NOT FILED WITH THE SEC

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

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

For the quarterly period ended November 30, 2022

OR

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

For the transition period from ________ to________.

Commission file Number: **N/A**

Ashton Woods USA L.L.C.

(Exact Name of Registrant as Specified in Its Charter)

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

(770) 998-9663

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

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

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

Ernst & Young LLP
55 Ivan Allen Jr Blvd
Suite 1000
Atlanta, GA 30308

Tel: +1 404 874 8300
ey.com

Review Report of Independent Auditors

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

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of Ashton Woods USA L.L.C., which comprise the condensed consolidated balance sheet as of November 30, 2022, and the related condensed consolidated statements of income for the three- and six-month periods ended November 30, 2022 and 2021, condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2021 to November 30, 2022, and condensed consolidated statements of cash flows for the six-month periods ended November 30, 2022 and 2021, and the related notes (collectively referred to as the "interim financial information").

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

Basis for Review Results

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

Responsibilities of Management for the Interim Financial Information

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

Ernst & Young LLP
55 Ivan Allen Jr Blvd
Suite 1000
Atlanta, GA 30308

Tel: +1 404 874 8300
ey.com

Report on Condensed Balance Sheet as of May 31, 2022

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of May 31, 2022, and the related consolidated statements of income, changes in members' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated July 12, 2022. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Ernst & Young LLP

January 11, 2023

PART I. FINANCIAL INFORMATION

Item 1. *Consolidated Financial Statements*

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

	November 30, 2022	May 31, 2022
Assets:		
Cash and cash equivalents	$ 265,349	$ 479,972
Restricted cash	7,189	6,733
Receivables	80,196	80,790
Inventory	1,607,987	1,463,509
Property and equipment, net	9,278	8,586
Investments in unconsolidated entities	5,307	6,990
Deposits on real estate under option or contract	326,179	309,794
Other assets	276,367	197,978
Total assets	$ 2,577,852	$ 2,554,352
Liabilities and Members' equity:		
Liabilities:		
Accounts payable	$ 160,425	$ 157,978
Other liabilities	341,189	319,443
Customer deposits	43,673	65,251
Debt	986,005	984,802
Total liabilities	1,531,292	1,527,474
Commitments and contingencies (Note 13)		
Members' equity:	1,046,560	1,026,878
Total liabilities and Members' equity	$ 2,577,852	$ 2,554,352

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended November 30,		Six months ended November 30,	
	2022	**2021**	**2022**	**2021**
Revenues:				
Home sales	$ 686,404	$ 583,980	$ 1,388,200	$ 1,163,286
Land sales	4,042	5,060	4,042	5,060
Financial services and other revenues	10,339	8,432	21,564	21,368
	700,785	597,472	1,413,806	1,189,714
Cost of sales:				
Homes	517,375	441,962	1,011,837	878,600
Land	2,913	5,074	2,913	5,074
Financial services and other revenues	7,148	5,621	14,072	15,680
	527,436	452,657	1,028,822	899,354
Gross profit	173,349	144,815	384,984	290,360
Other expense (income):				
Selling, general and administrative	84,073	71,787	173,777	142,700
Interest expense	—	83	151	566
Depreciation and amortization	1,580	1,814	3,081	3,779
Loss from early extinguishment of debt	—	34,900	—	45,669
Other income, net	(88)	(301)	(379)	(494)
	85,565	108,283	176,630	192,220
Equity in earnings of unconsolidated entities	1,862	3,055	3,403	5,212
Net income	$ 89,646	$ 39,587	$ 211,757	$ 103,352

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Class A interest	Class B interests	Class C interests	Class D interests	Total Members' equity
Members' equity at May 31, 2021	$ 247,072	$ 57,002	$ 346,735	$ —	$ 650,809
Net income	24,812	6,098	32,854	—	63,764
Tax distributions	(10,078)	(2,477)	(13,345)	—	(25,900)
Members' equity at August 31, 2021	$ 261,806	$ 60,623	$ 366,244	$ —	$ 688,673
Net income	15,404	3,786	20,397	—	39,587
Tax distributions	(12,141)	(2,984)	(16,075)	—	(31,200)
Members' equity at November 30, 2021	$ 265,069	$ 61,425	$ 370,566	$ —	$ 697,060
Net income	46,140	11,340	61,094	—	118,574
Non-tax distributions	(13,619)	(3,347)	(18,034)	—	(35,000)
Tax distributions	(2,763)	(679)	(3,658)	—	(7,100)
Members' equity at February 28, 2022	$ 294,827	$ 68,739	$ 409,968	$ —	$ 773,534
Net income	112,682	27,692	149,198	—	289,572
Tax distributions	(14,135)	(3,474)	(18,716)	—	(36,325)
Equity-based compensation expense	—	—	—	97	97
Members' equity at May 31, 2022	$ 393,374	$ 92,957	$ 540,450	$ 97	$ 1,026,878
Net income	47,517	11,678	62,917	—	122,112
Non-tax distributions	(23,348)	(5,738)	(30,914)	—	(60,000)
Tax distributions	(21,480)	(5,279)	(28,441)	—	(55,200)
Equity-based compensation expense	—	—	—	292	292
Members' equity at August 31, 2022	$ 396,063	$ 93,618	$ 544,012	$ 389	$ 1,034,082
Net income	34,884	8,573	46,189	—	89,646
Non-tax distributions	(11,674)	(2,869)	(15,457)	—	(30,000)
Tax distributions	(18,468)	(4,539)	(24,453)	—	(47,460)
Equity-based compensation	—	—	—	292	292
Members' equity at November 30, 2022	$ 400,805	$ 94,783	$ 550,291	$ 681	$ 1,046,560

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended November 30,	
	2022	**2021**
Cash flows used in operating activities:		
Net income	$ 211,757	$ 103,352
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(3,403)	(5,212)
Returns on investments in unconsolidated entities	4,895	5,601
Long-term and equity-based compensation expense	28,469	11,323
Loss from early extinguishment of debt	—	45,669
Inventory impairments	228	34
Land deposit and pre-acquisition cost write-offs	10,454	628
Depreciation and amortization	3,081	3,779
Changes in operating assets and liabilities:		
Inventory	(143,026)	(307,489)
Receivables	594	8,534
Deposits on real estate under option or contract	(20,026)	(69,823)
Other assets	(68,895)	(18,453)
Accounts payable	2,447	6,207
Other liabilities	(22,777)	(10,175)
Customer deposits	(21,577)	17,286
Net cash used in operating activities	(17,779)	(208,739)
Cash flows used in investing activities:		
Returns of investments in unconsolidated entities	—	1,648
Additions to property and equipment	(3,728)	(3,320)
Net cash used in investing activities	(3,728)	(1,672)
Cash flows (used in) provided by financing activities:		
Borrowings from revolving credit facility	—	—
Repayments of revolving credit facility	—	—
Proceeds from issuance of debt	—	650,000
Payment of debt issuance costs	—	(8,826)
Repayment of debt	—	(505,000)
Payment of premiums on extinguishment of debt	—	(38,890)
Members' tax distributions	(102,660)	(57,100)
Members' non-tax distributions	(90,000)	—
Net cash (used in) provided by financing activities	(192,660)	40,184
Change in cash, cash equivalents, and restricted cash	(214,167)	(170,227)
Cash, cash equivalents, and restricted cash, beginning of period	486,705	284,655
Cash, cash equivalents, and restricted cash, end of period	$ 272,538	$ 114,428
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 141	$ 435

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

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

	As of November 30,	
	2022	**2021**
Cash and cash equivalents	$ 265,349	$ 107,439
Restricted cash	7,189	6,989
Total cash, cash equivalents, and restricted cash	$ 272,538	$ 114,428

Supplemental disclosures of cash flows information:

	Three months ended November 30,		Six months ended November 30,	
	2022	**2021**	**2022**	**2021**
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 186	$ 665	$ 732	$ 665

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1 — Basis of Presentation and Significant Accounting Policies

(a) Operations

Ashton Woods USA L.L.C. (the "Company" or "Ashton Woods") is a limited liability company that, through its subsidiaries, designs, builds, and markets detached and attached single-family homes under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name and offers entry-level homes under the Starlight Homes brand name. Included under the Starlight Homes brand, the Company offers construction and development services under fee arrangements specifically tailored to the single-family rental industry. In addition, the Company sells completed homes under the Starlight Homes brand, which we typically sell under bulk sales agreements, to real estate investors who purchase the homes for use as rental properties. We refer to such sales as our wholesale homes sales. As of November 30, 2022, the Company had operations under the Ashton Woods and/or Starlight Homes brand in or around all of the following markets:

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

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

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

(b) Basis of presentation

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

(c) Cash, cash equivalents, and restricted cash

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

(d) Inventory

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

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

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

Based on the Company's review of its inventory for impairment during the six months ended November 30, 2022, the Company recognized inventory impairment charges of $0.2 million during both the three- and six-month periods ended November 30, 2022, respectively. The impairment charges of $0.2 million during the three and six months ended November 30, 2022 consisted of $39.9 thousand of impairments on homes in inventory, which is included as a component of cost of sales - homes in the unaudited condensed consolidated statements of income for the three and six months ended November 30, 2022, respectively, and $0.2 million of impairments on land that was held for sale, which is included as a component of costs of sales - land in the unaudited condensed consolidated statements of income for the three and six months ended November 30, 2022, respectively. The Company recognized inventory impairment charges on homes in inventory totaling $34.1 thousand for both the three- and six-month periods ended November 30, 2021, respectively, all of which is included as a component of cost of sales - homes in the unaudited condensed consolidated statements of income for the three and six months ended November 30, 2021.

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

(e) Receivables

Receivables at November 30, 2022 and May 31, 2022 consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
Closing funds due	$ 6,259	$ 12,845
Land development receivables	50,323	43,933
MUD receivables [(1)]	11,088	13,075
Other receivables [(2)]	12,526	10,937
	$ 80,196	$ 80,790

(1) Includes certain land development costs to be reimbursed by ten and seven Municipal Utility Districts ("MUD") in Houston, Texas at November 30, 2022 and May 31, 2022, respectively.

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

(f) Real estate not owned

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

(g) Investments in unconsolidated entities

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

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

Investments in unconsolidated entities are evaluated for other-than-temporary impairment during each reporting period pursuant to ASC Subtopic 323-10, *Investments—Equity Method and Joint Ventures*. A series of operating losses or other factors may indicate an other-than-temporary decrease in the value of the Company's investment in the unconsolidated entity. The amount of impairment recognized is the excess of the investment's carrying value over its estimated fair value. The Company did not have any other-than-temporary impairments during the six months ended November 30, 2022 or 2021, related to its investments in unconsolidated entities.

(h) Deposits and pre-acquisition costs

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the unaudited condensed consolidated balance sheets as deposits on real estate under option or contract (for deposits) and other assets (for pre-acquisition costs) until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Alternatively, in the case of off-balance sheet financing arrangements, pre-acquisition costs are transferred to inventory simultaneous to executing the option agreement to acquire land or lots. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for the costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income and totaled $7.0 million and $10.5 million for the three and six months ended November 30, 2022, respectively, and $0.1 million and $0.6 million for the three and six months ended November 30, 2021, respectively.

(i) Property and equipment, net

Property and equipment is recorded at cost. Depreciation and amortization are generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the term of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at November 30, 2022 and May 31, 2022 consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
Office furniture and equipment	$ 3,183	$ 3,096
Sales offices, design studios, and model furnishings	21,081	20,243
Leasehold improvements	4,349	3,693
	28,613	27,032
Accumulated depreciation and amortization(1)	(19,335)	(18,446)
	$ 9,278	$ 8,586

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated $1.6 million and $3.1 million for the three and six months ended November 30, 2022, respectively, and $1.8 million and $3.8 million for the three and six months ended November 30, 2021, respectively.

(j) Revenue recognition

With respect to home sales revenues, revenue from a home sale is recognized when we have satisfied the performance obligation in the home sales contract, which is generally at the time of the closing of each sale, when title to and possession of the property are transferred to the buyer. The revenue recognized for each home sale includes the base sales price of the home, as well as any purchased options and upgrades, and is reduced for any sales price incentives. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings in transit or held in escrow for our benefit, which is typically received within two days of the home closing. Home sale contract assets totaled $6.3 million and $12.8 million at November 30, 2022 and May 31, 2022, respectively, and are classified as receivables in the unaudited condensed consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale homes sales customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled $43.7 million and $65.3 million at November 30, 2022 and May 31, 2022, respectively. Of the customer deposit liabilities at May 31, 2022, $43.2 million was recognized in home sales revenues during the six months ended November 30, 2022 upon the closing of the related homes. Also included in home sales revenues are our wholesale home sales within our Starlight Homes brand. Wholesale home sales primarily consist of completed homes sold under bulk sales agreements to real estate investors who purchase the homes for use as rental properties.

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

With respect to land sales revenues, we periodically elect to sell parcels of land or lots. These land and lot sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied. Land sale contract assets consist of cash from closed land sales in transit or held in escrow for our benefit, which is typically received within two days of closing on the land sale. Land sale contract assets are classified as receivables in the unaudited condensed consolidated balance sheets. Land sale contract liabilities consist of customer deposit liabilities related to land parcels under contract for sale. There were no land sale contract assets or liabilities at November 30, 2022 or May 31, 2022.

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

ASC 606 provides certain practical expedients that limit some accounting treatments and disclosure requirements. Accordingly, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. In addition, the expected revenue to be recognized relating to unsatisfied performance obligations for contracts with an original expected length greater than one year is $48.3 million. We expect to recognize the majority of revenue relating to unsatisfied performance obligations for contracts with an original expected length greater than one year by the end of fiscal year 2024.

(k) Prepaid expenses

Included in other assets are prepaid expenses of $10.8 million and $11.0 million as of November 30, 2022 and May 31, 2022, respectively, which is predominantly comprised of prepaid insurance.

(l) Warranty costs

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

Presented below are summaries of the activity in the Company's warranty liability account for the three and six months ended November 30, 2022 and 2021 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2022	**2021**	**2022**	**2021**
Warranty liability, beginning of period	$ 14,606	$ 10,402	$ 15,000	$ 10,040
Costs accrued during period	4,690	4,221	9,855	8,132
Costs incurred during period	(5,392)	(4,053)	(10,951)	(7,602)
Warranty liability, end of period	$ 13,904	$ 10,570	$ 13,904	$ 10,570

(m) Advertising costs

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income, was approximately $1.3 million and $2.1 million for the three and six months ended November 30, 2022, respectively, and $0.6 million and $1.2 million for the three and six months ended November 30, 2021, respectively.

(n) Long-term incentive plan

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

(o) Income taxes

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make distributions to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's Restated Revolver and in the indentures governing its 6.625% Senior Notes due 2028 (the "2028 Notes"), its 4.625% Senior Notes due 2029 (the "2029 Notes"), and its 4.625% Senior Notes due 2030 (the "2030 Notes"). Any tax distributions made to the Members are treated as a reduction of equity. The Company made tax distributions to its Members of $102.7 million and $57.1 million during the six months ended November 30, 2022 and 2021, respectively.

(p) Use of estimates

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

(q) Business Combinations

On December 1, 2021, the Company acquired substantially all of the assets and assumed certain related liabilities of Capitol City Homes, LLC ("Capitol City Homes"), the fifth largest private homebuilder in Raleigh, North Carolina, for a purchase price of approximately $42.6 million, which was funded in cash. The acquisition expanded the land positions and number of communities of both of our brands in the Raleigh market with the acquisition of over 1,500 total lots and homes owned and controlled across 40 communities. The acquired assets and assumed liabilities were recorded at their estimated fair values as of the acquisition date and consisted primarily of $36.8 million of inventory, $10.7 million in lot and development contracts as well as $4.3 million of accounts payable and accrued expenses and $0.6 million of customer deposits. Of the $10.7 million in lot and development contracts acquired, $1.3 million was recorded in deposits on real estate under option or contract and $9.4 million was recorded in other assets in the accompanying unaudited condensed consolidated balance sheets as of the acquisition date. See Note 4 for additional information.

The purchase price accounting discussed above is final as of November 30, 2022, and there were no adjustments to the preliminary estimates and assumptions utilized in the purchase price accounting for the Capitol City Homes acquisition during the six months ended November 30, 2022.

(r) Segments

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

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

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

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

(s) Risks and uncertainties

Throughout 2022, the U.S. economy experienced significant inflationary pressure with prices of gas, food, and other household goods rising at the fastest rate in over 40 years. To combat the historic levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 425 basis points from March to December 2022 and indicated additional increases are likely to occur in the future which, in turn, has led to a significant increase in residential mortgage interest rates over the last several quarters. The increase in residential mortgage interest rates, coupled with historic inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. In addition, COVID-19 continues to have a material impact on the global and U.S. economies and has impacted our business operations. The most significant impacts of COVID-19 to the homebuilding industry and our business have been labor shortages and supply chain disruptions. The combination of these factors has led to increased costs and elongated production cycles. The current environment makes it challenging to predict the impact that inflationary pressures, rising interest rates, and the lingering impacts of COVID-19 on supply chain disruptions and labor shortages may have on the future performance of our business. As a result, there remains significant uncertainty regarding how recent macroeconomic shifts and the continuing effects of COVID-19 will impact the U.S. and global economies going forward, including the level of unemployment, availability of debt, capital, the health of the residential mortgage markets, consumer confidence, and demand for our homes, and in turn, the impact it will have on our results.

(t) Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

(u) Subsequent events

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

On December 3, 2022, the Company's Board of Directors (the "Board") approved a non-tax distribution of $15.0 million to the Company's Members. The non-tax distribution was paid to the Company's Members on December 6, 2022.

On January 11, 2023, the Board approved a tax distribution totaling $17.1 million in the aggregate to the Company's Members.

Note 2 — Pending and Recently Adopted Accounting Pronouncements

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

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform* ("ASU 2020-04"), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. ASU 2020-04 was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2024 following the issuance of ASU No. 2022-06, *Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848*. The Company has not elected to apply any of the expedients or exceptions of ASU 2020-04 to date and is currently evaluating the impact the guidance under ASU 2020-04 may have on its consolidated financial statements and related disclosures in future periods.

Note 3— Inventory

Inventory consisted of the following at November 30, 2022 and May 31, 2022 (in thousands):

	November 30, 2022	May 31, 2022
Homes under construction and finished homes	$ 1,030,891	$ 901,231
Finished lots	334,357	270,073
Land under development	144,762	150,365
Land held for future development	97,192	137,476
Land held for sale	785	4,364
	$ 1,607,987	$ 1,463,509

The Company capitalizes all interest incurred to the extent its qualifying assets meet or exceed its debt obligations. If qualifying assets are less than the Company's debt obligations, there are limits on the amount of interest that can be capitalized, and the remainder of interest incurred must be directly expensed. The Company directly expensed interest of $0.2 million for the six months ended November 30, 2022, and $0.1 million and $0.6 million for the three and six months ended November 30, 2021, respectively, in the unaudited condensed consolidated statements of income.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three and six months ended November 30, 2022 and 2021 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Capitalized interest, beginning of period	$ 28,989	$ 26,894	$ 25,000	$ 24,610
Interest incurred	14,004	14,105	27,902	29,755
Interest amortized to cost of sales	(10,589)	(12,164)	(20,347)	(25,047)
Interest expensed	—	(83)	(151)	(566)
Capitalized interest, end of period	$ 32,404	$ 28,752	$ 32,404	$ 28,752

Note 4 — Other Assets

Other assets at November 30, 2022 and May 31, 2022 consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
Real estate not owned	$ 231,581	$ 146,086
Right-of-use assets[1]	13,001	14,377
Prepaid expenses	10,814	10,956
Lot option and development contracts intangible	6,470	8,093
Architecture plans	4,336	3,675
Deferred financing costs	3,024	3,502
Pre-acquisition costs	4,927	9,478
Other deposits	2,214	1,811
	$ 276,367	$ 197,978

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

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

Pursuant to ASC 810, when the Company enters into a purchase agreement to acquire land or lots from an entity and pays a non-refundable deposit, the Company has concluded that a variable interest entity ("VIE"), for which consolidation may be required, is created because the Company is deemed to have provided subordinated financial support that will absorb some or all of an entity's expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary of the VIE and thus must consolidate the entity by first determining if it has the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract; and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if it will potentially benefit from a significant amount of the VIE's expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as "Real estate not owned" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities. At November 30, 2022 and May 31, 2022, no purchase contracts or investments in unconsolidated entities were determined to require consolidation under ASC 810.

Pursuant to ASC 470-40*,* if a buying entity participates in an arrangement in which it is economically compelled to purchase land, then the entity is required to consolidate such an arrangement. From time to time, the Company enters into arrangements in which it identifies lots that it desires to purchase, finds an investor to purchase the lots and then enters into option purchase agreements to acquire the lots in staged takedowns. In consideration for such options, the Company generally makes nonrefundable deposits. While the Company is generally not obligated to purchase the lots that are the subject of such agreements, it would forfeit the remaining deposits if the lots are not purchased. Although the Company is not obligated to purchase the lots under option unless it enters into a contract with specific performance obligations, if, at the reporting date, the Company believes that due to the terms of the purchase contracts it is compelled to purchase the lots under option, the Company will record "Real estate not owned" within other assets and the related liabilities as "Liabilities for real estate not owned" within other liabilities, in connection with such option purchase agreements. At November 30, 2022, the Company has one lot purchase agreement with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates (individually and collectively, the "Investors") that is accounted for pursuant to ASC 470-40. At November 30, 2022, the Company recorded real estate not owned of $26.0 million related to this lot purchase agreement accounted for pursuant to ASC 470-40 and liabilities for real estate not owned of $18.2 million, which is net of a cash deposit to the seller of $7.8 million. At May 31, 2022, there were no lot purchase agreements that were accounted for pursuant to ASC 470-40.

Also, based on the provisions of ASC Subtopic 606-10, *Revenue From Contracts With Customers*, a seller may not recognize as a sale property it has sold if the seller has an obligation or a right to repurchase lots and if the repurchase agreement is considered to be a financing arrangement. ASC 606 considers a repurchase option contract to be a financing arrangement, in accordance with ASC 606-10-55-70, if the seller will repurchase the lots for an amount that is equal to or greater than the original selling price of the asset. Therefore, if the Company enters into lot purchase option agreements for land it has concurrently sold and determines that the repurchase agreement is considered to be a financing arrangement, the Company records the lots subject to such sale as “Real estate not owned” within other assets and the related liabilities under the option agreement, as “Liabilities for real estate not owned” within other liabilities. At November 30, 2022 and May 31, 2022, the Company recorded real estate not owned of $205.6 million and $146.1 million, respectively, for the sale of lots because its repurchase agreements related to the real estate were considered to be financing arrangements. While these option agreements contain no specific performance obligations, should the Company choose not to purchase the land, it will forfeit the deposited amount.

The lot option and development contracts intangible asset is comprised of the fair value adjustment recorded in accordance with the purchase price accounting for the Company's acquisition of Capitol City Homes. The fair value adjustment recorded as of the acquisition date represented the difference between the contractual purchase price of lots under option and the estimated fair value of such lots as of the acquisition date. Significant assumptions included in the Company's estimate of the fair value of the lots under such lot option and development contracts included market comparisons, gross margin comparisons, future development costs, and the timing of the completion of development activities. The lot option and development contracts intangible fair value is amortized to inventory as lots are purchased in accordance with the acquired contracts. During the three and six months ended November 30, 2022, $0.7 million and $1.6 million, respectively, of the lot option and development contracts intangible fair value was allocated to inventory upon the purchase of lots in accordance with the terms of the acquired contracts.

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

Deferred financing costs included in other assets are comprised of costs incurred in connection with obtaining financing under the Restated Revolver. The Company did not incur any deferred financing fees during the six months ended November 30, 2022 and 2021, respectively, related to the Company's Restated Revolver.

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

Note 5 — Investments in Unconsolidated Entities

The Company enters into land joint ventures from time to time as a means of accessing larger parcels of land and lot positions, managing its risk profile and leveraging its capital base. As of November 30, 2022, the Company had an equity investment in one land joint venture with the Investors. The Company has a 49% limited partner non-controlling interest in this joint venture and has accounted for it under the equity method. The partners generally share profits and losses in accordance with their ownership interests. As of both November 30, 2022 and May 31, 2022, the Company had recorded $0.3 million, for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company has entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of $6,000 for these services that is included in other income, net in the unaudited condensed consolidated statements of income. As of November 30, 2022, the joint venture had no debt outstanding.

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

Summarized condensed combined unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of November 30, 2022 and May 31, 2022, and for the three and six months ended November 30, 2022 and 2021, was as follows (in thousands):

	November 30, 2022	May 31, 2022
Assets:		
Cash	$ 7,141	$ 7,930
Mortgage notes receivable	65,997	153,311
Real estate	659	599
Other	1,323	1,367
Total assets	$ 75,120	$ 163,207
Liabilities and equity:		
Liabilities:		
Accounts payable and other accruals	$ 3,297	$ 4,851
Notes payable (1)	61,094	144,222
Total liabilities	64,391	149,073
Equity	10,729	14,134
Total liabilities and equity	$ 75,120	$ 163,207

(1) The notes payable balance at November 30, 2022 and May 31, 2022 is comprised of outstanding balances on three warehouse lines. The warehouse lines are non-recourse to the Company.

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Revenues:				
Financial services	$ 9,110	$ 8,946	$ 16,892	$ 16,469
Lot sales	—	2,387	—	4,385
Total revenues	9,110	11,333	16,892	20,854
Gross profit	5,426	8,161	9,694	13,434
General and administrative expenses:				
Financial services	1,736	1,417	3,105	2,283
Lot sales	4	—	4	—
Total general and administrative expenses	1,740	1,417	3,109	2,283
Net income	$ 3,686	$ 6,744	$ 6,585	$ 11,151

Note 6 — Debt

Debt at November 30, 2022 and May 31, 2022 consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
6.625% Notes due 2028 (1)	$ 247,295	$ 246,979
4.625% Notes due 2029 (2)	345,858	345,491
4.625% Notes due 2030 (3)	392,852	392,332
Senior unsecured revolving credit facility	—	—
	$ 986,005	$ 984,802

(1) Net of $2.7 million and $3.0 million of unamortized deferred financing costs as of November 30, 2022 and May 31, 2022, respectively.
(2) Net of $4.1 million and $4.5 million of unamortized deferred financing costs as of November 30, 2022 and May 31, 2022, respectively.
(3) Net of $4.9 million and $5.3 million of unamortized deferred financing costs as of November 30, 2022 and May 31, 2022, respectively and $2.3 million and $2.4 million of unamortized discount as of November 30, 2022 and May 31, 2022, respectively.

The 2028 Notes

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

The 2028 Notes mature on January 15, 2028. Interest is payable on the 2028 Notes on January 15 and July 15 of each year. The 2028 Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 2028 Notes are effectively subordinated to any of the Company's existing and future secured debt, to the extent of the value of the assets securing such debt. The obligations under the 2028 Notes are jointly and severally guaranteed by all of the Company's Restricted Subsidiaries (as defined by the indenture governing the 2028 Notes), other than (i) subsidiaries that have assets with a book value of not more than $2.0 million and that do not guarantee certain other indebtedness and (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 2028 Notes) (all such Restricted Subsidiaries providing guarantees, the "Guarantors"). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage, Inc. ("AW Mortgage") which holds the Company's interests in two unconsolidated mortgage joint ventures, and which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 2028 Notes. As of and for the six months ended November 30, 2022, the Company recognized equity in earnings from AW Mortgage of $3.2 million and AW Mortgage had $5.0 million of assets and no liabilities.

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

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

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

As of November 30, 2022, the Companies were in compliance with the covenants in the indenture governing the 2028 Notes.

The 2029 Notes

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

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

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

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

As of November 30, 2022, the Companies were in compliance with the covenants in the indenture governing the 2029 Notes.

The 2030 Notes

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

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

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

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

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

As of November 30, 2022, the Companies were in compliance with the covenants in the indenture governing the 2030 Notes.

Senior Unsecured Revolving Credit Facility

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

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

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

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

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

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

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

In addition, the Restated Revolver permits certain tax distributions to Members and permits certain other distributions to Members if certain conditions are met. As of November 30, 2022, the Company was in compliance with the covenants in the Restated Revolver.

At November 30, 2022, there were no borrowings outstanding under the Restated Revolver and $6.7 million of letters of credit outstanding. As of November 30, 2022, the Company had available additional borrowing capacity of $343.3 million under the Restated Revolver based on outstanding letters of credit and the borrowing base formula.

Note 7 — Other Liabilities

Other liabilities at November 30, 2022, and May 31, 2022, consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
Liabilities for real estate not owned (1)	$ 155,779	$ 96,599
Accrued long-term compensation	77,888	70,430
Salaries, bonuses, and benefits	31,395	75,562
Accrued interest	14,582	14,634
Lease liabilities (2)	14,132	15,451
Warranty accruals	13,904	15,000
Other	33,509	31,767
	$ 341,189	$ 319,443

(1) Net of deposits of $75.8 million and $49.5 million as of November 30, 2022, and May 31, 2022, respectively.
(2) See Note 13, *Leases,* for additional information.

Note 8 — Customer Deposits

Customer deposits at November 30, 2022, and May 31, 2022, consisted of the following (in thousands):

	November 30, 2022	May 31, 2022
Customer deposits - retail homes	$ 37,078	$ 52,323
Customer deposits - wholesale homes	6,595	12,928
	$ 43,673	$ 65,251

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

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

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

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

On April 30, 2022, 208,371 Class D Units were awarded to one of the Company's executive officers (the "Class D equity award") as non-cash compensation valued at $5.8 million which will be recognized as compensation expense over the five-year requisite service period. During the three and six months ended November 30, 2022, the Company recognized compensation expense of $0.3 million and $0.6 million, respectively, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income. As of November 30, 2022, we had unrecognized compensation cost related to the Class D equity award of $5.2 million which is expected to be recognized over a period of 4.4 years.

At November 30, 2022, there were 20,837,100 membership interests outstanding, comprised as follows:

	Membership Interests	Ownership percentage	Percentage of membership class
Little Shots Nevada L.L.C.			
Class A	8,027,200	38.52 %	100.00 %
Class B	1,970,988	9.46 %	99.91 %
Class C	10,029,200	48.13 %	94.36 %
Total Little Shots Nevada L.L.C.	20,027,388	96.11 %	
Other Holders			
Class B	1,812	0.01 %	0.09 %
Class C	599,529	2.88 %	5.64 %
Class D	208,371	1.00 %	100.00 %
	20,837,100	100.00 %	

On June 15, 2022, the Board approved a non-tax distribution of $60.0 million to its Members. The non-tax distribution was paid to the Company's Members on June 21, 2022.

On September 2, 2022, the Board approved a non-tax distribution of $30.0 million to the Company's Members. The non-tax distribution was paid to the Company's Members on September 7, 2022.

On December 3, 2022, the Board approved a non-tax distribution of $15.0 million to the Company's Members. The non-tax distribution was paid to the Company's Members on December 6, 2022.

Refer to Note 1(u) for further discussion regarding events occurring subsequent to November 30, 2022.

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. Effective June 1, 2022, the Company pays a fee of $1,000 per home closing quarterly, in arrears, for these services, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income. The Company incurred fees of $1.6 million and $3.3 million during the three and six months ended November 30, 2022, respectively, and $1.3 million and $2.6 million during the three and six months ended November 30, 2021, respectively, under the services agreement. As of November 30, 2022, and May 31, 2022, the balance due to the Investors under the terms of the service agreement was $3.3 million and $2.6 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

Lot purchase agreements

The Company is a party to nine lot purchase agreements with the Investors. An initial deposit ranging from 15% to 30% was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is required to record three of these lot purchase agreements as real estate not owned within other assets and liabilities for real estate not owned within other liabilities in the unaudited condensed consolidated balance sheets. As of November 30, 2022, the total purchase price of lots remaining to be purchased under such agreements was approximately $109.2 million.

Joint venture

The Company is a party to a land joint venture with the Investors, which is accounted for under the equity method. The Company has a non-controlling equity investment of less than 50% in the joint venture. As of November 30, 2022, the joint venture had $0.7 million of land inventory and no debt outstanding.

Sales of completed homes

The Company entered into a sale agreement with the Investors during the year ended May 31, 2021. In accordance with the agreement, the Company reported 152 wholesale homes orders to the Investors for an aggregate purchase price of $31.1 million. The Company closed on the remaining 42 of these sales during the six months ended November 30, 2022 and has now closed on all of these sales since the commencement of the agreement.

During the six months ended November 30, 2022, the Company entered into six sales agreements with the Investors. In accordance with these agreements, the Company reported 679 wholesale homes orders to the Investors for an aggregate purchase price of $222.4 million. The Company has closed on 15 of these sales during the six months ended November 30, 2022. Of the initial $22.2 million in deposits in connection with these agreements, the Company has remaining deposits of $21.7 million as of November 30, 2022, which is included in customer deposits in the unaudited condensed consolidated balance sheets.

Land sales and fee arrangements to construct homes

The Company sold two parcels of land and subsequently entered into two construction and development agreements with the Investors during the year ended May 31, 2021, to develop lots and build a total of 252 homes for a fee. The Company has commenced construction on 162 of these homes and completed construction on 60 of these homes as of November 30, 2022.

Loan receivable

During the fiscal year ended May 31, 2022, the Company entered into an interest-free loan agreement with one of its executive officers to cover income tax obligations incurred in conjunction with the Class D equity award (see Note 9 for additional discussion regarding the Class D equity award). The interest-free loan's principal amount of approximately $2.5 million is to be repaid in annual installments prior to maturity in August 2024. As of November 30, 2022, the balance due to the Company under the terms of the interest-free loan agreement was $1.7 million and was included in receivables in the unaudited condensed consolidated balance sheets.

Note 11— Long-Term Incentive Plan

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

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

The following table represents a rollforward of the outstanding performance shares for the six months ended November 30, 2022:

	Full-value shares	Appreciation-only shares	Total shares
Outstanding performance shares as of May 31, 2022	510,734	1,337,154	1,847,888
Performance shares awarded during the period	205,569	411,138	616,707
Shares forfeited during the period	(9,387)	(18,773)	(28,160)
Fully vested performance shares paid	(86,577)	(188,359)	(274,936)
Total outstanding performance shares as of November 30, 2022	620,339	1,541,160	2,161,499
Total vested performance shares as of November 30, 2022	264,848	837,307	1,102,155

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

The total number of performance shares vested as of November 30, 2022, and May 31, 2022, were 1,102,155 and 1,102,690, respectively. The Company recorded $12.7 million and $27.9 million for the three and six months ended November 30, 2022, respectively, and $5.0 million and $11.3 million for the three and six months ended November 30, 2021, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the six months ended November 30, 2022 and 2021, $20.4 million (274,936 units) and $9.4 million (225,555 units), respectively, of vested performance shares were paid out to employees. As of November 30, 2022, and May 31, 2022, the Company's liability for the performance shares was $77.9 million and $70.4 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 12 — Fair Value Disclosures

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

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

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

The following table presents the carrying amounts and estimated fair values of the Company's 2028 Notes, 2029 Notes, and 2030 Notes (collectively, the "Senior Notes") at November 30, 2022, and May 31, 2022:

		November 30, 2022		May 31, 2022	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Liabilities:		(in thousands)			
6.625% Notes due 2028	Level 2	$ 247,295	$ 218,725	$ 246,979	$ 236,250
4.625% Notes due 2029	Level 2	345,858	274,540	345,491	299,250
4.625% Notes due 2030	Level 2	392,852	310,520	392,332	332,000
		$ 986,005	$ 803,785	$ 984,802	$ 867,500

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

Note 13— Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are disputed and aggressively defended by the Company. The Company establishes liabilities for legal claims and related matters when such matters are both probable of occurring and any potential loss is reasonably estimable. The Company accrues for such matters based on the facts and circumstances specific to each matter and revises these estimates as the matters evolve. In such cases, there may exist an exposure to loss in excess of any amounts currently accrued. In view of the inherent difficulty of predicting the outcome of these legal and related matters, we generally cannot predict the ultimate resolution of the pending matters, the related timing, or the eventual loss. While the outcome of such contingencies cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse effect on the Company's results of operations, financial condition, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

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

In the normal course of business, the Company provides letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At November 30, 2022, and May 31, 2022, the Company had letters of credit outstanding of $6.7 million and $6.2 million, respectively, and surety bonds outstanding of $184.1 million and $196.4 million, respectively. As of November 30, 2022, the Company had $43.3 million of unused letter of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, as of November 30, 2022, the Company has made nonrefundable deposits of $401.6 million, which includes $75.8 million of nonrefundable deposits related to purchase and option agreements recorded under ASC 606 or ASC 470-40 (See Note 4). The Company would forfeit the remaining deposits if the lots are not purchased. The total purchase price of lots remaining to be purchased under option agreements with nonrefundable deposits was approximately $2.4 billion as of November 30, 2022.

Leases

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

Right-of-use assets are classified within other assets on the unaudited condensed consolidated balance sheets, while lease liabilities are classified within other liabilities on the unaudited condensed consolidated balance sheets. Right-of-use assets and lease liabilities were $13.0 million and $14.1 million at November 30, 2022, respectively, and $14.4 million and $15.5 million at May 31, 2022, respectively. During both the six months ended November 30, 2022 and 2021, there were approximately $0.7 million of additions to the right-of-use assets under operating leases. Payments on lease liabilities during the six months ended November 30, 2022, and 2021, totaled $2.6 million and $2.3 million, respectively.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. For the six months ended November 30, 2022, and 2021, our total lease expense was approximately $3.0 million and $2.3 million, respectively, inclusive of short-term lease costs. Sublease income, short-term lease costs, and variable lease costs are not material to the unaudited condensed consolidated financial statements.

The future minimum lease payments required under our leases as of November 30, 2022, are as follows (in thousands):

Year ending May 31, 2023	$ 1,952
Year ending May 31, 2024	4,382
Year ending May 31, 2025	3,807
Year ending May 31, 2026	3,549
Year ending May 31, 2027	2,345
Thereafter	2,714
Total future minimum lease payments[a]	18,749
Less: Interest [b][c]	4,617
Total future minimum lease payments less interest[c]	$ 14,132

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

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

(c) The weighted average lease term and weighted average discount rate used in calculating our lease liabilities were 4.5 years and 6.55%, respectively, at November 30, 2022.

Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

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

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

	Three months ended November 30,		Six months ended November 30,	
Revenues:	2022	2021	2022	2021
Homebuilding:				
East	$ 275,793	$ 234,935	$ 515,695	$ 446,528
Central	410,611	349,045	872,505	716,758
Total homebuilding revenues	686,404	583,980	1,388,200	1,163,286
Land sales	4,042	5,060	4,042	5,060
Financial services and other revenue	10,339	8,432	21,564	21,368
Total revenues	$ 700,785	$ 597,472	$ 1,413,806	$ 1,189,714
Gross profit (loss) [(1)]:				
Homebuilding:				
East	$ 66,181	$ 49,774	$ 127,187	$ 91,705
Central	102,848	92,244	249,176	192,981
Total homebuilding gross profit	169,029	142,018	376,363	284,686
Land sales gross profit (loss)	1,129	(14)	1,129	(14)
Financial services and other revenue gross profit	3,191	2,811	7,492	5,688
Total gross profit	$ 173,349	$ 144,815	$ 384,984	$ 290,360
Depreciation and amortization:				
East	$ 649	$ 582	$ 1,159	$ 1,229
Central	916	1,217	1,891	2,518
Total depreciation and amortization	$ 1,565	$ 1,799	$ 3,050	$ 3,747
Equity in earnings of unconsolidated entities:				
East	$ 351	$ 816	$ 661	$ 1,100
Central	1,511	2,239	2,742	4,112
Total equity in earnings of unconsolidated entities	$ 1,862	$ 3,055	$ 3,403	$ 5,212
Net income:				
East	$ 32,500	$ 21,608	$ 57,832	$ 35,992
Central	57,275	52,893	154,165	113,656
	89,775	74,501	211,997	149,648
Other [(2)]	(129)	(34,914)	(240)	(46,296)
Total net income	$ 89,646	$ 39,587	$ 211,757	$ 103,352

(1) Includes inventory impairments totaling $0.2 million for the central segment during both the three and six months ended November 30, 2022, respectively. There were no inventory impairments for the east segment during the three and six months ended November 30, 2022. Includes inventory impairments totaling $34.1 thousand for the east segment during both the three and six months ended November 30, 2021, respectively. There were no inventory impairments for the central segment during the three and six months ended November 30, 2021.

(2) "Other" primarily consists of interest directly expensed for the three and six months ended November 30, 2022, and loss on extinguishment of debt and interest directly expensed for the three and six months ended November 30, 2021.

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

	November 30, 2022	May 31, 2022
Assets:		
Homebuilding:		
East	$ 860,067	$ 759,587
Central	1,429,093	1,290,473
	2,289,160	2,050,060
Other [(1)]	288,692	504,292
Total assets	$ 2,577,852	$ 2,554,352

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

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Additions to property and equipment:				
Homebuilding:				
East	$ 806	$ 1,205	$ 2,202	$ 1,440
Central	749	823	1,526	1,868
	1,555	2,028	3,728	3,308
Other [(1)]	—	12	—	12
Total additions to property and equipment	$ 1,555	$ 2,040	$ 3,728	$ 3,320

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

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

The following management's discussion and analysis is intended to assist the reader in understanding the Company's business and is provided as a supplement to, and should be read in conjunction with, the Company's unaudited condensed consolidated financial statements and accompanying notes included elsewhere in this quarterly report and with our annual report for the fiscal year ended May 31, 2022 ("2022 Annual Report"). The Company's results of operations discussed below are presented in conformity with GAAP.

Forward-Looking Statements

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

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

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

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

- Slower home sales could extend the time it takes to recover land purchase and property development costs and force us to absorb additional costs;
- Risks relating to unconsolidated joint ventures;
- Negative publicity;
- Failures in our financial and operational controls could result in cost overruns and errors in valuing sites;
- Our ability to obtain surety bonds;
- Terrorist attacks or increased domestic and international social, political or economic unrest or instability;
- Technology failures, cybersecurity attacks, breaches, and/or threats, and related exposures;
- Government regulations relating to health, safety and the environment could increase the cost of, limit the availability of our development and homebuilding projects and adversely affect our financial results;
- Government regulations relating to our title and mortgage operations;
- A major health or safety incident;
- Our exposure to various litigation and legal claims;
- The potential that government rulings or legislation could make us responsible for labor law violations of our subcontractors and other parties;
- Our exposure to additional entity-level taxation by individual states and localities;
- We are not subject to various securities laws or the Sarbanes-Oxley Act of 2002;
- The level of our indebtedness;
- A downgrade in our credit ratings;
- Our ability to incur additional indebtedness;
- Our ability to generate cash to service existing indebtedness;
- The ability or our controlling shareholders to select our board members and influence our business, including in ways that may conflict with the interests of our bondholders;
- Restrictive covenants included in our bond indentures and revolving credit agreement; and
- Other factors, including those discussed elsewhere in our 2022 Annual Report under the caption "Risk Factors", over which the Company has little or no control.

Overview and Outlook

Throughout 2022, the U.S. economy experienced significant inflationary pressure with prices of gas, food, and other household goods rising at the fastest rate in over 40 years. To combat the historic levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 425 basis points from March to December 2022 and indicated additional increases are likely to occur in the future which, in turn, has led to a significant increase in residential mortgage interest rates over the last several quarters. The increase in residential mortgage interest rates, coupled with historic inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. Due to these increased affordability concerns and declining macroeconomic conditions, demand for single-family homes has subsided from the record levels experienced during the fiscal years ended May 31, 2022 and 2021. The record levels of inflation and significant increases in residential mortgage interest rates has caused a decline in demand for new homes and also has caused potential homebuyers to reconsider their purchase decisions resulting in increased cancellation rates during the six months ended November 30, 2022. In response to this decreased demand, we increased sales incentives and discounts across all of our markets. Due to the timing of the closings on homes with these incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future home sales prices, home sales revenues, margins, and gross profit as these more recent sales continue to convert to closings in the coming quarters.

While the record demand for single-family homes subsided during the six months ended November 30, 2022, there remains qualified and motivated homebuyers due to the historical under-supply of new home construction, the limited supply of homes at affordable price points across our markets, the demographic shift towards homeownership during the COVID-19 pandemic, the low resale home inventory levels in our markets, and a strong employment market, which has resulted in wage growth across most sectors. Given these factors, we believe that demand continues to exist for single-family homes, and as a result, we continue to start construction on additional homes, make new land investments, and develop land we own or control, while continuing to focus on maintaining adequate liquidity through the still uncertain times ahead.

Business

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

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Net new home orders (units):				
Wholesale - Starlight Homes	945	339	945	485
Entry-Level - Starlight Homes	602	746	1,171	1,455
Entry-Level - Ashton Woods	9	93	9	246
Move-up - Ashton Woods	506	695	940	1,084
Multi-Move-Up - Ashton Woods	26	144	52	241
Company Total	2,088	2,017	3,117	3,511
Homes closed (units):				
Wholesale - Starlight Homes	156	317	379	536
Entry-Level - Starlight Homes	677	642	1,316	1,321
Entry-Level - Ashton Woods	15	86	15	207
Move-up - Ashton Woods	694	449	1,365	862
Multi-Move-Up - Ashton Woods	81	121	180	300
Company Total	1,623	1,615	3,255	3,226

	As of November 30,	
	2022	2021
Backlog (units) at end of period:		
Wholesale - Starlight Homes	973	909
Entry-Level - Starlight Homes	392	657
Entry-Level - Ashton Woods	2	152
Move-up - Ashton Woods	954	1,521
Multi-Move-Up - Ashton Woods	126	441
Company Total	2,447	3,680

	As of November 30,	
	2022	2021
Active communities:		
Entry-Level - Starlight Homes	50	38
Entry-Level - Ashton Woods	1	12
Move-up - Ashton Woods	62	52
Multi-Move-Up - Ashton Woods	6	13
Company Total	119	115

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Average monthly sales per average active community: (1)				
Entry-Level - Starlight Homes (2)	10.5	9.2	7.4	8.0
Entry-Level - Ashton Woods	6.0	2.3	3.0	3.0
Move-up - Ashton Woods	2.6	5.0	2.5	4.0
Multi-Move-Up - Ashton Woods	1.7	3.8	2.2	3.2
Company Average	5.8	6.0	4.5	5.2

(1) Average active community for the three months ended November 30, 2022, is calculated by averaging the active community counts at November 30, 2022, and August 31, 2022, and for the three months ended November 30, 2021, by averaging the active community counts at November 30, 2021, and August 31, 2021. For the six months ended November 30, 2022, the average active community is calculated by averaging the active community counts at November 30, 2022, and May 31, 2022, and for the six months ended November 30, 2021, by averaging the active community counts at November 30, 2021, and May 31, 2021.

(2) Includes 945 wholesale home sales for both the three and six months ended November 30, 2022. Includes 339 and 485 wholesale home sales for the three and six months ended November 30, 2021, respectively.

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Average sales price per home closed (in thousands):				
Wholesale - Starlight Homes	$ 316	$ 235	$ 307	$ 231
Entry-Level - Starlight Homes	$ 356	$ 316	$ 366	$ 299
Entry-Level - Ashton Woods	$ 344	$ 312	$ 344	$ 318
Move-up - Ashton Woods	$ 472	$ 436	$ 472	$ 432
Multi-Move-Up - Ashton Woods	$ 774	$ 697	$ 780	$ 686
Company Average	$ 423	$ 362	$ 426	$ 361

During the six months ended November 30, 2022, we closed 3,255 homes. Of those closings, 2,776 (85%) were single-family detached homes, while the remaining 479 (15%) homes closed were single-family attached homes.

During the six months ended November 30, 2022, the Company added 28 new active communities, while closing out 21 communities. Of the 28 active communities added during the six months ended November 30, 2022, 11 (39%) are considered to be entry-level Starlight Homes, 15 (54%) are considered to be move-up Ashton Woods Homes, and 2 (7%) are considered to be multi-move-up Ashton Woods Homes.

Operating Results

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Revenues:	(in thousands)			
Home sales	$ 686,404	$ 583,980	$ 1,388,200	$ 1,163,286
Land sales	4,042	5,060	4,042	5,060
Financial services and other revenues	10,339	8,432	21,564	21,368
	$ 700,785	$ 597,472	$ 1,413,806	$ 1,189,714
Gross profit:				
Home sales	$ 169,029	$ 142,018	$ 376,363	$ 284,686
Land sales	1,129	(14)	1,129	(14)
Financial services and other revenues	3,191	2,811	7,492	5,688
	$ 173,349	$ 144,815	$ 384,984	$ 290,360
Selling, general and administrative expense	$ 84,073	$ 71,787	$ 173,777	$ 142,700
Net income [(1)]	$ 89,646	$ 39,587	$ 211,757	$ 103,352

(1) Because the Company is structured as a limited liability company, income tax obligations are paid by our Members and are not borne by us. As a limited liability company, we periodically make tax distributions to our Members. The Company made tax distributions of $47.5 million and $102.7 million during the three and six months ended November 30, 2022, respectively, and $31.2 million and $57.1 million during the three and six months ended November 30, 2021, respectively.

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Supplemental data:	($ in thousands)			
Active communities at end of period	119	115	119	115
Net new home orders (in units)	2,088	2,017	3,117	3,511
Homes closed (in units) [(1)]	1,623	1,615	3,255	3,226
Average sales price per home closed	$ 423	$ 362	$ 426	$ 361
Backlog at end of period (in units)	2,447	3,680	2,447	3,680
Sales value of backlog at end of period	$ 1,029,635	$ 1,499,839	$ 1,029,635	$ 1,499,839
Home sales gross margin percentage [(2)]	24.6 %	24.3 %	27.1 %	24.5 %
Adjusted home sales gross margin percentage [(3)]	26.2 %	26.4 %	28.6 %	26.6 %
Ratio of selling, general and administrative expense to home sales revenues	12.2 %	12.3 %	12.5 %	12.3 %
Interest incurred [(4)]	$ 14,004	$ 14,105	$ 27,902	$ 29,755
Adjusted EBITDA [(5)]	$ 101,815	$ 88,548	$ 235,336	$ 178,413
Adjusted EBITDA margin [(5)]	14.5 %	14.8 %	16.6 %	15.0 %
Total debt to total capitalization ratio [(6)]	48.9 %	56.4 %	48.9 %	56.4 %
Total net debt to net capitalization ratio [(7)]	41.0 %	53.0 %	41.0 %	53.0 %
Cancellation rate (as a percentage of gross sales) [(8)]	16.4 %	9.6 %	18.5 %	10.3 %

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

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

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
	(in thousands)			
Home sales revenues	$ 686,404	$ 583,980	$ 1,388,200	$ 1,163,286
Cost of sales homes	517,375	441,962	1,011,837	878,600
Home sales gross margin	169,029	142,018	376,363	284,686
Add: Inventory impairments - homes	40	34	40	34
Interest amortized to cost of sales	10,589	12,164	20,347	25,047
Adjusted home sales gross margin	$ 179,658	$ 154,216	$ 396,750	$ 309,767
Ratio of home sales gross margin to home sales revenue	24.6 %	24.3 %	27.1 %	24.5 %
Ratio of adjusted home sales gross margin to home sales revenue	26.2 %	26.4 %	28.6 %	26.6 %

(4) Interest incurred for any period is the aggregate amount of interest that is capitalized or charged directly to interest expense during such period. The following table summarizes interest costs incurred, amortized to cost of sales, and expensed during the three and six months ended November 30, 2022, and 2021:

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
	(in thousands)			
Capitalized interest, beginning of period	$ 28,989	$ 26,894	$ 25,000	$ 24,610
Interest incurred	14,004	14,105	27,902	29,755
Interest amortized to cost of sales	(10,589)	(12,164)	(20,347)	(25,047)
Interest expensed	—	(83)	(151)	(566)
Capitalized interest, end of period	$ 32,404	$ 28,752	$ 32,404	$ 28,752

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

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
	(in thousands)			
Net income	$ 89,646	$ 39,587	$ 211,757	$ 103,352
Depreciation and amortization	1,580	1,814	3,081	3,779
Interest amortized to cost of sales	10,589	12,164	20,347	25,047
Interest expensed	—	83	151	566
EBITDA	$ 101,815	$ 53,648	$ 235,336	$ 132,744
Loss on early extinguishment of debt	—	34,900	—	45,669
Adjusted EBITDA	$ 101,815	$ 88,548	$ 235,336	$ 178,413

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

	As of November 30,	
	2022	2021
	($ in thousands)	
Total debt (aggregate principal balance)	$ 1,000,000	$ 900,000
Total Members' equity	1,046,560	697,060
Total capitalization	$ 2,046,560	$ 1,597,060
Total debt to total capitalization	48.9 %	56.4 %

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

	As of November 30,	
	2022	2021
	($ in thousands)	
Total debt (aggregate principal balance)	$ 1,000,000	$ 900,000
Less cash, cash equivalents, and restricted cash	272,538	114,428
Net debt	$ 727,462	$ 785,572
Total Members' equity	1,046,560	697,060
Total net capitalization	$ 1,774,022	$ 1,482,632
Total net debt to net capitalization	41.0 %	53.0 %

(8) The following table summarizes the cancellation rates (as a percentage of gross sales) by buyer profile for the three and six months ended November 30, 2022, and 2021:

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Wholesale - Starlight Homes	— %	— %	— %	— %
Entry-Level - Starlight Homes	24.6 %	15.2 %	19.5 %	15.0 %
Entry-Level - Ashton Woods	10.0 %	8.8 %	10.0 %	10.2 %
Move-up - Ashton Woods	28.0 %	7.6 %	25.7 %	8.6 %
Multi-Move-Up - Ashton Woods	38.1 %	8.9 %	32.5 %	6.6 %
Consolidated	16.4 %	9.6 %	18.5 %	10.3 %

Operating results - Segments

We have grouped our homebuilding operating divisions into two reportable segments, east and central. At November 30, 2022, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

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

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

Net new home orders (units):

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
East:				
Wholesale - Starlight Homes	440	55	440	160
Entry-Level - Starlight Homes	206	306	450	552
Entry-Level - Ashton Woods	—	39	—	111
Move-up - Ashton Woods	200	232	444	396
Multi-Move-Up - Ashton Woods	20	47	40	87
Total east	866	679	1,374	1,306
Central:				
Wholesale - Starlight Homes	505	284	505	325
Entry-Level - Starlight Homes	396	440	721	903
Entry-Level - Ashton Woods	9	54	9	135
Move-up - Ashton Woods	306	463	496	688
Multi-Move-Up - Ashton Woods	6	97	12	154
Total central	1,222	1,338	1,743	2,205
Company total	2,088	2,017	3,117	3,511

Homes closed (units):

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
East:				
Wholesale - Starlight Homes	86	164	151	255
Entry-Level - Starlight Homes	261	279	511	490
Entry-Level - Ashton Woods	—	14	—	71
Move-up - Ashton Woods	257	159	488	291
Multi-Move-Up - Ashton Woods	49	55	83	132
Total east	653	671	1,233	1,239
Central:				
Wholesale - Starlight Homes	70	153	228	281
Entry-Level - Starlight Homes	416	363	805	831
Entry-Level - Ashton Woods	15	72	15	136
Move-up - Ashton Woods	437	290	877	571
Multi-Move-Up - Ashton Woods	32	66	97	168
Total central	970	944	2,022	1,987
Company total	1,623	1,615	3,255	3,226

Average sales price per home closed:

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
East:				
Wholesale - Starlight Homes	$ 320	$ 247	$ 304	$ 245
Entry-Level - Starlight Homes	$ 369	$ 302	$ 376	$ 289
Entry-Level - Ashton Woods	$ —	$ 292	$ —	$ 323
Move-up - Ashton Woods	$ 451	$ 420	$ 445	$ 427
Multi-Move-Up - Ashton Woods	$ 738	$ 722	$ 728	$ 721
Total east	$ 422	$ 350	$ 418	$ 360
Central:				
Wholesale - Starlight Homes	$ 312	$ 222	$ 309	$ 219
Entry-Level - Starlight Homes	$ 349	$ 327	$ 361	$ 305
Entry-Level - Ashton Woods	$ 344	$ 316	$ 344	$ 316
Move-up - Ashton Woods	$ 485	$ 443	$ 487	$ 434
Multi-Move-Up - Ashton Woods	$ 829	$ 687	$ 824	$ 658
Total central	$ 423	$ 370	$ 432	$ 361
Company total	$ 423	$ 362	$ 426	$ 361

Backlog (units) at end of period:

	As of November 30,	
	2022	2021
East:		
Wholesale - Starlight Homes	470	396
Entry-Level - Starlight Homes	164	249
Entry-Level - Ashton Woods	—	58
Move-up - Ashton Woods	481	707
Multi-Move-Up - Ashton Woods	83	170
Total east	1,198	1,580
Central:		
Wholesale - Starlight Homes	503	513
Entry-Level - Starlight Homes	228	408
Entry-Level - Ashton Woods	2	94
Move-up - Ashton Woods	473	814
Multi-Move-Up - Ashton Woods	43	271
Total central	1,249	2,100
Company total	2,447	3,680

Active communities:

	As of November 30,	
	2022	2021
East:		
Entry-Level - Starlight Homes	25	15
Entry-Level - Ashton Woods	—	2
Move-up - Ashton Woods	18	17
Multi-Move-Up - Ashton Woods	5	3
Total east	48	37
Central:		
Entry-Level - Starlight Homes	25	23
Entry-Level - Ashton Woods	1	10
Move-up - Ashton Woods	44	35
Multi-Move-Up - Ashton Woods	1	10
Total central	71	78
Company total	119	115

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
East:				
Entry-Level - Starlight Homes [(2)]	9.2	8.0	6.7	7.7
Entry-Level - Ashton Woods	—	3.7	—	6.2
Move-up - Ashton Woods	3.6	5.7	4.0	4.7
Multi-Move-Up - Ashton Woods	1.7	5.2	1.9	4.1
Total east	6.3	6.5	5.2	6.0
Central:				
Entry-Level - Starlight Homes [(3)]	11.8	9.9	8.0	8.2
Entry-Level - Ashton Woods	6.0	1.8	3.0	2.1
Move-up - Ashton Woods	2.2	4.7	1.8	3.7
Multi-Move-Up - Ashton Woods	2.0	3.4	4.0	2.9
Total central	5.5	5.8	4.1	4.9
Company total	5.8	6.0	4.5	5.2

(1) Average active community for the three months ended November 30, 2022, is calculated by averaging the active community counts at November 30, 2022, and August 31, 2022, and for the three months ended November 30, 2021, by averaging the active community counts at November 30, 2021, and August 31, 2021. For the six months ended November 30, 2022, the average active community is calculated by averaging the active community counts at November 30, 2022, and May 31, 2022, and for the six months ended November 30, 2021, by averaging the active community counts at November 30, 2021, and May 31, 2021.

(2) Includes 440 wholesale home sales for both the three and six months ended November 30, 2022. Includes 55 and 160 wholesale home sales for the three and six months ended November 30, 2021, respectively.

(3) Includes 505 wholesale home sales for both the three and six months ended November 30, 2022. Includes 284 and 325 wholesale home sales for the three and six months ended November 30, 2021, respectively.

Adjusted Home Sales Gross Margin:

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

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Homebuilding East:	(in thousands)		(in thousands)	
Home sales revenues	$ 275,793	$ 234,935	$ 515,695	$ 446,528
Cost of sales homes	209,612	185,161	388,508	354,823
Home sales gross margin	66,181	49,774	127,187	91,705
Add: Inventory impairments - homes	—	34	—	34
Interest amortized to cost of sales	4,063	5,228	7,698	10,853
Adjusted home sales gross margin	$ 70,244	$ 55,036	$ 134,885	$ 102,592
Ratio of home sales gross margin to home sales revenues	24.0 %	21.2 %	24.7 %	20.5 %
Ratio of adjusted home sales gross margin to home sales revenues	25.5 %	23.4 %	26.2 %	23.0 %

	Three months ended November 30,		Six months ended November 30,	
	2022	2021	2022	2021
Homebuilding Central:	(in thousands)		(in thousands)	
Home sales revenues	$ 410,611	$ 349,045	$ 872,505	$ 716,758
Cost of sales homes	307,763	256,801	623,329	523,777
Home sales gross margin	102,848	92,244	249,176	192,981
Add: Inventory impairments - homes	40	—	40	—
Add: Interest amortized to cost of sales	6,526	6,936	12,649	14,194
Adjusted home sales gross margin	$ 109,414	$ 99,180	$ 261,865	$ 207,175
Ratio of home sales gross margin to home sales revenues	25.0 %	26.4 %	28.6 %	26.9 %
Ratio of adjusted home sales gross margin to home sales revenues	26.6 %	28.4 %	30.0 %	28.9 %

Operating results - Discussion

Three and Six Months Ended November 30, 2022 Compared to Three and Six Months Ended November 30, 2021

Home sales revenues - Consolidated

Home sales revenues increased $102.4 million (17.5%) and $224.9 million (19.3%) for the three and six months ended November 30, 2022, to $686.4 million and $1.4 billion, respectively, from $584.0 million and $1.2 billion for the three and six months ended November 30, 2021, respectively. The increase in home sales revenues for the three and six months ended November 30, 2022, as compared to the three and six months ended November 30, 2021, was due to a modest increase in the number of homes closed, in addition to an increase in the average sales price of homes closed.

The number of homes closed increased 0.5% (8 homes) and 0.9% (29 homes) for the three and six months ended November 30, 2022, to 1,623 and 3,255, respectively, from 1,615 and 3,226 for the three and six months ended November 30, 2021, respectively. The increase in closings was largely driven by the strong demand for new homes during the fiscal year ended May 31, 2022, the period during which most of the homes that closed during the three and six months ended November 30, 2022 were sold.

Included in the number of homes closed are 156 and 379 wholesale homes closings to real estate investors for the three and six months ended November 30, 2022, respectively, and 317 and 536 wholesale homes closings for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the number of homes closed increased 13.0% (169 homes) and 6.9% (186 homes) during the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. Although home closings during the three and six months ended November 30, 2022, on a consolidated basis, increased compared to the three and six months ended November 30, 2021, the number of home closings during the three and six months ended November 30, 2022 remained impacted by elongated construction cycles resulting from labor and supply chain constraints.

The average sales price of homes closed increased 16.9% and 18.0% to an average of $423,000 and $426,000 for the three and six months ended November 30, 2022, respectively, from an average of $362,000 and $361,000 for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the average sales price of homes closed increased 10.7% and 14.5% to an average of $434,000 and $442,000 for the three and six months ended November 30, 2022, respectively, from an average of $392,000 and $386,000 for the three and six months ended November 30, 2021, respectively. The increase in the average sales price of homes closed on a consolidated basis for the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, reflected our ability to raise prices in most of our communities across all of our markets due to the strong demand for new homes throughout the fiscal year ended May 31, 2022. The majority of homes closed during the three and six months ended November 30, 2022 were sold during the fiscal year ended May 31, 2022 and the beginning of the first quarter of fiscal year 2023 prior to the Company increasing sales incentives and discounts across all of our markets. Due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future average home sales prices as more recent sales continue to convert to closings in the coming quarters.

Home sales revenues - East segment

Home sales revenues for the east segment increased by $40.9 million (17.4%) and $69.2 million (15.5%) for the three and six months ended November 30, 2022, to $275.8 million and $515.7 million, respectively, from $234.9 million and $446.5 million for the three and six months ended November 30, 2021, respectively. The increase in home sales revenues for the six months ended November 30, 2022, as compared to the six months ended November 30, 2021, was due to an increase in the average sales price of homes closed, partially offset by a modest decrease in the number of homes closed.

The number of homes closed during the three and six months ended November 30, 2022, decreased 2.7% (18 homes) and 0.5% (6 homes), respectively, as compared to the three and six months ended November 30, 2021. Included in the number of homes closed are 86 and 151 wholesale homes closings to real estate investors for the three and six months ended November 30, 2022, respectively, and 164 and 255 wholesale homes closings for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the number of homes closed increased 11.8% (60 homes) and 10.0% (98 homes) during the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. Closings for the east segment during the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, increased as a result of the completion of homes in backlog, which has remained impacted by elongated construction cycles due to labor and supply chain constraints.

The average sales price of homes closed increased 20.6% and 16.1% for the three and six months ended November 30, 2022, to an average of $422,000 and $418,000, respectively, from an average of $350,000 and $360,000 for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the average sales price of homes closed increased 14.4% and 11.3% to an average of $438,000 and $434,000 for the three and six months ended November 30, 2022, respectively, from an average of $383,000 and $390,000 for the three and six months ended November 30, 2021, respectively. The increase in the average sales price of homes closed in the east segment for the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, reflected our ability to raise prices in most of our communities across all of our markets in the east segment due to the strong demand for new homes throughout the fiscal year ended May 31, 2022. The majority of homes closed in the east segment during the three and six months ended November 30, 2022 were sold during the fiscal year ended May 31, 2022 and the beginning of the first quarter of fiscal year 2023 prior to the Company increasing sales incentives and discounts across all of our markets in the east segment. Due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future average home sales prices as more recent sales continue to convert to closings in the coming quarters.

Home sales revenues - Central segment

Home sales revenues for the central segment increased by $61.6 million (17.6%) and $155.7 million (21.7%) for the three and six months ended November 30, 2022, to $410.6 million and $872.5 million, respectively, from $349.0 million and $716.8 million for the three and six months ended November 30, 2021, respectively. The increase in home sales revenues for the three and six months ended November 30, 2022, as compared to the three and six months ended November 30, 2021, was due to both a modest increase in the number of homes closed and an increase in the average sales price of homes closed.

The number of homes closed during the three and six months ended November 30, 2022, increased 2.8% (26 homes) and 1.8% (35 homes), respectively, as compared to the three and six months ended November 30, 2021. Included in the number of homes closed are 70 and 228 wholesale homes closings to real estate investors for the three and six months ended November 30, 2022, respectively, and 153 and 281 wholesale homes closings for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the number of homes closed increased 13.8% (109 homes) and 5.2% (88 homes) during the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021.

Closings for the central segment during the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, increased as a result of the completion of homes in backlog, which has remained impacted by elongated construction cycles due to labor and supply chain constraints.

The average sales price of homes closed increased 14.3% and 19.7% in the three and six months ended November 30, 2022, to $423,000 and $432,000, respectively, from an average of $370,000 and $361,000 for the three and six months ended November 30, 2021, respectively. Excluding wholesale homes closings to real estate investors, the average sales price of homes closed increased 8.5% and 16.4% to an average of $432,000 and $447,000 for the three and six months ended November 30, 2022, respectively, from an average of $398,000 and $384,000 for the three and six months ended November 30, 2021, respectively. The increase in the average sales price of homes closed for the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, reflected our ability to raise prices in most of our communities across all of our markets due to the strong demand for new homes throughout the fiscal year ended May 31, 2022. The majority of homes closed in the central segment during the three and six months ended November 30, 2022 were sold during the fiscal year ended May 31, 2022 and the beginning of the first quarter of fiscal year 2023 prior to the Company increasing sales incentives and discounts across all of our markets in the central segment. Due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future average home sales prices as more recent sales continue to convert to closings in the coming quarters.

Net new home orders, cancellations, and backlog - Consolidated

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of the home closing. Net new home orders increased 3.5% (71 homes) and decreased 11.2% (394 homes) for the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. Average monthly sales per average active community decreased from 6.0 and 5.2 for the three and six months ended November 30, 2021, respectively, to 5.8 and 4.5 for the three and six months ended November 30, 2022, respectively.

Included in the net new home orders are 945 wholesale homes sales to real estate investors for both the three and six months ended November 30, 2022, respectively, and 339 and 485 wholesale homes sales to real estate investors for the three and six months ended November 30, 2021, respectively. These wholesale homes were sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements). In the normal course of business we may also elect to sell one or more homes to buyers who may be real estate investors pursuant to individual retail purchase and sale agreements, which are not included in the wholesale home sales reported herein. Sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from period to period. Excluding the wholesale homes sales to real estate investors, net new home orders decreased 31.9% (535 homes) and 28.2% (854 homes) for the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. The decrease in net new home orders, excluding wholesale homes sales to real estate investors, was primarily due to the decrease in demand as a result of negative macroeconomic conditions and affordability concerns resulting from record inflation and the significant increases in residential mortgage interest rates for homebuyers. As a result of this decreased demand for new homes, average monthly sales per average active community, excluding wholesale home sales to real estate investors, decreased from 5.0 and 4.5 for the three and six months ended November 30, 2021, respectively, to 3.2 and 3.1 for the three and six months ended November 30, 2022, respectively.

Our cancellation rates (as a percentage of gross sales) were elevated across all of our buyer profiles during the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021. The higher cancellation rates across all of our buyer profiles was primarily due to heightened affordability concerns for homebuyers resulting from record inflation and the rapid increase in residential mortgage interest rates during the three and six months ended November 30, 2022. As a result, our consolidated cancellation rate increased from 9.6% and 10.3% for the three and six months ended November 30, 2021, respectively, to 16.4% and 18.5% for the three and six months ended November 30, 2022, respectively. Excluding wholesale homes sales contracts with real estate investors, our consolidated cancellation rate increased from 11.3% and 11.7% for the three and six months ended November 30, 2021, respectively, to 26.4% and 19.3% for the three and six months ended November 30, 2022, respectively.

Backlog consists of homes that are under purchase contracts that have not yet closed. Backlog decreased 33.5% from 3,680 homes in backlog at November 30, 2021, to 2,447 homes in backlog at November 30, 2022. Excluding wholesale homes sales to real estate investors, backlog decreased 46.8% from 2,771 homes in backlog at November 30, 2021, to 1,474 homes in backlog at November 30, 2022. The decrease in backlog was a result of the decrease in new home orders during the six months ended November 30, 2022, as discussed above, combined with the increase in the number of homes closed due to the completion of homes in backlog that were more significantly impacted by elongated construction cycles due to labor and supply chain constraints.

The sales value of backlog at November 30, 2022 was $1.0 billion, a 31.4% decrease from the $1.5 billion sales value of backlog at November 30, 2021. Excluding wholesale homes sales contracts with real estate investors, the sales value of backlog at November 30, 2022 was $0.7 billion, a 43.9% decrease from the $1.3 billion sales value of backlog excluding wholesale homes sales contracts with real estate investors at November 30, 2021. The decrease in the sales value of backlog, excluding wholesale homes sales to real estate investors, was primarily due to the 46.8% decrease in the number of homes in backlog, as discussed above, partially offset by an increase in the average sales price of homes in backlog, excluding wholesale homes sales contracts with real estate investors, from $460,000 at November 30, 2021, to $485,000 at November 30, 2022.

Net new home orders and backlog - East segment

Net new home orders in the east segment increased 27.5% (187 homes) and 5.2% (68 homes) during the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. Average monthly sales per average active community decreased from 6.5 and 6.0 for the three and six months ended November 30, 2021, respectively, to 6.3 and 5.2 for the three and six months ended November 30, 2022, respectively.

Excluding the wholesale homes sales to real estate investors, net new home orders decreased 31.7% (198 homes) and 18.5% (212 homes) for the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. The decrease in net new home orders, excluding wholesale homes sales to real estate investors, during the three and six months ended November 30, 2022 compared to the three and six months ended November 30, 2021, was primarily due to the decrease in demand as a result of negative macroeconomic conditions and affordability concerns resulting from record inflation and the significant increases in residential mortgage interest rates for homebuyers. As a result of this decreased demand for new homes, average monthly sales per average active community, excluding wholesale home sales to real estate investors, decreased from 5.9 and 5.3 for the three and six months ended November 30, 2021, respectively, to 3.1 and 3.5 for the three and six months ended November 30, 2022, respectively.

Backlog consisted of 1,198 homes at November 30, 2022, which is an 24.2% decrease from 1,580 homes in backlog at November 30, 2021. Included in backlog at November 30, 2022, and November 30, 2021, were 470 and 396 wholesale homes sales contracts with real estate investors, respectively. Excluding wholesale homes sales contracts with real estate investors, backlog decreased 38.5% from 1,184 homes in backlog at November 30, 2021, to 728 homes in backlog at November 30, 2022. The decrease in backlog was a result of the decrease in new home orders, excluding wholesale home sales contracts with real estate investors, during the three and six months ended November 30, 2022, as discussed above, combined with the increase in the number of homes closed, excluding wholesale homes sales contracts with real estate investors, due to the completion of homes in backlog which were more significantly impacted by elongated construction cycles due to labor and supply chain constraints.

The sales value of backlog at November 30, 2022 was $512.5 million, a 17.3% decrease compared to the $619.8 million sales value of backlog at November 30, 2021. Excluding wholesale homes sales contracts with real estate investors, the sales value of backlog at November 30, 2022 was $363.9 million, a 30.2% decrease from the $521.1 million sales value of backlog excluding wholesale homes sales contracts with real estate investors at November 30, 2021. The decrease in the sales value of backlog was due to the decrease in the number of homes in backlog, partially offset by the increase in the average sales price of homes in backlog, excluding wholesale homes sales to real estate investors, to $500,000 at November 30, 2022, from $440,000 at November 30, 2021. The increase in the average sales price of homes in backlog, excluding wholesale homes sales to real estate investors, was primarily due to the mix of communities with homes in backlog. As of November 30, 2022, of the 728 homes in backlog, excluding wholesale homes sales to real estate investors, 481 (66%) of the homes were considered move-up, compared to 707 (60%) of the 1,184 homes in backlog, excluding wholesale homes sales to real estate investors, at November 30, 2021. The increase in the percentage of move-up homes in backlog at November 30, 2022, excluding wholesale home sales to real estate investors, was primarily driven by decreases in both entry-level and multi-move-up homes in backlog due to the mix of active communities in the east segment, as well as availability of homesites and inventory to sell.

Net new home orders and backlog - Central segment

Net new home orders in the central segment decreased 8.7% (116 homes) and 21.0% (462 homes) during the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. Average monthly sales per average active community decreased from 5.8 and 4.9 for the three and six months ended November 30, 2021, respectively, to 5.5 and 4.1 for the three and six months ended November 30, 2022, respectively.

Excluding the wholesale homes sales contracts with real estate investors, net new home orders decreased 32.0% (337 homes) and 34.1% (642 homes) for the three and six months ended November 30, 2022, respectively, compared to the three and six months ended November 30, 2021. The decrease in net new home orders, both including and excluding wholesale homes sales to real estate investors, during the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, was due to a decrease in demand as a result of record inflation and significant increases in residential mortgage interest rates. As a result of this decreased demand for new homes, average monthly sales per average active community, excluding wholesale home sales to real estate investors, decreased from 4.6 and 4.2 for the three and six months ended November 30, 2021, respectively, to 3.3 and 2.9 for the three and six months ended November 30, 2022, respectively.

Backlog consisted of 1,249 homes at November 30, 2022, which is a 40.5% decrease from 2,100 homes in backlog at November 30, 2021. Included in backlog at November 30, 2022 and November 30, 2021 were 503 and 513 wholesale homes sales contracts with real estate investors, respectively. Excluding wholesale homes sales contracts with real estate investors, backlog decreased 53.0% from 1,587 homes in backlog at November 30, 2021 to 746 homes in backlog at November 30, 2022. The decrease in backlog was a result of the decrease in new home orders during the three and six months ended November 30, 2022, as discussed above, combined with the increase in the number of homes closed due to the completion of homes in backlog which were more significantly impacted by elongated construction cycles due to labor and supply chain constraints.

The sales value of backlog at November 30, 2022 was $517.1 million, a 41.2% decrease over the $880.1 million sales value of backlog at November 30, 2021. Excluding wholesale homes sales contracts with real estate investors, the sales value of backlog at November 30, 2022 was $350.3 million, a 53.4% decrease from the $752.4 million sales value of backlog at November 30, 2021. The decrease in the sales value of backlog is due to a decrease in the number of homes in backlog and a decrease in the average sales price of homes in backlog, excluding wholesale homes sales contracts with real estate investors, to $470,000 at November 30, 2022 from $474,000 at November 30, 2021. The decrease in the average sales price of homes in backlog, excluding wholesale homes sales contracts with real estate investors, was primarily due to the mix of communities with homes in backlog. Of the 746 homes in backlog, excluding wholesale homes sales to real estate investors, at November 30, 2022, 228 (31%) of the homes were entry-level Starlight homes, compared to 408 (26%) of the 1,587 homes in backlog, excluding wholesale homes sales to real estate investors, at November 30, 2021. The increase in the percentage of entry-level Starlight homes in backlog at November 30, 2022, excluding wholesale homes sales to real estate investors, was primarily driven by decreases in both entry-level Ashton Woods homes and multi-move-up homes in backlog, due to the mix of active communities in the central segment, as well as availability of homesites and inventory to sell.

Home sales gross margins - Consolidated

The average home sales gross margin percentage from homes closed for the three and six months ended November 30, 2022 increased to 24.6% and 27.1%, respectively, from 24.3% and 24.5% for the three and six months ended November 30, 2021, respectively. The increase in average home sales gross margin percentage for the three and six months ended November 30, 2022 was due primarily to the strong demand for new homes during the fiscal year ended May 31, 2022. As a result, the average sales prices of homes closed on a consolidated basis increased for the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, more than covering increases in the cost of materials and labor, thus increasing the average home sales gross margin percentage. The majority of homes closed during the three and six months ended November 30, 2022 were sold during the fiscal year ended May 31, 2022 and the beginning of the first quarter of the fiscal year ending May 31, 2023 prior to the Company increasing sales incentives and discounts across all of our markets. Due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future average home sales gross margin percentage as more recent sales continue to convert to closings in the coming quarters.

Adjusted home sales gross margin percentage from homes closed for the three and six months ended November 30, 2022 decreased to 26.2% and increased to 28.6%, respectively, from 26.4% and 26.6% for the three and six months ended November 30, 2021, respectively. This decrease in the adjusted home sales gross margin percentage for the three months ended November 30, 2022, compared to the three months ended November 30, 2021, was primarily due to a decrease in interest amortized to cost of sales. The increase in the adjusted home sales gross margin percentage for the six months ended November 30, 2022, compared to the six months ended November 30, 2021, was due to the improvement in gross margins as described above.

Home sales gross margins - East segment

The average home sales gross margin percentage from homes closed in the east segment for the three and six months ended November 30, 2022 increased to 24.0% and 24.7%, respectively, from 21.2% and 20.5% for the three and six months ended November 30, 2021, respectively. The increase in average home sales gross margin percentage for the three and six months ended November 30, 2022 was due primarily to the strong demand for new homes during the fiscal year ended May 31, 2022. As a result, the average sales prices of homes closed for the east segment increased for the three and six months ended November 30, 2022, compared to the three and six months ended November 30, 2021, more than covering increases in the cost of materials and labor, thus increasing the average home sales gross margin percentage. The majority of homes closed in the east segment during the three and six months ended November 30, 2022 were sold during the fiscal year ended May 31, 2022 and the beginning of the first quarter of the fiscal year ending May 31, 2023 prior to the Company increasing sales incentives and discounts across all of our markets in the east segment. Due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three and six months ended November 30, 2022, and is expected to impact our future average home sales gross margin percentage as more recent sales continue to convert to closings in the coming quarters.

Home sales gross margins - Central segment

The average home sales gross margin percentage from homes closed in the central segment for the three and six months ended November 30, 2022 decreased to 25.0% and increased to 28.6%, respectively, from 26.4% and 26.9% for the three and six months ended November 30, 2021, respectively. Although both the number of homes closed and the average sales price of homes closed for the central segment increased during the three months ended November 30, 2022 compared to the three months ended November 30, 2021, the decrease in average home sales gross margin percentage for the three months ended November 30, 2022 was a result of increases in the cost of materials and labor for the homes closed during the three months ended November 30, 2022, in addition to higher sales incentives and discounts for homes that were sold since the latter half of the first quarter of fiscal year 2023. As previously discussed, due to the timing of the closings on homes with these increased incentives and discounts, the increase in sales incentives and discounts is not fully reflected in our operating results for the three months ended November 30, 2022, and is expected to impact our future average home sales gross margin percentage as more recent sales continue to convert to closings in the coming quarters. The increase in average home sales gross margin percentage for the six months ended November 30, 2022 was due primarily to the strong demand for new homes during the fiscal year ended May 31, 2022 and the beginning of the first quarter of fiscal year 2023, which enabled us to raise prices in most communities across all of our markets in the central segment.

Selling, general and administrative expense

Selling, general and administrative expense ("SG&A") totaled $84.1 million and $173.8 million for the three and six months ended November 30, 2022, respectively, compared to $71.8 million and $142.7 million for the three and six months ended November 30, 2021, respectively. The increase in SG&A for the three and six months ended November 30, 2022, as compared to the three and six months ended November 30, 2021, was primarily due to increases in sales commissions due to an increase in the number of home closings, higher sales prices, and an increase in the number of homes closed with outside sales agents, as well as higher salary and benefit related compensation expenses, and increases in advertising and marketing expenses.

SG&A as a percentage of home sales revenues decreased to 12.2% and increased to 12.5% for the three and six months ended November 30, 2022, respectively, from 12.3% for both the three and six months ended November 30, 2021, respectively.

Land sales

We periodically elect to sell parcels of land or lots. We had $4.0 million and $5.1 million in sales of land and lots during the three and six months ended November 30, 2022 and 2021, respectively.

Loss from early extinguishment of debt

We recognized a loss from the early extinguishment of debt of $34.9 million and $45.7 million for the three and six months ended November 30, 2021, comprised of redemption premiums and the write-off of unamortized deferred financing costs in connection with the redemptions of all outstanding 6.750% Senior Notes due 2025 and 9.875% Senior Notes due 2027. We did not incur any loss from the early extinguishment of debt during the three and six months ended November 30, 2022, respectively.

Net income

Net income increased $50.1 million and $108.4 million to $89.6 million and $211.8 million for the three and six months ended November 30, 2022, respectively, as compared to the three and six months ended November 30, 2021. The increase in net income for the three and six months ended November 30, 2022, as compared to the three and six months ended November 30, 2021, is primarily attributable to the increase in home sales gross margins for the three and six months ended November 30, 2022, as compared to the three and six months ended November 30, 2021, and the absence of losses on the early extinguishment of debt during the three and six months ended November 30, 2022, compared to losses on the early extinguishment of debt of $34.9 million and $45.7 million during the three and six months ended November 30, 2021, respectively.

Liquidity and capital resources

Overview

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

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

The Company's total liquidity, including cash, cash equivalents, restricted cash, and available additional borrowing capacity under our Restated Revolver, was $615.8 million as of November 30, 2022. Based on our existing financial condition and credit relationships, we believe that our operations and capital resources are sufficient to provide for our current short-term and foreseeable long-term capital needs. However, we continue to evaluate the impact of market conditions on our liquidity and will consider, as appropriate, additional funding opportunities.

The total debt to total capitalization ratio consists of total debt divided by total capitalization (debt plus Members' equity). Our ratio of total debt to total capitalization improved to 48.9% at November 30, 2022, from 56.4% at November 30, 2021. The net debt to net capitalization ratio, which, as discussed above, is a non-GAAP financial measure, consists of total debt, net of cash and restricted cash ("net debt"), divided by net capitalization (net debt plus Members' equity). Our ratio of net debt to net capitalization improved to 41.0% at November 30, 2022, from 53.0% at November 30, 2021.

Material Cash Requirements

As of November 30, 2022, there have been no material changes to our known contractual and other obligations appearing in the "Material Cash Requirements" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2022 Annual Report.

At November 30, 2022, we controlled 51,279 lots. Of the 51,279 lots controlled, we owned 26.1%, or 13,406 lots, and 73.9%, or 37,873 lots, were under contract. In the ordinary course of business, we enter into purchase and option agreements in order to procure land for the construction of homes in the future. At November 30, 2022, these agreements had an aggregate remaining purchase price of $2.2 billion and cash deposits of $326.2 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $369.1 million and cash deposits of $75.8 million. Pursuant to these land purchase and land option agreements, we generally provide a deposit to the seller as consideration for the right, but not the obligation, to purchase land at different times in the future at predetermined prices. In certain instances, we are required to record the land under option as if we own it.

Senior Unsecured Revolving Credit Facility

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

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

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

The Restated Revolver contains affirmative and negative covenants that are customary for credit agreements of this nature, including (i) a minimum level of Tangible Net Worth, (ii) a maximum Leverage Ratio, (iii) a minimum Interest Coverage Ratio, and (iv) a minimum liquidity requirement. At November 30, 2022, the Company was in compliance with all of the covenants in the Restated Revolver.

The Company did not utilize the Restated Revolver to fund operations during the six months ended November 30, 2022. As of November 30, 2022, the Company had no borrowings outstanding under the Restated Revolver and $6.7 million of letters of credit outstanding.

Senior Note Offerings

On January 23, 2020, the Companies issued and sold, at an issue price of 100%, $250.0 million aggregate principal amount of their 2028 Notes through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2028 Notes is payable semi-annually in cash in arrears on January 15 and July 15 of each year. The 2028 Notes will mature on January 15, 2028. The 2028 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2029 Notes and 2030 Notes.

On August 2, 2021, the Companies issued and sold, at an issue price of 100.00%, $350 million aggregate principal amount of their 2029 Notes through a private placement to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A and in offshore transactions pursuant to Regulation S, promulgated under the Securities Act. Interest on the 2029 Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year, commencing February 1, 2022. The 2029 Notes will mature on August 1, 2029. The 2029 Notes are guaranteed by substantially all of the Company's subsidiaries and have terms substantially similar to the Companies' 2028 Notes and 2030 Notes.

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

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

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

Letters of Credit and Surety Bonds

In the ordinary course of business, we provide letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At November 30, 2022, we had letters of credit and surety bonds outstanding of $6.7 million and $184.1 million, respectively. As of November 30, 2022, we had $43.3 million of unused letter of credit capacity under the Restated Revolver.

Off-Balance-Sheet Arrangements

As of November 30, 2022, real estate not owned totaled $231.6 million related to 20 lot purchase agreements with $75.8 million of non-refundable deposits. Refer to our discussion in Note 4 to our unaudited condensed consolidated financial statements included in this quarterly report.

As of November 30, 2022, we are a partner in one land development joint venture in which we have a non-controlling interest. We account for our interest in this joint venture under the equity method. Our share of profits from lots we purchase from the joint venture is deferred until we close on the homes.

As of November 30, 2022, we are a partner in two mortgage joint ventures in which the Company offers or intends to offer residential mortgage services to its homebuyers and the public at large in all of its operating divisions. The Company has a non-controlling interest in these joint ventures. The Company’s investments in these mortgage joint ventures are accounted for under the equity method. Our share of profits is included within equity in earnings of unconsolidated entities in the unaudited condensed consolidated statements of income.

Operating cash flows

Net cash used in operating activities for the six months ended November 30, 2022 was $17.8 million compared to $208.7 million of net cash used in operating activities for the six months ended November 30, 2021. The primary source of funds from operations is from the closing of homes. The decrease in net cash used in operations for the six months ended November 30, 2022 was primarily due to an increase in net income and a decrease in the capital invested for inventory, partially offset by a decrease in customer deposits.

Investing cash flows

Net cash used in investing activities was $3.7 million for the six months ended November 30, 2022 and $1.7 million for the six months ended November 30, 2021. Net cash used in investing activities for the six months ended November 30, 2022 was primarily to furnish and/or update furnishings in model homes and sales offices.

Financing cash flows

Net cash used in financing activities was $192.7 million for the six months ended November 30, 2022, compared to $40.2 million of net cash provided by financing activities for the six months ended November 30, 2021. The funds used in financing activities during the six months ended November 30, 2022 consisted of tax distributions of $102.7 million and non-tax distributions of $90.0 million to our Members. At November 30, 2022, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of $343.3 million based on outstanding letters of credit and the borrowing base formula.

Inventory

As of November 30, 2022, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			Completed Homes			
	Unsold	**Models (1)**	**Sold**	**Unsold**	**Models (2)**	**Sold**	**Total Homes**
East	721	19	797	60	44	55	1,696
Central	1,471	16	750	200	71	193	2,701
Company total	2,192	35	1,547	260	115	248	4,397

(1) Includes 21 models under the Ashton Woods brand name and 14 sales offices under the Starlight Homes brand name.
(2) Includes 72 models under the Ashton Woods brand name and 43 sales offices under the Starlight Homes brand name.

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

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

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

As of November 30, 2022 and 2021, the cost of homes under construction and finished homes in inventory consisted of the following (in thousands):

	As of November 30,	
	2022	**2021**
Sold homes	$ 434,625	$ 591,073
Unsold homes	551,950	327,840
Model homes	44,316	40,719
Homes under construction and finished homes	$ 1,030,891	$ 959,632

As of November 30, 2022 and 2021, we had the following unsold homes in inventory (in units):

	As of November 30,	
	2022	**2021**
Entry-Level - Starlight Homes	1,394	1,218
Entry-Level - Ashton Woods	11	91
Move-up	1,005	711
Multi-Move-Up	42	85
Consolidated	2,452	2,105

As of November 30, 2022, we controlled the following residential homes and lots (in units):

	Total Homes	Finished Lots	Land Under Development	Residential Land Held for Future Development	Owned Lots	Lots Under Option	Controlled Lots
East	1,696	1,101	2,528	467	4,096	17,838	21,934
Central	2,701	2,013	2,772	4,525	9,310	20,035	29,345
Total Company	4,397	3,114	5,300	4,992	13,406	37,873	51,279
Percentage of total controlled		6.1 %	10.3 %	9.7 %	26.1 %	73.9 %	100.0 %

As of November 30, 2021, we controlled the following residential homes and lots (in units):

	Total Homes	Finished Lots	Land Under Development	Residential Land Held for Future Development	Owned Lots	Lots Under Option	Controlled Lots
East	2,181	1,108	763	967	2,838	17,782	20,620
Central	3,107	1,745	3,929	3,127	8,801	25,736	34,537
Total Company	5,288	2,853	4,692	4,094	11,639	43,518	55,157
Percentage of total controlled		5.2 %	8.5 %	7.4 %	21.1 %	78.9 %	100.0 %

In addition to the 13,406 lots we owned, we controlled, through the use of purchase and option agreements, 37,873 lots at November 30, 2022. Purchase and option agreements that did not require consolidation under ASC 810, ASC 606, or ASC 470-40 at November 30, 2022 had an aggregate remaining purchase price of $2.2 billion. In connection with these agreements, we had cash deposits of $326.2 million at November 30, 2022. In addition, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of $369.1 million and cash deposits of $75.8 million (see Note 4 to our unaudited condensed consolidated financial statements included in this quarterly report).

During the six months ended November 30, 2022, we acquired 1,637 lots for a total purchase price of $147.1 million. We spent $102.4 million on land development during the six months ended November 30, 2022. During the six months ended November 30, 2022, we spent $3.7 million to furnish and/or update furnishings in model homes and sales offices.

Seasonality and inflation

Our historical quarterly results of operations have tended to be impacted by the seasonal nature of the homebuilding industry. We have historically experienced increases in revenues and cash flow from operations during the fourth quarter of each fiscal year based on the timing of home closings. Any period of high inflation is likely to have an adverse effect on us and the homebuilding industry in general since it may contribute to higher land, financing, labor, and construction costs. We attempt to pass on at least a portion of the cost increases to our homebuyers via increased sales prices; however, we may be limited in our ability to increase our prices. Further, higher residential mortgage interest rates may accompany inflation and affect the affordability of mortgage financing for homebuyers. If we are unable to increase our sales prices to compensate for any increased costs, or if residential mortgage interest rates continue to increase and continue to affect the ability or desire of potential homebuyers to obtain financing for their home purchases, our results of operations will likely be adversely affected. See “Risks Relating to our Business and Industry - "Our future operations may be adversely impacted by high inflation” in Part I, Item 1A. "Risk Factors" in our 2022 Annual Report.

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

Critical accounting policies and estimates

There have been no significant changes to our critical accounting policies and estimates during the six months ended November 30, 2022, compared with those disclosed in our 2022 Annual Report.

Transactions with related parties

See Note 10 to our unaudited condensed consolidated financial statements as of November 30, 2022 for information about transactions with related parties.

Pending accounting pronouncements

See Note 2 to our unaudited condensed consolidated financial statements as of November 30, 2022.

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

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

The borrowings under the Restated Revolver accrue interest at a variable rate. As of November 30, 2022, we had no outstanding borrowings under the Restated Revolver.

Item 4. *Controls and Procedures*

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Information with respect to legal proceedings is incorporated into this Part II, Item 1 from Note 13 to our unaudited condensed consolidated financial statements as of November 30, 2022, in Part I, Item 1.

Item 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our 2022 Annual Report which could materially affect our business, financial condition, or future results. The risks described in our 2022 Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, financial condition, and/or operating results.

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

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

Item 5. *Other Information*

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 6, 2023, Ms. Karson resigned as an at-large director, effective January 9, 2023.

On January 9, 2023, the holder of all of the Company's Class A Units elected Arden M. Karson as a Class A director, effective January 9, 2023.

Arden K. Karson was elected to the Company's Board of Directors in July 2021 as an at-large director. Biographical information about Ms. Karson is included in Part III, Item 10 of our 2022 Annual Report, which is posted on our website.