Not Owned

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 applying these provisions, the Company regularly evaluates its land and lot purchase agreements.

Pursuant to ASC Subtopic 810, *Consolidations ("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 VIE, for which consolidation is required, may be created because it is deemed to have provided subordinated financial support that will absorb some or all of an entity's expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary and thus must consolidate the entity by first determining if it has the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract;

and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if it will benefit from potentially a significant amount of the VIE's expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as "Real estate not owned" and the related liabilities as "Liabilities related to real estate not owned." At February 29, 2016 and May 31, 2015, no purchase contracts or investments in unconsolidated entities were determined to require consolidation under ASC 810.

Based on the provisions of ASC Subtopic 360-20, *Property, Plant, and Equipment*, a seller may not recognize as a sale property it sells if there continues to be substantial continuing involvement with the property. If the Company enters into lot purchase agreements for land it has sold and determines that there is substantial continuing involvement at the reporting date, the Company records the lots subject to such sale as "Real Estate not owned" and the related liabilities as "Liabilities related to real estate not owned." At February 29, 2016 and May 31, 2015, the Company recorded real estate not owned of $14.7 million and $25.6 million, respectively, for the sale of lots because of its continuing involvement.

Pursuant to ASC Subtopic 470-40, *Product Financing Arrangements ("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 locates 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. The Company is generally not obligated to purchase the lots that are the subject of such agreements, but 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, it believes that due to the terms of the purchase contracts it is compelled to purchase the lots under option, the Company will record "Real estate not owned" and the related liabilities as "Liabilities related to real estate not owned" in connection with such option purchase agreements. The Company has entered into seven lot purchase agreements with two separate unaffiliated investor groups and has accounted for them pursuant to ASC 470-40. At February 29, 2016 and May 31, 2015, the Company recorded real estate not owned of $83.6 million and $12.7 million, respectively, related to the lot purchase agreements accounted for pursuant to ASC 470-40. During the nine months ended February 29, 2016, the Company entered into two lot purchase agreements, which, accounted for $77.8 million of the $83.6 million balance in real estate not owned at February 29, 2016.

Note 5 — Other Assets

Other assets at February 29, 2016 and May 31, 2015 consisted of the following (in thousands):

	February 29, 2016	May 31, 2015
Deferred financing fees	$ 8,835	$ 9,264
Architecture plans	10,379	9,181
Prepaid expenses	9,472	9,319
Pre-acquisition costs	1,244	2,103
Other deposits	975	2,498
	$ 30,905	$ 32,365

Deferred financing fees are comprised of costs incurred in connection with obtaining financing from third parties and are amortized as interest over the terms of the related financing arrangements using the effective interest method. On July 31, 2015, the Company amended its senior secured revolving credit facility by entering into a Fifth Amended and Restated Credit Agreement. See Note 7 for additional information on the amendment to the senior secured revolving credit facility.

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

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 February 29, 2016, the Company participated in three such land joint ventures. The Company's partners in such joint ventures are both related parties and unrelated parties, including homebuilders, land developers or other real estate entities. The partners generally share profits and losses in accordance with their ownership interests. The Company accounts for its interests in these entities under the equity method.

As of February 29, 2016, the Company had equity investments of less than 50% in each of its three land joint ventures and did not have a controlling interest in these unconsolidated entities. The Company and/or its land joint venture partners will sometimes enter into lot purchase agreements that permit the Company and/or its joint venture partners 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 Company's share of the unconsolidated entity's earnings on the sale of lots to other parties is recognized at the time of the sale.

One of the Company's land joint ventures was entered into with affiliates of the Company's majority equity holder (each and collectively, the "Investors"), in which the Company has a 49% limited partner interest that is accounted for under the equity method. As of February 29, 2016, the Company had recorded $8.0 million for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheet. The Company 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 in the unaudited condensed consolidated statements of income. The Company is a party to a lot purchase agreement with the joint venture, which required a 10% deposit, and has no specific performance requirements for the Company. As of February 29, 2016, the total purchase price of lots remaining to be purchased under this agreement was approximately $19.3 million. As of February 29, 2016, the joint venture had debt outstanding of $10.2 million, which is non-recourse to the joint venture and to the Company. The loan was obtained to acquire the land and fund the first phase of land development. The Company provided the lender with a performance guarantee for the substantial completion of the first phase of development for this joint venture. The guarantee of performance may include the payment of money for costs incurred during the completion of the development. In the event that the Company pays money or performs any services pursuant to the guarantee, the joint venture has agreed to indemnify and reimburse the Company for any such costs incurred.

The Company also offers title services to its homebuyers in Texas through ownership interests in two title joint ventures. The Company has an ownership interest of less than 50% in each of these joint ventures. The joint ventures are managed by, and all underwriting risks associated with the title insurance reside with, the majority owner of each of these entities.

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of February 29, 2016 and May 31, 2015 and for the three and nine months ended February 29, 2016 and February 28, 2015 were as follows (in thousands):

	February 29, 2016	May 31, 2015
Assets:	(Unaudited)	
Cash	$ 2,795	$ 2,995
Real estate	33,485	34,807
Other	176	269
Total assets	$ 36,456	$ 38,071
Liabilities:		
Liabilities:		
Accounts payable and other accruals	$ 3,504	$ 4,778
Notes payable	10,192	8,126
Total liabilities	13,696	12,904
Equity	22,760	25,167
Total liabilities and equity	$ 36,456	$ 38,071

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(Unaudited)			
Revenues	$ 3,170	$ 2,925	$ 9,699	$ 10,108
Gross profit	1,386	1,089	4,454	3,316
Operating expenses	237	318	702	862
Net earnings	1,149	771	3,899	2,454

Note 7 — Debt

Debt at February 29, 2016 and May 31, 2015 consisted of the following (in thousands):

	February 29, 2016	May 31, 2015
6.875% senior notes	$ 347,791	$ 347,519
Senior secured revolving credit facility	151,740	—
Note payable	2,338	—
	$ 501,869	$ 347,519

The 6.875% Notes

The Company has issued and outstanding $350 million principal amount of 6.875% Senior Notes due 2021 (the "6.875% Notes"). The 6.875% Notes mature February 15, 2021.

Interest is payable on the 6.875% Notes on February 15 and August 15 of each year. The 6.875% Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to the Company's existing and future subordinated debt. The 6.875% Notes are effectively subordinated to any of the Company's existing and future secured debt, including the Restated Revolver,

to the extent of the value of the assets securing such debt. The obligations under the 6.875% Notes are jointly and severally guaranteed by each Restricted Subsidiary, as defined, that has assets with a book value of more than $2.0 million.

The Company has the option to redeem the 6.875% Notes at any time or from time to time, in whole or in part, (a) until February 15, 2017, 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 a make-whole premium as defined in the indenture governing the 6.875% Notes, (b) on or after February 15, 2017, at certain redemption prices set forth in the indenture governing the 6.875% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after February 15, 2019, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date. At any time before February 15, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 6.875% Notes with the net cash proceeds of certain equity offerings, at a redemption price equal to 106.875% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to and excluding the redemption date.

The indenture governing the 6.875% Notes contains a number of covenants, including covenants relating to the following:

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

As of February 29, 2016, the Company was in compliance with the covenants in the indenture governing the 6.875% Notes.

Senior Secured Revolving Credit Facility

On July 31, 2015, the Company amended its senior secured revolving credit facility by entering into a Fifth Amended and Restated Credit Agreement (the “Restated Revolver”), providing for, among other things, (i) an initial aggregate revolving loan commitment of up to $260.0 million, with an accordion feature to permit the size of the facility to be increased in the future up to $300 million (dependent upon Company needs and available lender commitments), of which up to $45.0 million is available for the issuance of letters of credit and up to $10 million is available for a swingline facility, and (ii) a maturity date of January 31, 2019. The Restated Revolver limits the principal amount of the aggregate commitment available to the amount that is supported by the permitted lien basket in the indenture governing the Company's 6.875% Notes, which is 30% of Consolidated Tangible Assets, as defined therein ("CTA"), which resulted in an aggregate commitment of $217.0 million at July 31, 2015. On October 14, 2015, the aggregate available commitment was increased to $231.0 million and on January 13, 2016, the aggregate available commitment was increased to $255.0 million based on CTA as of August 31, 2015 and November 30, 2015, respectively, pursuant to the terms of the Restated Revolver. Any further increase in commitments will be provided through the accordian feature of the Restated Revolver.

Interest accrues on borrowings under the Restated Revolver at the London Interbank Offered Rate (LIBOR) plus an applicable margin that ranges from 315 to 385 basis points. Letters of credit may be issued under the Restated Revolver at a rate of 100 basis points if secured by cash, or at a rate of 315 to 385 basis points if not secured by cash. The Restated Revolver has a maturity date of January 31, 2019, subject to an extension in accordance with the terms set forth therein. The Restated Revolver is secured by a continuing first priority security interest in the real property of certain operating divisions selected by the Company for inclusion in the borrowing base, and the personal property of the Company and its subsidiaries affixed to, placed upon, used in connection with, arising from or appropriated for use on the pledged real property and the continuing guarantee of substantially all of its subsidiaries. The Company may

pledge additional collateral as needed to increase the borrowing base consistent with the maximum availability under the Restated Revolver.

The Restated Revolver contains the following material financial covenants:

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

Availability under the Restated Revolver is based upon a borrowing base formula. Additionally, the Restated Revolver contains covenants in addition to the financial covenants noted above. The Restated Revolver permits sales and transfers of ownership interests in the Company so long as no change of control, as defined in the Restated Revolver, occurs and permits certain tax distributions to Members and permits certain other distributions to Members if certain Leverage Ratio and other conditions are met. As of February 29, 2016, the Company was in compliance with the covenants in the Restated Revolver.

At February 29, 2016, there was $151.7 million outstanding under the Restated Revolver and $7.1 million of letters of credit outstanding. As of February 29, 2016, and subject to a borrowing base formula, the Company had available additional borrowing capacity of $96.2 million under the Restated Revolver based on outstanding borrowings on the Restated Revolver, outstanding letters of credit, and the value of collateral pledged to secure the facility.

Note Payable

During the current fiscal year, the Company issued a note payable to an unaffiliated third party that totaled $2.3 million at February 29, 2016. The note matures two years from its issuance date, is collateralized by the applicable land positions to which it relates, and has no recourse to any other assets.

Note 8 — Other Liabilities

Other liabilities at February 29, 2016 and May 31, 2015 consisted of the following (in thousands):

	February 29, 2016	May 31, 2015
Salaries, bonuses and benefits	$ 11,032	$ 14,153
Accrued interest	1,674	7,499
Warranty accruals	7,069	7,029
Accrued long-term compensation	2,585	2,787
Other	9,186	9,549
	$ 31,546	$ 41,017

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

The Second Amended and Restated Regulations (as amended, the "Regulations") of Ashton Woods created three classes of members and associated membership interests as follows: (1) Class A Membership Interests, all of which are held by Little Shots Nevada, L.L.C. ("Little Shots"), (2) Class B Membership Interests initially issued to the holders of our former 11.0% Senior Subordinated Notes due 2015, the majority of which are now held by Little Shots, and (3) Class C Membership Interests created in June 2010, the majority of which are also 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.

During the first quarter of fiscal year 2016, the Company sold 2,898 additional Class C Units for an aggregate purchase price of $40.9 thousand in a preemptive rights offering made to Members pursuant to the Regulations.

At February 29, 2016, 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	1,918,979	9.31%	97.27%
Class C	8,167,244	39.59%	76.84%
Total Little Shots Nevada L.L.C.	18,113,423	87.81%	
Various Holders			
Class B	53,821	0.26%	2.73%
Class C	2,461,485	11.93%	23.16%
	20,628,729	100.00%	

Note 10 — Transactions with Related Parties

Services agreement

The Company is a party to a services agreement with the Investors that provides the Company with a license, as well as development and support, for certain of the Company's computer systems and administrative services. The Company pays $800 per home closing quarterly, in arrears, for these services, which are included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income. During the three months ended February 29, 2016 and February 28, 2015, the Company incurred fees of $0.5 million and $0.4 million, respectively, and during the nine months ended February 29, 2016 and February 28, 2015, the Company incurred fees of $1.3 million and $1.2 million, respectively, under the services agreement. As of February 29, 2016, the balance due to the related party was $0.5 million.

Lease agreement

The Company is a party to a lease as a lessee with the Investors to rent approximately 8,000 square feet of commercial space in Dallas, Texas. The initial term of the lease was 66 months, with 58 months remaining as of February 29, 2016. The Company has the option to renew the lease for one additional five-year term. Total minimum lease payments due under the lease were $0.5 million as of February 29, 2016.

Lot purchase agreements

As of February 29, 2016, the Company is a party to four lot purchase agreements with the Investors. A 10% deposit was required under each of the purchase agreements, and there are no specific performance requirements for the Company. These lot purchase agreements are not required to be recorded as real estate not owned in the unaudited condensed consolidated balance sheets. As of February 29, 2016, the total purchase price of lots remaining to be purchased under such agreements was approximately $15.9 million.

Land development receivables

The Company had $1.1 million and $1.2 million in land development receivables due from the Investors at February 29, 2016 and May 31, 2015, respectively, associated with the above mentioned lot purchase agreements. The amounts are included in receivables in the unaudited condensed consolidated balance sheets (see Note 1(*e*)).

Joint venture

The Company is a party to a land joint venture with the Investors, which is accounted for under the equity method. The Company has an equity investment of less than 50% in the joint venture and does not have a controlling interest in the unconsolidated entity. Also, the Company is a party to a lot purchase agreement with the joint venture to purchase 186 lots. A 10% deposit was required under the purchase agreement and there are no specific performance requirements for the Company. As of February 29, 2016, the total purchase price of lots remaining to be purchased was $19.3 million (see Note 6).

Land development agreement

The Company entered into a land development agreement with the Investors and with an affiliate of the Company's majority equity holder for the development of a parcel of land pursuant to which the Company will be paid a fee for the oversight of the development. No payments were made to the Company during the three and nine months ended February 29, 2016, pursuant to the development agreement.

Note 11 — Long-Term Incentive Plan

In July 2012, the Board of Directors adopted the Ashton Woods USA L.L.C. 2013 Performance Share Plan, a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company's future growth. In July 2013, the Board of Directors adopted the Amended and Restated Performance Share Plan (the "Plan"). The Plan provides for the grant to participants of full-value performance shares and appreciation-only performance shares, which are the equivalent of phantom equity awards. Full-value performance shares allow the participant to receive a cash payment equal to the total value of the performance share on the designated date of payment. Appreciation-only performance shares allow the participant to receive a cash payment equal to the increase in value of the performance share measured from the date of grant to the designated date of payment. The Board of Directors approved awards to the Company's Chief Executive Officer, Chief Financial Officer and Chief Legal Officer in July 2012, and in July of 2013, 2014, and 2015 awarded additional performance shares to these officers, along with certain members of the corporate and operating division senior management teams. In addition to awards that vest as set forth in the Plan, in July 2012 the Company's Chief Executive Officer and Chief Financial Officer were awarded a certain number of vested appreciation-only performance shares and vested full-value performance shares.

The value of a performance share awarded under the Plan is determined by multiplying the Company's book value, as defined under the Plan, by a multiple that is equal to the weighted average multiple of a book value of a share of common stock of a predetermined group of publicly traded homebuilders, divided by the number of performance shares available under the Plan. Generally, except as determined by the Board upon grant, awards under the Plan will vest ratably over three years and will be subject to forfeiture upon the occurrence of certain events, including termination of employment for cause. The performance shares will become fully vested upon a participant's resignation for good reason, the participant's death or disability or a change of control, and with respect to certain grants upon an equity sale, as defined in the Plan. In the absence of a payment event otherwise defined in the Plan, the full-value performance share awards pay out after the third anniversary of the award date, and the appreciation-only performance share awards pay out after the fifth anniversary of the award date.

The following table represents a rollforward of the outstanding units for the nine months ended February 29, 2016:

	Full-value awards	Appreciation-only awards	Total awards
Outstanding units as of May 31, 2015	94,420	264,247	358,667
Units awarded during the period	46,437	92,874	139,311
Fully vested units paid	(20,315)	(35,955)	(56,270)
Total outstanding units as of February 29, 2016	120,542	321,166	441,708
Total vested units as of February 29, 2016	67,111	214,277	281,388

The Company has elected to account for awards under the Plan using the intrinsic value method. The Company's liability for awards under the Plan is remeasured quarterly to reflect the intrinsic value of the awards 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 awards is included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income.

The total number of units vested as of February 29, 2016 and May 31, 2015 was 281,388 and 240,638, respectively. For the three months ended February 29, 2016 and February 28, 2015, the Company recorded $8.9 thousand and $0.4 million, respectively, in compensation expense associated with the full-value and appreciation-only awards. For the nine months ended February 29, 2016 and February 28, 2015, the Company recorded $0.7 million and $0.8 million, respectively, in compensation expense associated with the full-value and appreciation-only awards. For the nine months ended February 29, 2016 and February 28, 2015, $0.9 million (56,270 units) and $0.4 million (20,599 units), respectively, of vested awards were paid out to employees. As of February 29, 2016 and May 31, 2015, the Company's liability for the Plan awards was $2.6 million and $2.8 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 12 — Fair Value Disclosures

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

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

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

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt at February 29, 2016 and May 31, 2015:

		February 29, 2016		May 31, 2015	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
		(in thousands)			
Liabilities:					
6.875% Notes	Level 2	$ 347,791	$ 283,500	$ 347,519	$ 329,000
Note Payable	Level 3	$ 2,338	$ 2,338	$ —	$ —

The fair value of the 6.875% Notes is derived from quoted market prices by independent dealers (Level 2).The fair value of the Note Payable is determined based on expected future cash flows, discounted at an estimated market interest rate.

Note 13 — Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. Management believes that, while the ultimate outcome of the contingencies cannot be predicted with certainty, the ultimate liability, if any, net of anticipated recoveries including from insurance, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company has entered into employment agreements with its executive officers and certain other officers 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 February 29, 2016 and May 31, 2015, the Company had letters of credit outstanding of $7.1 million and $3.2 million, respectively, and surety bonds outstanding of $15.3 million and $20.7 million, respectively. As of February 29, 2016, the Company had $37.9 million of unused letters of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, the Company has made nonrefundable deposits of $62.8 million as of February 29, 2016. 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 $601.8 million as of February 29, 2016. As of February 29, 2016, one of these purchase agreements, which has an aggregate purchase price of $42.2 million and a $1.4 million deposit, provides the seller with a specific performance right against the Company, subject to certain conditions.

Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

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

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

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenues:				
Homebuilding:				
East	$ 141,116	$ 130,451	$ 390,463	$ 322,012
Central	121,259	96,723	321,373	278,541
Consolidated revenues	$ 262,375	$ 227,174	$ 711,836	$ 600,553
Gross profit:				
Homebuilding:				
East	$ 27,054	$ 25,278	$ 74,255	$ 64,780
Central	22,039	17,861	57,230	52,464
Consolidated gross profit	$ 49,093	$ 43,139	$ 131,485	$ 117,244
Equity in earnings in unconsolidated entities:				
East	$ —	$ —	$ —	$ 1
Central	336	225	984	839
Consolidated equity in earnings in unconsolidated entities	$ 336	$ 225	$ 984	$ 840
Net income:				
East	$ 6,697	$ 7,312	$ 14,602	$ 14,526
Central	5,538	2,139	8,699	6,494
	12,235	9,451	23,301	21,020
Other [1]	(2,773)	(2,758)	(8,609)	(7,075)
Consolidated net income	$ 9,462	$ 6,693	$ 14,692	$ 13,945

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

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

	February 29, 2016	May 31, 2015
Assets:		
Homebuilding:		
East	$ 567,890	$ 406,652
Central	382,316	317,449
	950,206	724,101
Other [2]	11,915	11,901
Consolidated assets	$ 962,121	$ 736,002

(2) "Other" includes restricted cash, corporate assets and commercial land in Dallas.

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		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Additions to property and equipment:				
Homebuilding:				
East	$ 415	$ 4,034	$ 3,699	$ 8,703
Central	2,149	1,589	5,774	7,061
	2,564	5,623	9,473	15,764
Other [3]	141	47	312	287
Consolidated additions to property and equipment	$ 2,705	$ 5,670	$ 9,785	$ 16,051

(3) "Other" is comprised of property and equipment additions for the 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. The Company's results of operations discussed below are presented in conformity with U.S. GAAP.

Forward-Looking Statements

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

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

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

- Fluctuations in mortgage interest rates and the availability of mortgage financing;
- The availability of high quality undeveloped land and improved lots at suitable prices;
- The volatility of the capital markets and the banking industry;
- An ownership change which could have unfavorable implications for our debt instruments;
- The availability of qualified employees, skilled labor, qualified subcontractors and raw materials;
- The competitive nature of the homebuilding industry;
- Deterioration of the economic climate either nationally or in the regions in which we operate, which could impact growth and expansion opportunities, impact the price of labor and materials, impact the value of our inventory and impact inflation, consumer confidence and consumer preferences;
- Government regulatory actions, which could affect tax laws and could result in fines, penalties, delays, or increased costs in obtaining necessary permits and complying with environmental safety and other laws and regulations;
- Timing of permits and other regulatory approvals;
- Our substantial indebtedness and our ability to comply with the related financial and other covenants and our ability to obtain replacement financing as these instruments mature;
- The cost and availability of insurance and the level of warranty claims;
- Judgments or other costs and exposure with respect to litigation and claims;
- Changes in accounting guidelines or our interpretation of those guidelines;
- Adverse weather conditions and acts of war or terror; and
- Other factors over which the Company has little or no control.

Results of operations

The unaudited condensed consolidated financial statements included herein have been prepared in accordance with GAAP and in accordance with Article 10 of Regulation S-X. We will discuss our results of operations under the following two major sub-headings:

- Results of operations—Consolidated discussion; and
- Results of operations—Segment discussion.

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenues:	(in thousands)			
Home sales	$ 262,375	$ 227,174	$ 711,836	$ 600,553
Land sales	1,436	7,500	1,891	11,438
	$ 263,811	$ 234,674	$ 713,727	$ 611,991
Gross profit (loss):				
Home sales	$ 49,093	$ 43,139	$ 131,485	$ 117,244
Land sales	(87)	273	(87)	681
	$ 49,006	$ 43,412	$ 131,398	$ 117,925
Selling, general and administrative	$ 34,756	$ 32,191	$ 101,739	$ 91,646
Net income [1]	$ 9,462	$ 6,693	$ 14,692	$ 13,945

(1) Because we are structured as a limited liability company, income tax obligations are paid by our Members and are not borne by us. Therefore, our net income is higher than it would be if we were structured as a corporation. However, as a limited liability company, we periodically make distributions to our Members. The Company made no distributions during both the three months ended February 29, 2016 and February 28, 2015 and $6.3 million and $14.7 million during the nine months ended February 29, 2016 and February 28, 2015, respectively.

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	($ in thousands)			
Supplemental data :				
Active communities at end of period	120	92	120	92
Net new home orders (in units)	608	668	1,830	1,775
Homes closed (in units) [(2)]	599	553	1,670	1,548
Average sales price per home closed	$ 438	$ 411	$ 426	$ 388
Backlog at end of period (in units)	1,373	1,233	1,373	1,233
Sales value of backlog at end of period	$ 616,096	$ 548,330	$ 616,096	$ 548,330
Home gross margin [(3)]	18.7%	19.0%	18.5%	19.5%
Adjusted home gross margin [(4)]	20.5%	21.2%	20.4%	21.8%
Ratio of selling, general and administrative expenses to home sales revenue	13.2%	14.2%	14.3%	15.3%
Interest incurred [(5)]	$ 8,445	$ 8,042	$ 23,815	$ 22,444
EBITDA [(6)]	$ 20,070	$ 17,445	$ 46,296	$ 42,715
EBITDA margin [(6)]	7.6%	7.4%	6.5%	7.0%
Total debt to total capitalization	66.3%	66.7%	66.3%	66.7%
Total net debt to net capitalization	66.3%	66.7%	66.3%	66.7%
Cancellation rate (as a percentage of gross sales)	12.0%	11.6%	12.8%	12.3%

(2) A home is included in "homes closed" when title 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.

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

(4) Adjusted home gross margin is not a financial measure under GAAP and should not be considered an alternative to home gross margin determined in accordance with GAAP as an indicator of operating performance. We use this measure to evaluate our performance against other companies in the homebuilding industry and believe it is also relevant and useful to investors. Adjusted home gross margin is home gross margin that is adjusted for 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		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
Home sales revenues	$ 262,375	$ 227,174	$ 711,836	$ 600,553
Cost of sales - homes	213,282	184,035	580,351	483,309
Home gross margin	49,093	43,139	131,485	117,244
Add: Inventory impairments	76	76	136	225
Interest amortized to cost of sales	4,731	4,965	13,486	13,417
Adjusted home gross margin	$ 53,900	$ 48,180	$ 145,107	$ 130,886
Ratio of home gross margin to home sales revenue	18.7%	19.0%	18.5%	19.5%
Ratio of adjusted home gross margin to home sales revenue	20.5%	21.2%	20.4%	21.8%

(5) Interest incurred for any period is the aggregate amount of interest that is capitalized or charged directly to general and administrative expenses during such period. The following table summarizes interest costs incurred, amortized to cost of sales, and expensed during the three and nine months ended February 29, 2016 and February 28, 2015:

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
Capitalized interest, beginning of period	$ 11,021	$ 12,343	$ 10,241	$ 10,592
Interest incurred	8,445	8,042	23,815	22,444
Interest amortized to cost of sales	(4,731)	(4,965)	(13,486)	(13,417)
Interest expensed	(2,765)	(2,875)	(8,600)	(7,074)
Capitalized interest, end of period	$ 11,970	$ 12,545	$ 11,970	$ 12,545

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

EBITDA margin is calculated by dividing EBITDA by total revenues.

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

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
Net income	$ 9,462	$ 6,693	$ 14,692	$ 13,945
Depreciation and amortization	3,112	2,912	9,518	8,279
Interest amortized to cost of sales	4,731	4,965	13,486	13,417
Interest expensed	2,765	2,875	8,600	7,074
EBITDA	$ 20,070	$ 17,445	$ 46,296	$ 42,715

Results of operations—Consolidated discussion

We design, build, and market attached and detached single-family homes for entry-level, move-up, and multi-move-up buyers. Of our 120 active communities as of February 29, 2016, we consider 109 (90.8%) to be move-up or multi-move-up communities, compared to 80 (87.0%) of the 92 active communities as of February 28, 2015. The net 28 community increase in active communities from February 28, 2015 to February 29, 2016 was due to the Company adding 53 communities while also closing out of 25 communities.

We closed a total of 599 homes during the three months ended February 29, 2016, of which 217 (36.2%) were from communities that had their first closing in the current fiscal year ("new communities" or "newer communities"). The remaining 382 (63.8%) of the homes closed were from communities that had their first closing prior to the current fiscal year ("legacy communities").

We closed a total of 1,670 homes during the nine months ended February 29, 2016, of which 499 (29.9%) were from new communities. The remaining 1,171 (70.1%) of the homes closed were from legacy communities.

Three and Nine Months Ended February 29, 2016 Compared to Three and Nine Months Ended February 28, 2015

Home sales revenues

Home sales revenues increased by 15.5% ($35.2 million) and 18.5% ($111.3 million), respectively, for the three and nine months ended February 29, 2016 to $262.4 million and $711.8 million, respectively, from $227.2 million and $600.6 million for the three and nine months ended February 28, 2015, respectively. The increases in revenues were due to an increase in the average sales price of homes closed and an increase in the number of homes closed. The average sales price of homes closed increased 6.6% and 9.8%, respectively, in the three and nine months ended February 29, 2016 to $438,000 and $426,000, respectively, from $411,000 and $388,000 for the three and nine months ended February 28, 2015, respectively. The number of homes closed increased 8.3% and 7.9%, respectively, in the three and nine months ended February 29, 2016 to 599 and 1,670, respectively, from 553 and 1,548 for the three and nine months ended February 28, 2015, respectively.

The increase in the average sales price of homes closed during the three and nine months ended February 29, 2016 was primarily due to closings in our newer communities, the majority of which were move-up and multi-move-up. Move-up and multi-move-up homes generally have a higher average sales price than entry-level homes. During the three and nine months ended February 29, 2016, 95.0% and 95.4%, respectively, of the homes closed in our newer communities were move-up and multi-move-up homes, while 81.1% and 83.0%, respectively, of the homes closed in our legacy communities were move-up and multi-move-up homes during the same period.

Land sales

We periodically elect to sell parcels of land or lots. These land and lot sales are incidental to our business of selling and building homes. We had $1.4 million and $1.9 million in sales of land and lots during the three and nine months ended February 29, 2016, respectively, compared to $7.5 million and $11.4 million in sales of land and lots during the three and nine months ended February 28, 2015, respectively. No significant profits or losses were realized from the sales of land and lots, as the parcels were sold at prices that were substantially equivalent to their cost basis.

Net new home orders and backlog

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, which is generally within nine months of the date the home is sold. Net new home orders decreased 9.0% (60 homes) and increased 3.1% (55 homes) for the three and nine months ended February 29, 2016, respectively, compared to the three and nine months ended February 28, 2015. Backlog consisted of 1,373 homes at February 29, 2016, which is an 11.4% increase from the 1,233 homes in backlog at February 28, 2015. The sales value of backlog at February 29, 2016 was $616.1 million, a 12.4% increase over the sales value of backlog at February 28, 2015 of $548.3 million. The average sales price of homes in backlog increased 0.9% from $445,000 at February 28, 2015 to $449,000 at February 29, 2016.

Gross margins

The average gross margin from homes closed for the three and nine months ended February 29, 2016 decreased to 18.7% and 18.5%, respectively, from 19.0% and 19.5%, respectively, for the three and nine months ended February 28, 2015. The decrease in average gross margin was primarily due to increases in land costs as a percentage of revenue. As discussed above, the Company's closings in newer communities had higher average sales prices. However, the land costs, as a percentage of revenue, in these newer communities was 21.2% and 21.5% in the three and nine months ended February 29, 2016, respectively, as compared to 19.3% and 19.2%, respectively, in our legacy communities. Further, during the early stages of a community's life cycle, the average gross margin is typically lower and increases over the life of the community, as we are able to raise prices and/or reduce incentives.

Adjusted home gross margin also decreased to 20.5% and 20.4% for the three and nine months ended February 29, 2016, respectively, from 21.2% and 21.8% for the three and nine months ended February 28, 2015, respectively. In addition to the factors noted above, the decrease in adjusted home gross margins was slightly offset by a decrease in interest amortized to cost of sales as a percent of revenue.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") totaled $34.8 million for the three months ended February 29, 2016 compared to $32.2 million for the three months ended February 28, 2015. While SG&A increased by $2.6 million,

SG&A as a percentage of revenue decreased by 1.0% from 14.2% for the three months ended February 28, 2015 to 13.2% for the three months ended February 29, 2016. The dollar increase in SG&A was primarily due to an increase in sales commissions due to the increase in the number of homes closed and an increase in the average sales price of homes closed. Sales commissions increased to $10.4 million in the three months ended February 29, 2016 from $8.9 million in the three months ended February 28, 2015; however, sales commissions as a percentage of revenues remained flat at 4.0% of home sales revenues for the the period. The remaining dollar increase in SG&A for the three months ended February 29, 2016 was due to increases in professional fees and the maintenance cost of finished specs and finished models.

SG&A totaled $101.7 million for the nine months ended February 29, 2016 compared to $91.6 million for the nine months ended February 28, 2015. While SG&A increased by $10.1 million, SG&A as a percentage of revenue decreased by 1.0% from 15.3% for the nine months ended February 28, 2015 to 14.3% for the nine months ended February 29, 2016. The dollar increase in SG&A was primarily due to increases in sales commissions due to the increase in the number of homes closed and an increase in the average sales price of homes closed. Sales commissions increased to $28.2 million in the nine months ended February 29, 2016 from $23.8 million in the nine months ended February 28, 2015; however, sales commissions as a percentage of revenues remained flat at 4.0% of home sales revenues for the the period. The remaining dollar increase in SG&A for the nine months ended February 29, 2016 was due to increases in settlements of lawsuits and other legal matters in the ordinary course of business, compensation expense, professional fees, and the maintenance cost of finished specs and finished models.

Net income

Net income for the three and nine months ended February 29, 2016 was $9.5 million and $14.7 million, respectively, compared to net income of $6.7 million and $13.9 million, respectively, for the three and nine months ended February 28, 2015. While there was an 18.5% increase in home sales revenues for the nine months ended February 29, 2016, the 5.4% increase in net income for the nine months ended February 29, 2016 is attributable to a decrease in selling, general and administrative expenses, as a percentage of revenue, offset by a decrease in gross margins due to increased land costs, as a percentage of revenue, as discussed above.

Results of operations—Homebuilding segments discussion

We have grouped our homebuilding operating divisions into two reportable segments, East and Central. At February 29, 2016, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

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

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

Net new home orders (units):

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
East	298	343	903	904
Central	310	325	927	871
Company total	608	668	1,830	1,775

Homes closed (units):

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
East	291	282	835	747
Central	308	271	835	801
Company total	599	553	1,670	1,548

Average sales price per home closed:

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
East	$ 485	$ 463	$ 468	$ 431
Central	$ 394	$ 357	$ 385	$ 348
Company average	$ 438	$ 411	$ 426	$ 388

Backlog (units) at end of period:

	As of February 29, 2016	As of February 28, 2015	Change	% Change
East	699	626	73	11.7%
Central	674	607	67	11.0%
Company total	1,373	1,233	140	11.4%

Sales value of backlog at end of period:

	As of February 29, 2016	As of February 28, 2015	Change	% Change
	(in thousands)			
East	$ 337,591	$ 309,812	$ 27,779	9.0%
Central	278,505	238,518	39,987	16.8%
Company total	$ 616,096	$ 548,330	$ 67,766	12.4%

Active communities:

	As of February 29, 2016	As of February 28, 2015	Change	% Change
East	58	42	16	38.1%
Central	62	50	12	24.0%
Company total	120	92	28	30.4%

Total communities:

	As of February 29, 2016			
	Active (1)	Start-up (2)	Close-out (3)	Total
East	58	70	16	144
Central	62	37	13	112
Company total	120	107	29	256

	As of February 28, 2015			
	Active (1)	Start-up (2)	Close-out (3)	Total
East	42	68	24	134
Central	50	47	13	110
Company total	92	115	37	244

(1) Active communities are defined as communities that have sold at least 5 homes and have at least 5 homes left to sell.
(2) Start-up communities are defined as communities that have not yet achieved 5 sales.
(3) Close-out communities are defined as communities that have less than 5 homes left to sell.

Homebuilding—East

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	($ in thousands)			
Homebuilding East:				
Home sales revenues	$ 141,116	$ 130,451	$ 390,463	$ 322,012
Home closed (in units)	291	282	835	747
Average sales price per home closed	$ 485	$ 463	$ 468	$ 431
Home gross margin	19.2%	19.4%	19.0%	20.1%
Adjusted home gross margin (1)	20.9%	21.5%	20.8%	22.3%

(1) Adjusted home gross margin is a non-GAAP measure. The following is a reconciliation of home gross margin to adjusted home gross margin, which is the most directly comparable U.S. GAAP measure:

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
Home sales revenues	$ 141,116	$ 130,451	$ 390,463	$ 322,012
Cost of sales - homes	114,062	105,173	316,208	257,232
Home gross margin	27,054	25,278	74,255	64,780
Add: Inventory impairments	—	—	—	97
Interest amortized to cost of sales	2,507	2,720	6,905	6,975
Adjusted home gross margin	$ 29,561	$ 27,998	$ 81,160	$ 71,852
Ratio of home gross margin to home sales revenues	19.2%	19.4%	19.0%	20.1%
Ratio of adjusted home gross margin to home sales revenues	20.9%	21.5%	20.8%	22.3%

Three and Nine Months Ended February 29, 2016 Compared to Three and Nine Months Ended February 28, 2015 - East

Home sales revenues

Revenues for the eastern segment increased by 8.2% ($10.7 million) and 21.3% ($68.5 million) for the three and nine months ended February 29, 2016 to $141.1 million and $390.5 million, respectively, from $130.5 million and $322.0 million for the three and nine months ended February 28, 2015. The increase in revenues for the three and nine months ended February 29, 2016 was due to an increase in the average sales price of homes closed and an increase in the number of homes closed. The average sales price of homes closed increased 4.8% and 8.6%, respectively, in the three and nine months ended February 29, 2016 to an average of $485,000 and $468,000, respectively, from an average of $463,000 and $431,000 for the three and nine months ended February 28, 2015, respectively. The number of homes closed during the three and nine months ended February 29, 2016 increased 3.2% (9 homes) and 11.8% (88 homes), respectively, compared to the three and nine months ended February 28, 2015.

Gross margins

The average gross margin from homes closed for the three and nine months ended February 29, 2016 decreased to 19.2% and 19.0%, respectively, from 19.4% and 20.1%, respectively, for the three and nine months ended February 28, 2015. The decrease in average gross margin was primarily due to increases in land costs, as a percentage of revenue. As discussed above, the Company's closings in newer communities had higher average sales prices. The land costs, as a percentage of revenue, in these newer communities was 21.9% and 22.0% for the three and nine months ended February 29, 2016, respectively, compared to 18.0% and 18.6%, respectively, in our legacy communities for the three and nine months ended February 29, 2016. Further, during the early stages of a community's life cycle, the average gross margin is typically lower

and increases over the life of the community, as we are able to raise prices and/or reduce incentives. This lower gross margin in our newer communities was offset in part by slight increases in the gross margins in our legacy communities due to increases in option revenue and lower land costs.

Net new home orders and backlog

Net new home orders decreased 13.1% (45 homes) and 0.1% (1 home) during the three and nine months ended February 29, 2016, respectively, compared to the three and nine months ended February 28, 2015. Backlog consisted of 699 homes at February 29, 2016, which is an 11.7% increase from the 626 homes in backlog at February 28, 2015. The sales value of backlog at February 29, 2016 was $337.6 million, a 9.0% increase over the sales value of backlog at February 28, 2015 of $309.8 million. The increase in the average sales price of homes in backlog was primarily driven by a higher percentage of new home orders in our newer communities, which includes a higher percentage of multi-move-up homes, as well as increased sales prices in our legacy communities.

Homebuilding—Central

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	($ in thousands)			
Homebuilding Central:				
Home sales revenues	$ 121,259	$ 96,723	$ 321,373	$ 278,541
Home closed (in units)	308	271	835	801
Average sales price per home closed	$ 394	$ 357	$ 385	$ 348
Home gross margin	18.2%	18.5%	17.8%	18.8%
Adjusted home gross margin [1]	20.1%	20.9%	19.9%	21.2%

(1) Adjusted home gross margin is a non-GAAP measure. The following is a reconciliation of home gross margin to adjusted home gross margin, which is the most directly comparable U.S. GAAP measure:

	Three months ended		Nine months ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
	(in thousands)			
Home sales revenues	$ 121,259	$ 96,723	$ 321,373	$ 278,541
Cost of sales - homes	99,220	78,862	264,143	226,077
Home gross margin	22,039	17,861	57,230	52,464
Add: Inventory Impairments	76	76	136	128
Interest amortized to cost of sales	2,224	2,245	6,581	6,442
Adjusted home gross margin	$ 24,339	$ 20,182	$ 63,947	$ 59,034
Ratio of home gross margin to home sales revenues	18.2%	18.5%	17.8%	18.8%
Ratio of adjusted home gross margin to home sales revenues	20.1%	20.9%	19.9%	21.2%

Three and Nine Months Ended February 29, 2016 Compared to Three and Nine Months Ended February 28, 2015 - Central

Home sales revenues

Revenues for the central segment increased by 25.4% ($24.5 million) and 15.4% ($42.8 million), respectively, for the three and nine months ended February 29, 2016, to $121.3 million and $321.4 million, respectively, from $96.7 million and $278.5 million for the three and nine months ended February 28, 2015. The increase in revenues for the three and nine months ended February 29, 2016 was primarily due to the increase in the average sales price of homes closed and an increase in the number of homes closed for the three and nine months ended February 29, 2016. The average sales price of homes closed increased 10.4% and 10.6%, respectively, in the three and nine months ended February 29, 2016 to an average of $394,000

and $385,000, respectively, from an average of $357,000 and $348,000, respectively, for the three and nine months ended February 28, 2015. The number of homes closed during the three and nine months ended February 29, 2016 increased 13.7% (37 homes) and 4.2% (34 homes), respectively, compared to the three and nine months ended February 28, 2015.

Gross margins

The average gross margin from homes closed for the three and nine months ended February 29, 2016 decreased to 18.2% and 17.8%, respectively, from 18.5% and 18.8%, respectively, in the three and nine months ended February 28, 2015. The decrease in average gross margin was primarily due to an increase in land costs, as a percentage of revenue. As discussed above, the Company's closings in newer communities had higher average sales prices. However, land costs, as a percentage of revenue, was 20.3% and 19.8%, respectively, for the three and nine months ended February 29, 2016, compared to 18.3% in both the three and nine months ended February 28, 2015. Further, during the early stages of a community's life cycle, the average gross margin is typically lower and increases over the life of the community as we are able to raise prices and/or reduce incentives. This lower gross margin was offset by slight increases in the gross margins in our legacy communities due to increases in option revenue and the lower land costs.

Net new home orders and backlog

Net new home orders decreased 4.6% (15 homes) during the three months ended February 29, 2016 compared to the three months ended February 28, 2015, while net new home orders increased 6.4% (56 homes) during the nine months ended February 29, 2016 compared to the nine months ended February 28, 2015. Backlog consisted of 674 homes at February 29, 2016, which is an 11.0% increase from the 607 homes in backlog at February 28, 2015. The sales value of backlog at February 29, 2016 was $278.5 million, a 16.8% increase over the sales value of backlog at February 28, 2015 of $238.5 million. The average sales price of homes in backlog increased 5.1% from $393,000 at February 28, 2015 to $413,000 at February 29, 2016. The increase in net new home orders for the nine months ended February 29, 2016 and increase in backlog units were primarily due to an increase in active communities of 24.0%, from 50 communities at February 28, 2015 to 62 communities at February 29, 2016.

Liquidity and capital resources

Our principal uses of cash are land and lot purchases, land development, home construction, interest costs and overhead. We currently fund our operations with cash flows from operating activities, borrowings under our Restated Revolver, long-term financing and equity investments. 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.

Operating cash flows

Net cash used in operating activities for the nine months ended February 29, 2016 was $134.4 million compared to $121.9 million for the nine months ended February 28, 2015. The primary source of operating funds was the sale of homes, and we primarily used these funds to buy land, build homes, pay interest and fund overhead expenses. The increase in cash used in operating activities was primarily due to an increase in homes under construction from 1,081 at February 28, 2015 to 1,266 at February 29, 2016.

Investing cash flows

Net cash used in investing activities was $9.7 million for the nine months ended February 29, 2016 compared to $11.7 million for the nine months ended February 28, 2015. Net cash used in investing activities for the nine months ended February 29, 2016 included $9.8 million to furnish model homes and sales offices, to build and furnish Design Studios, and to update furnishings in offices and existing communities, as well as $1.0 million invested in our unconsolidated entities. The cash outflows were partially offset by a $1.3 million return on investment from our unconsolidated entities.

Financing cash flows

Net cash provided by financing activities was $144.1 million for the nine months ended February 29, 2016, compared to net cash provided by financing activities of $69.5 million for the nine months ended February 28, 2015. The funds provided by financing activities during the nine months ended February 29, 2016 consisted of $587.0 million of borrowings under the Restated Revolver, offset by $435.3 million of repayments during the nine month period, distributions of $6.3 million to our Members and $1.5 million of debt issuance costs paid in connection with the Restated Revolver. As of February 29, 2016, we had $151.7 million of outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $96.2 million based on outstanding borrowings, outstanding letters of credit, and the value of collateral pledged to secure the facility.

The total debt to total capitalization ratio consists of total debt divided by total capitalization (debt plus members' equity). Our ratio of total debt to total capitalization decreased to 66.3% as of February 29, 2016 from 66.7% as of February 28, 2015. Our ratio of net debt to net capitalization decreased to 66.3% as of February 29, 2016 from 66.7% as of February 28, 2015. The net debt to net capitalization ratio consists of total debt, net of cash and restricted cash, divided by net capitalization (debt plus members' equity), net of cash and restricted cash.

Inventory

As of February 29, 2016, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			**Completed Homes**			
	Unsold	**Models**	**Sold**	**Unsold**	**Models**	**Sold**	**Total Homes**
East	211	10	458	72	67	55	873
Central	142	14	431	60	73	60	780
Company total	353	24	889	132	140	115	1,653

As of February 29, 2016 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	873	1,569	257	132	2,831	3,488	6,319
Central	780	876	155	—	1,811	3,416	5,227
Total Company	1,653	2,445	412	132	4,642	6,904	11,546
Percentage of total controlled	14.3%	21.2%	3.6%	1.1%	40.2%	59.8%	100.0%

In addition to the lots in the table above, the Company owns commercial land in Dallas with a book value of $1.3 million at February 29, 2016 and February 28, 2015. This land is not being actively marketed and is included in commercial land.

In addition to the 4,642 lots we owned, we controlled, through the use of purchase and option agreements, 6,904 lots at February 29, 2016. Purchase and option agreements that did not require consolidation under ASC Subtopic 810, *Consolidations,* ASC Subtopic 360-20, *Property, Plant, and Equipment ("ASC 360-20")*, or ASC Subtopic 470-40, *Product Financing Arrangements ("ASC 470-40")* at February 29, 2016 had an aggregate purchase price of $531.7 million. In connection with these agreements, we had cash deposits of $63.3 million at February 29, 2016. As of February 29, 2016, one of these purchase agreements, which has an aggregate purchase price of $42.2 million and a $1.4 million deposit, provides the seller with a specific performance right against the Company, subject to certain

conditions. In addition, we had purchase and option agreements consolidated under ASC 360-20, or ASC 470-40 with an aggregate purchase price of $99.5 million and cash deposits of $23.7 million (See Note 4).

During the nine months ended February 29, 2016, we acquired 2,151 lots for a total purchase price of $176.8 million. We spent $37.2 million on land development for the nine months ended February 29, 2016. Additionally, we spent $9.8 million during the nine months ended February 29, 2016 to furnish model homes and sales offices, to build and furnish Design Studios, and to update furnishings in offices and existing communities.

Aggregate contractual commitments and off-balance sheet arrangements

There have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments as of February 29, 2016, compared to those contained in our audited consolidated financial statements for the year ended May 31, 2015. Our debt obligations are fully discussed in Note 7 of our unaudited condensed consolidated financial statements as of February 29, 2016.

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 February 29, 2016, we had letters of credit and surety bonds outstanding of $7.1 million and $15.3 million, respectively. As of February 29, 2016, we had $37.9 million of unused letters of credit capacity under the Restated Revolver.

During the current fiscal year, the Company issued a note payable to an unaffiliated third party that totaled $2.3 million at February 29, 2016. The note matures two years from its issuance date, is collateralized by the applicable land positions to which it relates, and has no recourse to any other assets.

At February 29, 2016, we controlled 11,546 lots and homes available to close. Of the 11,546 lots and homes controlled, we owned 40.2%, or 4,642 lots and homes, and 59.8%, or 6,904 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 February 29, 2016, these agreements had an aggregate remaining purchase price of $531.7 million, net of deposits of $63.3 million. In addition, we had purchase and option agreements recorded under ASC 360-20 or ASC 470-40 with an aggregate purchase price of $99.5 million and cash deposits of $23.7 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 February 29, 2016, one of these purchase agreements, which has an aggregate purchase price of $42.2 million and a $1.4 million deposit, provides the seller with a specific performance right against the Company, subject to certain conditions.

As of February 29, 2016, real estate not owned totaled $98.3 million related to seven lot purchase agreements. During the nine months ended February 29, 2016 the Company entered into two lot purchase agreement, which accounted for $77.8 million of the $83.6 million balance in real estate not owned at February 29, 2016. As of February 29, 2016, we participated in three land development joint ventures in which we have less than a controlling interest. We account for our interests in these joint ventures under the equity method. Our share of profits from lots we purchase from these entities is deferred and treated as a reduction of the cost basis of land purchased from the entity. Our share of profits from lots purchased by other parties is recognized immediately and included within equity in earnings in unconsolidated entities in the unaudited condensed consolidated statements of income.

Seasonality and inflation

Our historical quarterly results of operations have tended to be variable due to the seasonal nature of the homebuilding industry. We have historically experienced increases in revenues and cash flow from operations during the calendar second quarter 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 have, in the past, attempted 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 adequately finance 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 nine months ended February 29, 2016, compared with those contained in Note 1 of our audited consolidated financial statements for the fiscal year ended May 31, 2015.

Transactions with related parties

See Note 10 in our unaudited condensed consolidated financial statements as of February 29, 2016 and February 28, 2015 for transactions with related parties. Other than as noted below, the Company did not have any significant changes in or transactions with related parties during the first nine months of fiscal year 2016. See the audited consolidated financial statements for the fiscal year ended May 31, 2015 for transactions existing at such date.

Land development agreement

The Company entered into a land development agreement with the Investors and with an affiliate of the Company's majority equity holder for the development of a parcel of land pursuant to which the Company will be paid a fee for the oversight of the development. No payments were made to the Company during the three and nine months ended February 29, 2016, pursuant to the development agreement.

Pending accounting pronouncements

See Note 2 in our unaudited condensed consolidated financial statements as of February 29, 2016.

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

We do not believe our exposure in these areas is material to cash flows or earnings. The borrowings under the Restated Revolver accrue interest at a variable rate. As of February 29, 2016, we had outstanding borrowings of $151.7 million under our senior secured revolving credit facility.

Item 4. *Controls and Procedures*

Pursuant to section 4.03 of the 6.875% Notes indenture, the Company is not required to comply with Section 302 or Section 404 of the Sarbanes-Oxley Act of 2002, or related Items 307 and 308 of Regulation S-K promulgated by the Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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