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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.

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

For the quarterly period ended November 30, 2023

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

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Commission file Number: N/A

**Ashton Woods USA L.L.C.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

37-1590746

(I.R.S. Employer Identification No.)

3820 Mansell Road, Suite 400  
Alpharetta, GA

(Address of Principal Executive Offices)

30022

(Zip Code)

(770) 998-9663

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

**ASHTON WOODS USA L.L.C.**  
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## **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, 2023, and the related condensed consolidated statements of income for the three- and six-month periods ended November 30, 2023 and 2022, condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2022 to November 30, 2023, and condensed consolidated statements of cash flows for the six-month periods ended November 30, 2023 and 2022, 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.



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## **Report on Condensed Balance Sheet as of May 31, 2023**

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, 2023, 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 11, 2023. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Ernst + Young LLP*

January 9, 2024

## PART I. FINANCIAL INFORMATION

### Item 1. *Financial Statements*

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

	<u>November 30,</u> <u>2023</u>	<u>May 31,</u> <u>2023</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 298,942	\$ 593,177
Restricted cash	52	8,976
Receivables, net	108,526	84,819
Inventory	1,816,049	1,488,809
Real estate not owned	312,641	243,931
Property and equipment, net	14,280	12,272
Investments in unconsolidated entities	8,978	8,463
Deposits on real estate under option or contract	320,914	298,690
Other assets	53,166	44,233
Total assets	<u>\$ 2,933,548</u>	<u>\$ 2,783,370</u>
<b>Liabilities and Members' equity:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 202,351	\$ 181,606
Other liabilities	244,812	249,221
Customer deposits	43,847	43,756
Liabilities related to real estate not owned	212,405	169,146
Debt	988,535	987,400
Total liabilities	1,691,950	1,631,129
<b>Commitments and contingencies (Note 14)</b>		
<b>Members' equity:</b>		
Total liabilities and Members' equity	<u>\$ 2,933,548</u>	<u>\$ 2,783,370</u>

*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,	
	2023	2022	2023	2022
<b>Revenues:</b>				
Home sales	\$ 852,085	\$ 686,404	\$ 1,600,948	\$ 1,388,200
Land sales	—	4,042	—	4,042
Financial services and other revenues	9,485	10,339	25,420	21,564
	<u>861,570</u>	<u>700,785</u>	<u>1,626,368</u>	<u>1,413,806</u>
<b>Cost of sales:</b>				
Homes	629,172	517,375	1,176,393	1,011,837
Land	—	2,913	—	2,913
Financial services and other revenues	1,089	7,148	10,359	14,072
	<u>630,261</u>	<u>527,436</u>	<u>1,186,752</u>	<u>1,028,822</u>
Gross profit	231,309	173,349	439,616	384,984
<b>Other expense (income):</b>				
Selling, general and administrative	119,622	85,257	222,437	175,862
Interest expense	708	—	2,180	151
Depreciation and amortization	2,345	1,580	4,398	3,081
Other income, net	(2,764)	(1,272)	(6,525)	(2,464)
	<u>119,911</u>	<u>85,565</u>	<u>222,490</u>	<u>176,630</u>
Equity in earnings of unconsolidated entities	2,771	1,862	6,247	3,403
Net income	<u>\$ 114,169</u>	<u>\$ 89,646</u>	<u>\$ 223,373</u>	<u>\$ 211,757</u>

*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
<b>Members' equity at May 31, 2022</b>	\$ 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
<b>Members' equity at August 31, 2022</b>	\$ 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 expense	—	—	—	292	292
<b>Members' equity at November 30, 2022</b>	\$ 400,805	\$ 94,783	\$ 550,291	\$ 681	\$ 1,046,560
Net income	31,159	7,658	41,258	—	80,075
Non-tax distributions	(5,837)	(1,434)	(7,729)	—	(15,000)
Tax distributions	(6,654)	(1,635)	(8,811)	—	(17,100)
Equity-based compensation expense	—	—	—	292	292
<b>Members' equity at February 28, 2023</b>	\$ 419,473	\$ 99,372	\$ 575,009	\$ 973	\$ 1,094,827
Net income	54,992	13,515	72,814	—	141,321
Non-tax distributions	(20,235)	(4,973)	(26,792)	—	(52,000)
Tax distributions	(12,530)	(3,079)	(16,591)	—	(32,200)
Equity-based compensation expense	—	—	—	293	293
<b>Members' equity at May 31, 2023</b>	\$ 441,700	\$ 104,835	\$ 604,440	\$ 1,266	\$ 1,152,241
Cumulative effect of accounting change (see Note 2)	(36)	(9)	(48)	—	(93)
Net income	42,494	10,443	56,266	—	109,203
Non-tax distributions	(15,954)	(3,921)	(21,125)	—	(41,000)
Tax distributions	(3,736)	(918)	(4,946)	—	(9,600)
Equity-based compensation expense	—	—	—	292	292
<b>Members' equity at August 31, 2023</b>	\$ 464,468	\$ 110,430	\$ 634,587	\$ 1,558	\$ 1,211,043
Net income	45,124	10,809	58,236	—	114,169
Non-tax distributions	(12,647)	(3,030)	(16,323)	—	(32,000)
Tax distributions	(22,094)	(5,292)	(28,514)	—	(55,900)
Equity-based compensation (see Note 10)	—	—	—	4,286	4,286
Conversion of Class D Membership Interests to Class A Membership Interests (see Note 10)	5,844	—	—	(5,844)	—
<b>Members' equity at November 30, 2023</b>	\$ 480,695	\$ 112,917	\$ 647,986	\$ —	\$ 1,241,598

*See accompanying notes to unaudited condensed consolidated financial statements.*

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

	<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows used in operating activities:</b>		
Net income	\$ 223,373	\$ 211,757
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(6,248)	(3,403)
Returns on investments in unconsolidated entities	6,223	4,895
Long-term and equity-based compensation expense	41,612	28,469
Inventory impairments	126	228
Land deposit and pre-acquisition cost write-offs	1,177	10,454
Lot option and development contracts intangible write-off	273	718
Depreciation and amortization	4,398	3,081
Changes in operating assets and liabilities:		
Inventory	(356,275)	(164,014)
Receivables	(23,800)	594
Deposits on real estate under option or contract	32	(20,026)
Other assets	(33,448)	(2,320)
Accounts payable	20,745	2,447
Other liabilities	(41,182)	(63,756)
Customer deposits	91	(21,578)
Net cash used in operating activities	(162,903)	(12,454)
<b>Cash flows used in investing activities:</b>		
Investments in unconsolidated entities	(490)	—
Additions to property and equipment	(6,337)	(3,728)
Net cash used in investing activities	(6,827)	(3,728)
<b>Cash flows used in financing activities:</b>		
Borrowings from revolving credit facility	—	—
Repayments of revolving credit facility	—	—
Proceeds from liabilities for real estate not owned	70,243	36,630
Payments related to real estate not owned	(65,172)	(41,955)
Members' tax distributions	(65,500)	(102,660)
Members' non-tax distributions	(73,000)	(90,000)
Net cash used in financing activities	(133,429)	(197,985)
Change in cash, cash equivalents, and restricted cash	(303,159)	(214,167)
<b>Cash, cash equivalents, and restricted cash, beginning of period</b>	<b>602,153</b>	<b>486,705</b>
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<b>\$ 298,994</b>	<b>\$ 272,538</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest, net of amounts capitalized	\$ 3,158	\$ 141



**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:

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 298,942	\$ 265,349
Restricted cash	52	7,189
<b>Total cash, cash equivalents, and restricted cash</b>	<b>\$ 298,994</b>	<b>\$ 272,538</b>

*Supplemental disclosures of cash flows information:*

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,588	\$ 186	\$ 1,616	\$ 732

*See accompanying notes to unaudited condensed consolidated financial statements.*

**ASHTON WOODS USA L.L.C.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**November 30, 2023**

**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 and wholesale 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 home sales. As of November 30, 2023, 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; Jacksonville; 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 or intends to offer title services to its homebuyers and the public at large in all of its operating divisions except Phoenix.

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 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.

The Company recognized inventory impairment charges of \$78.4 thousand and \$126.2 thousand during the three and six months ended November 30, 2023, respectively. The impairment charges of \$78.4 thousand and \$126.2 thousand on homes in inventory during the three and six months ended November 30, 2023, respectively, are 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, 2023. 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 \$188.4 thousand of impairments on land that was held for sale, which is included as a component of cost of sales - land in the unaudited condensed consolidated statements of income for the three and six months ended November 30, 2022, respectively.

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, and profit margins, which are critical in determining the fair value of the Company's real estate inventory 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, 2023 and May 31, 2023 consisted of the following (in thousands):

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
Closing funds due	\$ 2,974	\$ 1,469
Land development receivables	77,859	60,380
MUD receivables <sup>(1)</sup>	14,365	10,076
Other receivables <sup>(2)</sup>	13,328	12,894
	<u>\$ 108,526</u>	<u>\$ 84,819</u>

(1) Includes certain land development costs to be reimbursed by eleven Municipal Utility Districts ("MUD") in Houston, Texas at November 30, 2023 and May 31, 2023, 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 11 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 for additional information about real estate not owned).

**(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 an 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 three or six months ended November 30, 2023 or 2022, 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 \$0.7 million and \$1.2 million for the three and six months ended November 30, 2023, respectively, and \$7.0 million and \$10.5 million for the three and six months ended November 30, 2022, 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, 2023 and May 31, 2023 consisted of the following (in thousands):

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
Office furniture and equipment	\$ 2,817	\$ 2,765
Sales offices, design studios, and model furnishings	25,727	21,647
Leasehold improvements	4,567	4,545
	33,111	28,957
Accumulated depreciation and amortization <sup>(1)</sup>	(18,831)	(16,685)
	<u>\$ 14,280</u>	<u>\$ 12,272</u>

(1) Net of retirements and disposals.

Depreciation and amortization expense approximated \$2.3 million and \$4.4 million for the three and six months ended November 30, 2023, respectively, and \$1.6 million and \$3.1 million for the three and six months ended November 30, 2022, 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 \$3.0 million and \$1.5 million at November 30, 2023 and May 31, 2023, respectively, and are classified as receivables, net in the unaudited condensed consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale home sales customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled \$43.8 million at both November 30, 2023 and May 31, 2023, respectively. Of the customer deposit liabilities at May 31, 2023, \$32.0 million was recognized in home sales revenues during the six months ended November 30, 2023 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 revenues.

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, 2023 or May 31, 2023.

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 services pursuant to agreements entered

into by the Company with third-party property owners specifically tailored to the single-family rental industry. 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. As of November 30, 2023, the expected revenue to be recognized relating to unsatisfied performance obligations for contracts with an original expected length greater than one year is \$130.5 million, all of which is related to fee development, development oversight, and/or construction services pursuant to agreements entered into by the Company with either an affiliate of certain of the beneficial owners of the Company's equity or their affiliates (individually and collectively, the “Investors”) or third-party property owners. We expect to recognize the revenue relating to unsatisfied performance obligations for contracts with an original expected length greater than one year by the end of fiscal year 2026.

**(k) Prepaid expenses**

Included in other assets are prepaid expenses of \$20.7 million and \$13.5 million as of November 30, 2023 and May 31, 2023, respectively, which is predominantly comprised of prepaid insurance, fees, permits, and software licenses.

**(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, 2023 and 2022 (in thousands):

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Warranty liability, beginning of period	\$ 17,327	\$ 14,606	\$ 17,242	\$ 15,000
Costs accrued during period	6,150	4,690	11,606	9,855
Costs incurred during period	(4,794)	(5,392)	(10,165)	(10,951)
Warranty liability, end of period	<u>\$ 18,683</u>	<u>\$ 13,904</u>	<u>\$ 18,683</u>	<u>\$ 13,904</u>

**(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 \$2.7 million and \$4.5 million for the three and six months ended November 30, 2023, respectively, and \$1.3 million and \$2.1 million for the three and six months ended November 30, 2022, respectively.

**(n) Long-term incentive plan**

The Company offers a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company's future growth through the issuance of performance shares, which are the equivalent of phantom equity awards. The Company's performance shares are accounted for pursuant to ASC Subtopic 710-10-25-9 to 25-11, *Deferred Compensation Arrangements*, as the value is not based on the shares of a comparable set of public builders or other equity instruments, but is based on the book value of equity of the Company. The Company measures the value of the performance shares on a quarterly basis using the intrinsic value method. Additional compensation expense may be recognized subsequent to completion of the vesting period for appreciation-only performance shares. See Note 12 for additional discussion regarding the Company's long-term incentive plan.

**(o) Income taxes**

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make distributions to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's Restated Revolver and in the indentures governing its 6.625% Senior Notes due 2028 (the "2028 Notes"), its 4.625% Senior Notes due 2029 (the "2029 Notes"), and its 4.625% Senior Notes due 2030 (the "2030 Notes"). Any tax distributions made to the Members are treated as a reduction of equity. The Company made tax distributions to its Members of \$65.5 million and \$102.7 million during the six months ended November 30, 2023 and 2022, respectively.

**(p) Use of estimates**

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

**(q) Segments**

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

- 1) East: Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Jacksonville; 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 15 for further discussion of the Company's reportable segments.

**(r) Risks and uncertainties**

Beginning in 2022 and continuing through most of 2023, 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 high levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 525 basis points from March 2022 to November 2023 which led to a significant increase in residential mortgage interest rates. In December 2023, the Federal Reserve indicated further federal funds rate increases are not likely, and further indicated that reductions could occur during 2024. High residential mortgage interest rates, coupled with elevated

inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. In addition, in March 2023, several regional banks were suddenly shut down, taken over by the Federal Deposit Insurance Corporation, or acquired by larger national banks, and a wave of uncertainty from these events caused concern regarding the stability of regional, national, and international banks. Further, while the labor shortages and supply chain disruptions that began during the COVID-19 pandemic have improved, they continue to impact our business operations. The combination of these factors, as well as delays in municipal approvals and permitting, has led to increased costs and elongated production cycles. The current environment makes it challenging to predict the impact that inflationary pressures, high interest rates, governmental delays, war and other hostilities, 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, the continuing supply chain disruptions and labor shortages, war and other hostilities, and the consequences therefrom, will impact the U.S. and global economies going forward, including the level of unemployment, availability of financing, 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.

**(s) Reclassifications**

Certain prior year amounts have been reclassified for consistency with the current year presentation; specifically on the consolidated balance sheets as of May 31, 2023, real estate not owned of \$243.9 million has been reclassified from other assets to its own line item, and liabilities related to real estate not owned of \$169.1 million has been reclassified from other liabilities to its own line item. Further, the presentation of cash inflows and outflows associated with real estate not owned transactions accounted for under ASC 606 or ASC 740-40, which were previously presented within the operating section of the condensed consolidated statements of cash flows have been reclassified within the financing section of the condensed consolidated statements of cash flows to align with industry practice. These reclassifications had no effect on the reported total assets, total liabilities, total Members' equity, results of operations, nor the change in cash, cash equivalents, and restricted cash for the six months ended November 30, 2023 and 2022.

**(t) Subsequent events**

The Company has evaluated subsequent events through January 9, 2024. This date represents the date on which the unaudited condensed consolidated financial statements were available to be issued.

On January 9, 2024, the Company's Board of Directors (the "Board") approved a tax distribution totaling \$28.1 million in the aggregate to the Company's Members.

On January 9, 2024, the Board approved a non-tax distribution of \$25.0 million to the Company's Members.

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

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). ASU 2023-07 requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items to reconcile to segment profit or loss, and the title and position of the entity's CODM. The amendments in this update also expand the interim segment disclosure requirements. ASU 2023-07 will be effective for our fiscal year ending May 31, 2025 and for interim periods starting in the first quarter of our fiscal year ending May 31, 2026. Early adoption is permitted and the amendments in this update are required to be applied on a retrospective basis. The Company is currently reviewing the impact that the adoption of ASU 2023-07 may have on its condensed consolidated financial statements and disclosures.

On June 1, 2023, we adopted FASB 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 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 adoption of ASU 2016-13 did not have a material effect on our condensed consolidated financial statements or disclosures.



### Note 3— Inventory

Inventory consisted of the following at November 30, 2023 and May 31, 2023 (in thousands):

	November 30, 2023	May 31, 2023
Homes under construction and finished homes	\$ 1,108,496	\$ 850,586
Finished lots	455,063	382,172
Land under development	134,691	166,079
Land held for future development	101,233	89,168
Land held for sale	16,566	804
	<u>\$ 1,816,049</u>	<u>\$ 1,488,809</u>

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 \$0.7 million and \$2.2 million for the three and six months ended November 30, 2023, respectively, and \$0.2 million for the six months ended November 30, 2022 in the unaudited condensed consolidated statements of income. The Company had no interest directly expensed during the three months ended November 30, 2022.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three and six months ended November 30, 2023 and 2022 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
Capitalized interest, beginning of period	\$ 31,210	\$ 28,989	\$ 28,068	\$ 25,000
Interest incurred	13,998	14,004	27,953	27,902
Interest amortized to cost of sales	(10,437)	(10,589)	(19,778)	(20,347)
Interest expensed	(708)	—	(2,180)	(151)
Capitalized interest, end of period	<u>\$ 34,063</u>	<u>\$ 32,404</u>	<u>\$ 34,063</u>	<u>\$ 32,404</u>

### Note 4 — Real Estate Not Owned

In the ordinary course of business, the Company enters into lot purchase agreements in order to procure lots for the construction of homes in the future. Pursuant to these lot purchase agreements, the Company generally will provide a deposit to the seller as consideration for the right, but not the obligation, to purchase lots at different times in the future, usually at predetermined prices. Depending on the circumstances of such lot purchase agreements, "Real estate not owned" may be recorded based on the application of different accounting provisions in 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” and the related liabilities as “Liabilities related to real estate not owned”. At November 30, 2023 and May 31, 2023, 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 arrangement. In an effort to balance the amount of land and lots owned relative to the amount of land and lots controlled, 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 with the investor to acquire the lots in staged takedowns. In consideration for such options, the Company generally makes nonrefundable deposits. While the Company is generally not obligated to purchase the lots that are the subject of such agreements, it would forfeit the remaining deposits if the lots are not purchased. Although the Company is not obligated to purchase the lots under option unless it enters into a contract with specific performance obligations, if, at the reporting date, the Company believes that due to the terms of the purchase contracts it is compelled to purchase the lots under option, the Company will record “Real estate not owned” and the related liabilities as “Liabilities related to real estate not owned” in connection with such option purchase agreements. At November 30, 2023 and May 31, 2023, the Company had one lot purchase agreement with the Investors that is accounted for pursuant to ASC 470-40. At November 30, 2023 and May 31, 2023, 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.

Based on the provisions of ASC Subtopic 606-10, 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” and the related liabilities under the lot purchase option agreement as “Liabilities related to real estate not owned”. At November 30, 2023 and May 31, 2023, the Company recorded real estate not owned of \$286.6 million and \$217.9 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.

## Note 5 — Other Assets

Other assets at November 30, 2023 and May 31, 2023 consisted of the following (in thousands):

	November 30, 2023	May 31, 2023
Right-of-use assets <sup>(1)</sup>	\$ 13,413	\$ 13,675
Prepaid expenses	20,725	13,512
Lot option and development contracts intangible	2,252	3,012
Architecture plans	4,919	4,592
Deferred financing costs	2,069	2,547
Pre-acquisition costs	6,656	5,021
Other	3,132	1,874
	<u>\$ 53,166</u>	<u>\$ 44,233</u>

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

The lot option and development contracts intangible is comprised of the fair value adjustment recorded in accordance with the purchase price accounting for the Company's acquisition of substantially all of the assets of Capitol City Homes, LLC ("Capitol City Homes") during the fiscal year ended May 31, 2022. 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, 2023, \$0.2 million and \$0.5 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. The Company allocated \$0.7 million and \$0.9 million of the lot option and development contracts intangible fair value to inventory upon the purchase of lots in accordance with the terms of the acquired contracts during the three and six months ended November 30, 2022, respectively. In addition, the Company wrote-off \$0.3 million and \$0.7 million of the lot option and development contracts intangible during the six months ended November 30, 2023 and 2022, respectively, upon the termination of lot option contracts acquired in the Capitol City Homes acquisition. The corresponding charges against earnings are included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income for the six months ended November 30, 2023 and 2022.

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, 2023 and 2022, respectively, related to the Company's Restated Revolver.

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

#### **Note 6 — Investments in Unconsolidated Entities**

The Company enters into land joint ventures from time to time as a means of accessing larger parcels of land and lot positions, managing its risk profile and leveraging its capital base. As of November 30, 2023, 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 November 30, 2023 and May 31, 2023, the Company had recorded \$0.8 million and \$0.3 million, respectively, 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, 2023, 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, 2023 and May 31, 2023, and for the three and six months ended November 30, 2023 and 2022, was as follows (in thousands):

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
Assets:		
Cash	\$ 15,096	\$ 11,039
Mortgage notes receivable	84,150	143,955
Real estate	1,227	722
Other	2,120	2,186
Total assets	<u>\$ 102,593</u>	<u>\$ 157,902</u>
Liabilities and equity:		
Liabilities:		
Accounts payable and other accruals	\$ 5,299	\$ 6,125
Notes payable <sup>(1)</sup>	79,074	134,606
Total liabilities	84,373	140,731
Equity	18,220	17,171
Total liabilities and equity	<u>\$ 102,593</u>	<u>\$ 157,902</u>

(1) The notes payable balance at November 30, 2023 and May 31, 2023 is comprised of outstanding balances on three warehouse lines. The warehouse lines are non-recourse to the Company.

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Revenues:				
Financial services	\$ 12,898	\$ 9,110	\$ 26,075	\$ 16,892
Total revenues	12,898	9,110	26,075	16,892
Gross profit	7,978	5,426	16,811	9,694
General and administrative expenses:				
Financial services	2,316	1,736	4,062	3,105
Lot sales	—	4	—	4
Total general and administrative expenses	2,316	1,740	4,062	3,109
Net income	<u>\$ 5,662</u>	<u>\$ 3,686</u>	<u>\$ 12,749</u>	<u>\$ 6,585</u>

## Note 7 — Debt

Debt at November 30, 2023 and May 31, 2023 consisted of the following (in thousands):

	November 30, 2023	May 31, 2023
6.625% Notes due 2028 <sup>(1)</sup>	\$ 247,896	\$ 247,601
4.625% Notes due 2029 <sup>(2)</sup>	346,566	346,216
4.625% Notes due 2030 <sup>(3)</sup>	394,073	393,583
	<u>\$ 988,535</u>	<u>\$ 987,400</u>

(1) Net of \$2.1 million and \$2.4 million of unamortized deferred financing costs as of November 30, 2023 and May 31, 2023, respectively.

(2) Net of \$3.4 million and \$3.8 million of unamortized deferred financing costs as of November 30, 2023 and May 31, 2023, respectively.

(3) Net of \$3.9 million and \$4.3 million of unamortized deferred financing costs as of November 30, 2023 and May 31, 2023, respectively, and \$2.0 million and \$2.2 million of unamortized discount as of November 30, 2023 and May 31, 2023, 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, (ii) Unrestricted Subsidiaries (as defined by the indenture governing the 2028 Notes), and (iii) Finance Co., which is an issuer (all such Restricted Subsidiaries providing guarantees, the "Guarantors"). All of the Company's subsidiaries are Guarantors, with the exception of AW Mortgage Holdings L.L.C. ("AW Mortgage") which holds the 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, 2023, the Company recognized equity in earnings from AW Mortgage of \$6.2 million and AW Mortgage had \$8.2 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) 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 (b) 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, 2023, 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 required to be guaranteed by the same subsidiaries that are required to guarantee the 2028 Notes and 2030 Notes and are jointly and severally guaranteed by the Guarantors.

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, 2023, 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 required to be guaranteed by the same subsidiaries that are required to guarantee the 2028 Notes and 2029 Notes and are jointly and severally guaranteed by the Guarantors.

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, 2023, 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 (as defined in the Restated Revolver);
- A maximum Leverage Ratio (as defined in the Restated Revolver);
- A minimum Interest Coverage Ratio (as defined in the Restated Revolver); 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, 2023, the Company was in compliance with the covenants in the Restated Revolver.

At November 30, 2023, there were no borrowings outstanding under the Restated Revolver and \$19.0 million of letters of credit outstanding. As of November 30, 2023, the Company had available additional borrowing capacity of \$331.0 million under the Restated Revolver based on outstanding letters of credit and the borrowing base formula.

## Note 8 — Other Liabilities

Other liabilities at November 30, 2023, and May 31, 2023, consisted of the following (in thousands):

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
Accrued long-term compensation	\$ 118,337	\$ 106,947
Salaries, bonuses, and benefits	37,986	64,462
Accrued interest	14,919	14,885
Lease liabilities <sup>(1)</sup>	14,507	14,830
Warranty accruals	18,683	17,242
Other	40,380	30,855
	<u>\$ 244,812</u>	<u>\$ 249,221</u>

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

## Note 9 — Customer Deposits

Customer deposits at November 30, 2023, and May 31, 2023, consisted of the following (in thousands):

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
Customer deposits - retail homes	\$ 42,737	\$ 40,342
Customer deposits - wholesale homes	1,110	3,414
	<u>\$ 43,847</u>	<u>\$ 43,756</u>

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 10 — 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, substantially all of 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, all of which are now held by Little Shots, (3) Class C Membership Interests created in June 2010, all of which are held by Little Shots, and (4) Class D Membership Interests created in March 2022, which may be issued to participants in the Ashton Woods USA L.L.C. Unit Award Plan administered by the Board. 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. 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.

Effective October 11, 2023, the Company and Little Shots entered into a sixth amendment to the Regulations to convert all outstanding Class D Membership Interests to Class A Membership Interests. Upon the conversion of Class D Membership Interests to Class A Membership Interests, the Company recognized all previously unrecognized compensation expense for the Class D Equity Award. The Company recognized compensation expense, which is included in selling, general and administrative expense in the unaudited condensed consolidated statements of income, of \$4.3 million and \$4.6 million during the three and six months ended November 30, 2023,



respectively, and \$0.3 million and \$0.6 million during the three and six months ended November 30, 2022, respectively.

At November 30, 2023, there were 20,837,100 membership interests outstanding, comprised as follows:

	<b>Membership Interests</b>	<b>Ownership percentage</b>	<b>Percentage of membership class</b>
<b>Little Shots Nevada L.L.C.</b>			
Class A	8,027,200	38.52 %	97.47 %
Class B	1,972,800	9.47 %	100.00 %
Class C	10,628,729	51.01 %	100.00 %
<b>Total Little Shots Nevada L.L.C.</b>	<b>20,628,729</b>	<b>99.00 %</b>	
<b>Other Holder</b>			
Class A	208,371	1.00 %	2.53 %
	<b>20,837,100</b>	<b>100.00 %</b>	

#### **Note 11 — Transactions with Related Parties**

##### *Services agreement*

The Company is a party to a services agreement with the Investors that provides the Company with a license, as well as development and support, for certain of the Company's computer systems and administrative services. The Company pays a fee of \$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 \$2.1 million and \$4.0 million during the three and six months ended November 30, 2023, respectively, and \$1.6 million and \$3.3 million during the three and six months ended November 30, 2022, respectively, under the services agreement. As of November 30, 2023, and May 31, 2023, the balance due to the Investors under the terms of the service agreement was \$2.1 million and \$2.7 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

##### *Lot purchase agreements*

The Company is a party to twelve lot purchase agreements with the Investors. An initial deposit ranging from 15% to 30% of the aggregate purchase price was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is required to record six of these lot purchase agreements as "Real estate not owned" and "Liabilities related to real estate not owned" in the unaudited condensed consolidated balance sheets. As of November 30, 2023, the total purchase price of 4,381 lots remaining to be purchased under such agreements was approximately \$149.2 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, 2023, the joint venture had \$1.2 million of land inventory and no debt outstanding.

##### *Sales of completed homes*

During the year ended May 31, 2023, the Company entered into seven wholesale home sales agreements with the Investors. In accordance with these agreements, the Company reported 789 wholesale home orders for an aggregate purchase price of \$249.3 million. The Company closed on 318 of these sales during the six months ended November 30, 2023 and has closed on 656 of these sales since the commencement of the agreements.

### *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. As of November 30, 2023, the Company has completed construction on all of these homes.

### *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 by the officer in conjunction with the Class D equity award (see Note 10 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, 2023, the balance due to the Company under the terms of the interest-free loan agreement was \$0.8 million and was included in receivables, net in the unaudited condensed consolidated balance sheets.

### *Aircraft Services Agreement*

On October 17, 2023, the Company entered into an aircraft services agreement with the Investors that provides the Company with access to corporate aircraft for executive travel. The aircraft services agreement has an effective date of September 1, 2023 and will remain in effect until April 1, 2025. The Company's initial payment of \$0.9 million upon the execution of the agreement was included in prepaid expenses, which is a component of other assets in the unaudited condensed consolidated balance sheets. Additionally, all routine maintenance and usage charges are expensed as incurred and are included in selling, general and administrative expense in the unaudited condensed consolidated statements of income.

### **Note 12— Long-Term Incentive Plan**

The Company has made, and may continue to make, 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, 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, 2023:

	Full-value shares	Appreciation- only shares	Total shares
Outstanding performance shares as of May 31, 2023	529,908	1,318,416	1,848,324
Performance shares awarded during the period	73,430	146,860	220,290
Shares forfeited during the period	(3,778)	(7,555)	(11,333)
Fully vested performance shares paid	(100,384)	(145,115)	(245,499)
Total outstanding performance shares as of November 30, 2023	<u>499,176</u>	<u>1,312,606</u>	<u>1,811,782</u>
Total vested performance shares as of November 30, 2023	<u>271,102</u>	<u>871,824</u>	<u>1,142,926</u>

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, 2023, and May 31, 2023, were 1,142,926 and 1,246,189, respectively. The Company recorded \$20.6 million and \$37.0 million for the three and six months ended November 30, 2023, respectively, and \$12.7 million and \$27.9 million for the three and six months ended November 30, 2022, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the six months ended November 30, 2023 and 2022, \$25.7 million (245,499 units) and \$20.4 million (274,936 units), respectively, of vested performance shares were paid out to employees. As of November 30, 2023, and May 31, 2023, the Company's liability for the performance shares was \$118.3 million and \$106.9 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

### Note 13 — 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) for additional information about inventory valuations) and are classified as Level 2 or Level 3 valuations.

The following table presents the carrying amounts and estimated fair values of the Companies' 2028 Notes, 2029 Notes, and 2030 Notes (collectively, the "Senior Notes") at November 30, 2023, and May 31, 2023 (in thousands):

	Fair Value Hierarchy	November 30, 2023		May 31, 2023		
		Carrying Amount	Fair Value	Carrying Amount	Fair Value	
<b>Liabilities:</b>						
6.625% Notes due 2028	Level 2	\$ 247,896	\$ 231,250	\$ 247,601	\$ 233,750	
4.625% Notes due 2029	Level 2	346,566	291,375	346,216	291,375	
4.625% Notes due 2030	Level 2	394,073	326,000	393,583	330,000	
		<u>\$ 988,535</u>	<u>\$ 848,625</u>	<u>\$ 987,400</u>	<u>\$ 855,125</u>	

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 unamortized debt issuance costs and any discount. The fair values of the Senior Notes are derived from quoted market prices by independent dealers (Level 2).

#### Note 14— Commitments and Contingencies

The Company is involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are disputed and aggressively defended by the Company. The Company establishes liabilities for legal claims and related matters when such matters are both probable of occurring and any potential loss is reasonably estimable. The Company accrues for such matters based on the facts and circumstances specific to each matter and 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 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, 2023 and May 31, 2023, the Company had letters of credit outstanding of \$19.0 million and \$8.4 million, respectively, and surety bonds outstanding of \$200.2 million and \$210.7 million, respectively. As of November 30, 2023, the Company had \$31.0 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, the Company has made nonrefundable deposits of \$418.3 million as of November 30, 2023, which includes \$100.2 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 \$2.7 billion as of November 30, 2023.

#### 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 \$13.4 million and \$14.5 million at November 30, 2023, respectively, and \$13.7 million and \$14.8 million at May 31, 2023, respectively. During the six months ended November 30, 2023 and 2022, there were approximately \$1.6 million and \$0.7 million, respectively, of additions to the right-of-use assets under operating leases. Payments on lease liabilities during the six months ended November 30, 2023 and 2022, totaled \$2.4 million and \$2.6 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, 2023 and 2022, our total lease expense was approximately \$2.4 million and \$3.0 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, 2023, are as follows (in thousands):

Year ending May 31, 2024	\$ 2,341
Year ending May 31, 2025	4,170
Year ending May 31, 2026	3,921
Year ending May 31, 2027	2,728
Year ending May 31, 2028	2,150
Thereafter	1,103
Total future minimum lease payments <sup>(a)</sup>	<u>16,413</u>
Less: Interest <sup>(b)(c)</sup>	1,906
Total future minimum lease payments less interest <sup>(c)</sup>	<u>\$ 14,507</u>

(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 4.1 years and 6.37%, respectively, at November 30, 2023.

## Note 15 — Information on Segments

The Company's homebuilding reportable segments are as follows:

- Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Jacksonville; Nashville;
- 1) East:** 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,	
	2023	2022	2023	2022
<b>Revenues:</b>				
Homebuilding:				
East	\$ 421,845	\$ 275,793	\$ 755,855	\$ 515,695
Central	430,240	410,611	845,093	872,505
Total homebuilding revenues	852,085	686,404	1,600,948	1,388,200
Land sales	—	4,042	—	4,042
Financial services and other revenues	9,485	10,339	25,420	21,564
Total revenues	<u>\$ 861,570</u>	<u>\$ 700,785</u>	<u>\$ 1,626,368</u>	<u>\$ 1,413,806</u>
<b>Gross profit (loss) <sup>(1)</sup>:</b>				
Homebuilding:				
East	\$ 113,325	\$ 66,181	\$ 204,112	\$ 127,187
Central	109,588	102,848	220,443	249,176
Total homebuilding gross profit	222,913	169,029	424,555	376,363
Land sales gross profit (loss)	—	1,129	—	1,129
Financial services and other revenues gross profit	8,396	3,191	15,061	7,492
Total gross profit	<u>\$ 231,309</u>	<u>\$ 173,349</u>	<u>\$ 439,616</u>	<u>\$ 384,984</u>
<b>Depreciation and amortization:</b>				
East	\$ 1,032	\$ 649	\$ 2,122	\$ 1,159
Central	1,299	916	2,246	1,891
Total depreciation and amortization	<u>\$ 2,331</u>	<u>\$ 1,565</u>	<u>\$ 4,368</u>	<u>\$ 3,050</u>
<b>Equity in earnings of unconsolidated entities:</b>				
East	\$ 996	\$ 351	\$ 2,184	\$ 661
Central	1,775	1,511	4,063	2,742
Total equity in earnings of unconsolidated entities	<u>\$ 2,771</u>	<u>\$ 1,862</u>	<u>\$ 6,247</u>	<u>\$ 3,403</u>
<b>Net income:</b>				
East	\$ 63,670	\$ 32,500	\$ 113,042	\$ 57,832
Central	50,571	57,275	111,552	154,165
	114,241	89,775	224,594	211,997
Other <sup>(2)</sup>	(72)	(129)	(1,221)	(240)
Total net income	<u>\$ 114,169</u>	<u>\$ 89,646</u>	<u>\$ 223,373</u>	<u>\$ 211,757</u>

(1) Includes inventory impairments totaling \$78.4 thousand and \$126.2 thousand for the east segment during the three and six months ended November 30, 2023. 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.

(2) "Other" primarily consists of interest directly expensed offset, in part, by reimbursements from in-house design services for the three and six months ended November 30, 2023 and 2022, respectively.

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

	<b>November 30, 2023</b>	<b>May 31, 2023</b>
<b>Assets:</b>		
Homebuilding:		
East	\$ 1,105,357	\$ 883,942
Central	1,503,746	1,276,420
	<u>2,609,103</u>	<u>2,160,362</u>
Other <sup>(1)</sup>	324,445	623,008
Total assets	<u>\$ 2,933,548</u>	<u>\$ 2,783,370</u>

(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):

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Additions to property and equipment:</b>				
Homebuilding:				
East	\$ 915	\$ 806	\$ 2,066	\$ 2,202
Central	2,612	749	4,267	1,526
	<u>3,527</u>	<u>1,555</u>	<u>6,333</u>	<u>3,728</u>
Other <sup>(1)</sup>	—	—	4	—
Total additions to property and equipment	<u>\$ 3,527</u>	<u>\$ 1,555</u>	<u>\$ 6,337</u>	<u>\$ 3,728</u>

(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 audited consolidated financial statements and accompanying notes included in our annual report for the fiscal year ended May 31, 2023 ("2023 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 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:

- Deterioration in homebuilding industry conditions or adverse changes in general economic, real estate construction, or other business conditions;
- The impact of an epidemic, pandemic, or similar public threat, and the measures that federal, state and local governments and/or health authorities implement to address it;
- Raw materials, electrical power, 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 residential 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 home warranty and construction defect claims and changes in immigration laws and policies;
- The availability and performance of our subcontractors;
- Failure of our employees, subcontractors or agents to comply with applicable regulations and guidelines;
- 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 disclosure and reporting 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 of 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 2023 Annual Report under the caption “Risk Factors”, over which the Company has little or no control.

## Overview and Outlook

Beginning in 2022 and continuing through most of 2023, 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 high levels of inflation, the Federal Reserve raised the federal funds rate a cumulative of 525 basis points from March 2022 to November 2023 which led to a significant increase in residential mortgage interest rates. In December 2023, the Federal Reserve indicated further federal funds rate increases are not likely, and further indicated that reductions could occur during 2024. High residential mortgage interest rates, coupled with elevated inflation in the broader economy and the rising cost of housing, has resulted in pressure on the affordability of single-family homes. In addition, in March 2023, several regional banks were suddenly shut down, taken over by the Federal Deposit Insurance Corporation, or acquired by larger national banks, and a wave of uncertainty from these events caused concern regarding the stability of regional, national, and international banks. In response to the continued economic uncertainty and affordability challenges faced by consumers, we have actively adjusted pricing and continued to offer sales and financing incentives across all of our markets which has allowed us to remain competitive in our current communities and price our homes to the market in our newly opened communities. As consumer demand for new homes has returned in certain markets, we have been able to raise prices and reduce incentives in select communities within those markets.

Despite affordability concerns and uncertain macroeconomic conditions, there continues to be 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, and a strong employment market, which has resulted in wage growth across most sectors, adding to the demand for finished new homes. Given these factors, and the possibility of near-term reductions by the Federal Reserve in the federal funds rate, we believe that demand continues to exist for single-family homes, and as a result, we are continuing 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 and wholesale 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 and to appeal to move-down buyers 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:

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Net new home orders (units):</b>				
Wholesale - Starlight Homes	45	945	(14)	945
Entry-Level - Starlight Homes	873	602	1,815	1,171
Entry-Level - Ashton Woods	36	9	85	9
Move-up - Ashton Woods	670	506	1,403	940
Multi-Move-Up - Ashton Woods	112	26	228	52
Company Total	<u>1,736</u>	<u>2,088</u>	<u>3,517</u>	<u>3,117</u>
<b>Homes closed (units):</b>				
Wholesale - Starlight Homes	184	156	397	379
Entry-Level - Starlight Homes	973	677	1,843	1,316
Entry-Level - Ashton Woods	45	15	90	15
Move-up - Ashton Woods	773	694	1,442	1,365
Multi-Move-Up - Ashton Woods	134	81	216	180
Company Total	<u>2,109</u>	<u>1,623</u>	<u>3,988</u>	<u>3,255</u>
<b>As of November 30,</b>				
<b>2023</b>				
<b>2022</b>				
<b>Backlog (units) at end of period:</b>				
Wholesale - Starlight Homes			210	973
Entry-Level - Starlight Homes			441	392
Entry-Level - Ashton Woods			29	2
Move-up - Ashton Woods			786	954
Multi-Move-Up - Ashton Woods			239	126
Company Total			<u>1,705</u>	<u>2,447</u>

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Active communities:</b>		
Entry-Level - Starlight Homes	61	50
Entry-Level - Ashton Woods	4	1
Move-up - Ashton Woods	64	62
Multi-Move-Up - Ashton Woods	9	6
Company Total	<u>138</u>	<u>119</u>

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Average monthly sales per average active community: <sup>(1)</sup></b>				
Entry-Level - Starlight Homes <sup>(2)</sup>	5.3	10.5	5.2	7.4
Entry-Level - Ashton Woods	2.7	6.0	3.5	3.0
Move-up - Ashton Woods	3.6	2.6	3.8	2.5
Multi-Move-Up - Ashton Woods	3.7	1.7	4.0	2.2
Company Average	4.3	5.8	4.4	4.5

(1) Average active community for the three months ended November 30, 2023, is calculated by averaging the active community counts at November 30, 2023, and August 31, 2023, and for the three months ended November 30, 2022, by averaging the active community counts at November 30, 2022, and August 31, 2022. For the six months ended November 30, 2023, the average active community is calculated by averaging the active community counts at November 30, 2023 and May 31, 2023, and for the six months ended November 30, 2022, by averaging the active community counts at November 30, 2022 and May 31, 2022.

(2) Includes 45 and negative 14 wholesale home sales for the three and six months ended November 30, 2023, respectively. Includes 945 wholesale home sales for both the three and six months ended November 30, 2022, respectively.

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Average sales price per home closed (in thousands):</b>				
Wholesale - Starlight Homes	\$ 302	\$ 316	\$ 310	\$ 307
Entry-Level - Starlight Homes	\$ 326	\$ 356	\$ 331	\$ 366
Entry-Level - Ashton Woods	\$ 339	\$ 344	\$ 334	\$ 344
Move-up - Ashton Woods	\$ 463	\$ 472	\$ 465	\$ 472
Multi-Move-Up - Ashton Woods	\$ 791	\$ 774	\$ 776	\$ 780
Company Average	\$ 404	\$ 423	\$ 401	\$ 426

During the six months ended November 30, 2023, we closed 3,988 homes. Of those closings, 3,417 (86%) were single-family detached homes, while the remaining 571 (14%) homes closed were single-family attached homes.

During the twelve months ended November 30, 2023, the Company added 87 new active communities, while closing out 68 communities. Of the 87 active communities added during the twelve months ended November 30, 2023, 35 (40%) are considered to be entry-level Starlight Homes, 5 (6%) are considered to be entry-level Ashton Woods Homes, 40 (46%) are considered to be move-up Ashton Woods Homes, and 7 (8%) are considered to be multi-move-up Ashton Woods Homes.

## Operating Results

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
(in thousands)				
<b>Revenues:</b>				
Home sales	\$ 852,085	\$ 686,404	\$ 1,600,948	\$ 1,388,200
Land sales	—	4,042	—	4,042
Financial services and other revenues	9,485	10,339	25,420	21,564
	<u>\$ 861,570</u>	<u>\$ 700,785</u>	<u>\$ 1,626,368</u>	<u>\$ 1,413,806</u>
<b>Gross profit:</b>				
Home sales	\$ 222,913	\$ 169,029	\$ 424,555	\$ 376,363
Land sales	—	1,129	—	1,129
Financial services and other revenues	8,396	3,191	15,061	7,492
	<u>\$ 231,309</u>	<u>\$ 173,349</u>	<u>\$ 439,616</u>	<u>\$ 384,984</u>
Selling, general and administrative expense	\$ 119,622	\$ 85,257	\$ 222,437	\$ 175,862
Net income <sup>(1)</sup>	\$ 114,169	\$ 89,646	\$ 223,373	\$ 211,757

- (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 \$55.9 million and \$65.5 million during the three and six months ended November 30, 2023, respectively, and \$47.5 million and \$102.7 million during the three and six months ended November 30, 2022, respectively.

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
(\$ in thousands)				
<b>Supplemental data:</b>				
Active communities at end of period	138	119	138	119
Net new home orders (in units)	1,736	2,088	3,517	3,117
Homes closed (in units) <sup>(1)</sup>	2,109	1,623	3,988	3,255
Average sales price per home closed	\$ 404	\$ 423	\$ 401	\$ 426
Backlog at end of period (in units)	1,705	2,447	1,705	2,447
Sales value of backlog at end of period	\$ 821,315	\$ 1,029,635	\$ 821,315	\$ 1,029,635
Home sales gross margin percentage <sup>(2)</sup>	26.2 %	24.6 %	26.5 %	27.1 %
Adjusted home sales gross margin percentage <sup>(3)</sup>	27.4 %	26.2 %	27.8 %	28.6 %
Ratio of selling, general and administrative expense to home sales revenues	14.0 %	12.4 %	13.9 %	12.7 %
Interest incurred <sup>(4)</sup>	\$ 13,998	\$ 14,004	\$ 27,953	\$ 27,902
EBITDA <sup>(5)</sup>	\$ 127,659	\$ 101,815	\$ 249,729	\$ 235,336
EBITDA margin <sup>(5)</sup>	14.8 %	14.5 %	15.4 %	16.6 %
Total debt to total capitalization ratio <sup>(6)</sup>	44.6 %	48.9 %	44.6 %	48.9 %
Total net debt to net capitalization ratio <sup>(7)</sup>	36.1 %	41.0 %	36.1 %	41.0 %
Cancellation rate (as a percentage of gross sales) <sup>(8)</sup>	16.9 %	16.4 %	17.1 %	18.5 %

- (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, purchase price accounting allocations, 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:

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(in thousands)			
Home sales revenues	\$ 852,085	\$ 686,404	\$ 1,600,948	\$ 1,388,200
Cost of sales homes	629,172	517,375	1,176,393	1,011,837
Home sales gross margin	222,913	169,029	424,555	376,363
Add: Inventory impairments - homes	78	40	126	40
Interest amortized to cost of sales	10,437	10,589	19,778	20,347
Adjusted home sales gross margin	<u>\$ 233,428</u>	<u>\$ 179,658</u>	<u>\$ 444,459</u>	<u>\$ 396,750</u>
Ratio of home sales gross margin to home sales revenue	26.2 %	24.6 %	26.5 %	27.1 %
Ratio of adjusted home sales gross margin to home sales revenue	27.4 %	26.2 %	27.8 %	28.6 %

- (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, 2023, and 2022:

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(in thousands)			
Capitalized interest, beginning of period	\$ 31,210	\$ 28,989	\$ 28,068	\$ 25,000
Interest incurred	13,998	14,004	27,953	27,902
Interest amortized to cost of sales	(10,437)	(10,589)	(19,778)	(20,347)
Interest expensed	(708)	—	(2,180)	(151)
Capitalized interest, end of period	<u>\$ 34,063</u>	<u>\$ 32,404</u>	<u>\$ 34,063</u>	<u>\$ 32,404</u>

- (5) EBITDA (earnings before interest expensed, depreciation and amortization, and interest amortized to cost of sales) 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. 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 EBITDA in the same manner as us, the EBITDA information in this report may not be comparable to similar presentations by others. EBITDA margin is calculated by dividing EBITDA by total revenues.

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

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	(in thousands)			
Net income	\$ 114,169	\$ 89,646	\$ 223,373	\$ 211,757
Depreciation and amortization	2,345	1,580	4,398	3,081
Interest amortized to cost of sales	10,437	10,589	19,778	20,347
Interest expensed	708	—	2,180	151
<b>EBITDA</b>	<b>\$ 127,659</b>	<b>\$ 101,815</b>	<b>\$ 249,729</b>	<b>\$ 235,336</b>

- (6) The total debt to total capitalization ratio consists of total debt (gross principal amount) divided by total capitalization (total debt plus total Members' equity):

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
	(\$ in thousands)	
Total debt (aggregate principal balance)	\$ 1,000,000	\$ 1,000,000
Total Members' equity	1,241,598	1,046,560
<b>Total capitalization</b>	<b>\$ 2,241,598</b>	<b>\$ 2,046,560</b>
Total debt to total capitalization	44.6 %	48.9 %

- (7) The total net debt to net capitalization ratio, which consists of total debt (gross principal amount), 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.

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
	(\$ in thousands)	
Total debt (aggregate principal balance)	\$ 1,000,000	\$ 1,000,000
Less cash, cash equivalents, and restricted cash	298,994	272,538
<b>Net debt</b>	<b>\$ 701,006</b>	<b>\$ 727,462</b>
Total Members' equity	1,241,598	1,046,560
<b>Total net capitalization</b>	<b>\$ 1,942,604</b>	<b>\$ 1,774,022</b>
Total net debt to net capitalization	36.1 %	41.0 %

- (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, 2023, and 2022:

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
Wholesale - Starlight Homes	— %	— %	125.0 %	— %
Entry-Level - Starlight Homes	20.9 %	24.6 %	18.9 %	19.5 %
Entry-Level - Ashton Woods	20.0 %	10.0 %	15.8 %	10.0 %
Move-up - Ashton Woods	13.9 %	28.0 %	12.6 %	25.7 %
Multi-Move-Up - Ashton Woods	4.3 %	38.1 %	5.8 %	32.5 %
Consolidated	16.9 %	16.4 %	17.1 %	18.5 %

### Operating results - Segments

We have grouped our homebuilding operating divisions into two reportable segments, east and central. At November 30, 2023, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

- 1) East:** Atlanta; Coastal Carolinas (Charleston and Myrtle Beach); Greensboro; Jacksonville; 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,	
	2023	2022	2023	2022
East:				
Wholesale - Starlight Homes	32	440	(38)	440
Entry-Level - Starlight Homes	415	206	852	450
Entry-Level - Ashton Woods	26	—	54	—
Move-up - Ashton Woods	195	200	438	444
Multi-Move-Up - Ashton Woods	94	20	203	40
Total east	762	866	1,509	1,374
Central:				
Wholesale - Starlight Homes	13	505	24	505
Entry-Level - Starlight Homes	458	396	963	721
Entry-Level - Ashton Woods	10	9	31	9
Move-up - Ashton Woods	475	306	965	496
Multi-Move-Up - Ashton Woods	18	6	25	12
Total central	974	1,222	2,008	1,743
Company total	1,736	2,088	3,517	3,117

**Homes closed (units):**

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
East:				
Wholesale - Starlight Homes	76	86	131	151
Entry-Level - Starlight Homes	498	261	874	511
Entry-Level - Ashton Woods	45	—	74	—
Move-up - Ashton Woods	247	257	497	488
Multi-Move-Up - Ashton Woods	122	49	194	83
Total east	988	653	1,770	1,233
Central:				
Wholesale - Starlight Homes	108	70	266	228
Entry-Level - Starlight Homes	475	416	969	805
Entry-Level - Ashton Woods	—	15	16	15
Move-up - Ashton Woods	526	437	945	877
Multi-Move-Up - Ashton Woods	12	32	22	97
Total central	1,121	970	2,218	2,022
Company total	2,109	1,623	3,988	3,255

**Average sales price per home closed:**

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
(in thousands)				
East:				
Wholesale - Starlight Homes	\$ 290	\$ 320	\$ 304	\$ 304
Entry-Level - Starlight Homes	\$ 333	\$ 369	\$ 343	\$ 376
Entry-Level - Ashton Woods	\$ 339	\$ —	\$ 329	\$ —
Move-up - Ashton Woods	\$ 493	\$ 451	\$ 486	\$ 445
Multi-Move-Up - Ashton Woods	\$ 795	\$ 738	\$ 776	\$ 728
Total east	\$ 427	\$ 422	\$ 427	\$ 418
Central:				
Wholesale - Starlight Homes	\$ 311	\$ 312	\$ 313	\$ 309
Entry-Level - Starlight Homes	\$ 318	\$ 349	\$ 320	\$ 361
Entry-Level - Ashton Woods	\$ —	\$ 344	\$ 356	\$ 344
Move-up - Ashton Woods	\$ 450	\$ 485	\$ 454	\$ 487
Multi-Move-Up - Ashton Woods	\$ 753	\$ 829	\$ 770	\$ 824
Total central	\$ 384	\$ 423	\$ 381	\$ 432
Company total	\$ 404	\$ 423	\$ 401	\$ 426



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

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>East:</b>		
Wholesale - Starlight Homes	141	470
Entry-Level - Starlight Homes	186	164
Entry-Level - Ashton Woods	13	—
Move-up - Ashton Woods	293	481
Multi-Move-Up - Ashton Woods	215	83
Total east	<u>848</u>	<u>1,198</u>
<b>Central:</b>		
Wholesale - Starlight Homes	69	503
Entry-Level - Starlight Homes	255	228
Entry-Level - Ashton Woods	16	2
Move-up - Ashton Woods	493	473
Multi-Move-Up - Ashton Woods	24	43
Total central	<u>857</u>	<u>1,249</u>
Company total	<u><u>1,705</u></u>	<u><u>2,447</u></u>

**Active communities:**

	<b>As of November 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>East:</b>		
Entry-Level - Starlight Homes	32	25
Entry-Level - Ashton Woods	2	—
Move-up - Ashton Woods	19	18
Multi-Move-Up - Ashton Woods	7	5
Total east	<u>60</u>	<u>48</u>
<b>Central:</b>		
Entry-Level - Starlight Homes	29	25
Entry-Level - Ashton Woods	2	1
Move-up - Ashton Woods	45	44
Multi-Move-Up - Ashton Woods	2	1
Total central	<u>78</u>	<u>71</u>
Company total	<u><u>138</u></u>	<u><u>119</u></u>

**Average monthly sales per average active community: <sup>(1)</sup>**

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>East:</b>				
Entry-Level - Starlight Homes <sup>(2)</sup>	5.1	9.2	4.7	6.7
Entry-Level - Ashton Woods	4.3	—	4.5	—
Move-up - Ashton Woods	3.3	3.6	3.7	4.0
Multi-Move-Up - Ashton Woods	3.9	1.7	4.5	1.9
Total east	4.3	6.3	4.3	5.2
<b>Central:</b>				
Entry-Level - Starlight Homes <sup>(3)</sup>	5.4	11.8	5.8	8.0
Entry-Level - Ashton Woods	1.3	6.0	2.6	3.0
Move-up - Ashton Woods	3.7	2.2	3.9	1.8
Multi-Move-Up - Ashton Woods	3.0	2.0	2.1	4.0
Total central	4.3	5.5	4.5	4.1
Company total	4.3	5.8	4.4	4.5

- (1) Average active community for the three months ended November 30, 2023, is calculated by averaging the active community counts at November 30, 2023 and August 31, 2023, and for the three months ended November 30, 2022, by averaging the active community counts at November 30, 2022 and August 31, 2022. For the six months ended November 30, 2023, the average active community is calculated by averaging the active community counts at November 30, 2023 and May 31, 2023, and for the six months ended November 30, 2022, by averaging the active community counts at November 30, 2022 and May 31, 2022.
- (2) Includes 32 and negative 38 wholesale home sales for the three and six months ended November 30, 2023, respectively. Includes 440 wholesale home sales for both the three and six months ended November 30, 2022, respectively.
- (3) Includes 13 and 24 wholesale home sales for the three and six months ended November 30, 2023, respectively. Includes 505 wholesale home sales for both the three and six months ended November 30, 2022, 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:

	<b>Three months ended November 30,</b>		<b>Six months ended November 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Homebuilding East:</b>	(in thousands)		(in thousands)	
Home sales revenues	\$ 421,845	\$ 275,793	\$ 755,855	\$ 515,695
Cost of sales homes	308,520	209,612	551,743	388,508
Home sales gross margin	113,325	66,181	204,112	127,187
Add: Inventory impairments - homes	78	—	126	—
Interest amortized to cost of sales	5,122	4,063	9,131	7,698
Adjusted home sales gross margin	<u>\$ 118,525</u>	<u>\$ 70,244</u>	<u>\$ 213,369</u>	<u>\$ 134,885</u>
Ratio of home sales gross margin to home sales revenues	26.9 %	24.0 %	27.0 %	24.7 %
Ratio of adjusted home sales gross margin to home sales revenues	28.1 %	25.5 %	28.2 %	26.2 %

	Three months ended November 30,		Six months ended November 30,	
	2023	2022	2023	2022
<b>Homebuilding Central:</b>	(in thousands)		(in thousands)	
Home sales revenues	\$ 430,240	\$ 410,611	\$ 845,093	\$ 872,505
Cost of sales homes	320,652	307,763	624,650	623,329
Home sales gross margin	109,588	102,848	220,443	249,176
Add: Inventory impairments - homes	—	40	—	40
Interest amortized to cost of sales	5,315	6,526	10,647	12,649
Adjusted home sales gross margin	\$ 114,903	\$ 109,414	\$ 231,090	\$ 261,865
Ratio of home sales gross margin to home sales revenues	25.5 %	25.0 %	26.1 %	28.6 %
Ratio of adjusted home sales gross margin to home sales revenues	26.7 %	26.6 %	27.3 %	30.0 %

## Operating results - Discussion

### Three and Six Months Ended November 30, 2023 Compared to Three and Six Months Ended November 30, 2022

#### *Home sales revenues - Consolidated*

Home sales revenues increased \$165.7 million (24.1%) and \$212.7 million (15.3%) for the three and six months ended November 30, 2023 to \$852.1 million and \$1.6 billion, respectively, from \$686.4 million and \$1.4 billion for the three and six months ended November 30, 2022, respectively. The increase in home sales revenues for the three and six months ended November 30, 2023, as compared to the three and six months ended November 30, 2022, was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed.

The number of homes closed increased 29.9% (486 homes) and 22.5% (733 homes) for the three and six months ended November 30, 2023, to 2,109 and 3,988, respectively, from 1,623 and 3,255 for the three and six months ended November 30, 2022, respectively. The increase in closings during the three and six months ended November 30, 2023 was primarily due to the increased availability of homesites and speculative home inventory, and the improvement of cancellation rates on a consolidated basis from 18.5% for the six months ended November 30, 2022, to 17.1% for the six months ended November 30, 2023. The increase in closings during the three and six months ended November 30, 2023 was also driven by an improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023.

The average sales price of homes closed decreased 4.5% and 5.9% to an average of \$404,000 and \$401,000 for the three and six months ended November 30, 2023, respectively, from an average of \$423,000 and \$426,000 for the three and six months ended November 30, 2022, respectively, primarily as a result of adjustments in pricing and increased sales and financing incentives, which directly reduce the average sales price of homes closed, that we began offering during the fiscal year ended May 31, 2023 and continued throughout the three and six months ended November 30, 2023. In addition, newly opened communities during the twelve months ended November 30, 2023 generally offered lower initial prices and/or had higher incentive offerings compared to new community openings during the twelve month period ended November 30, 2022.

#### *Home sales revenues - East segment*

Home sales revenues for the east segment increased by \$146.1 million (53.0%) and \$240.2 million (46.6%) for the three and six months ended November 30, 2023, to \$421.8 million and \$755.9 million, respectively, from \$275.8 million and \$515.7 million for the three and six months ended November 30, 2022, respectively. The increase in home sales revenues for the three and six months ended November 30, 2023, as compared to the three and six months ended November 30, 2022, was primarily due to an increase in the number of homes closed.

The number of homes closed during the three and six months ended November 30, 2023 increased 51.3% (335 homes) and 43.6% (537 homes), respectively, as compared to the three and six months ended November 30, 2022. The increase in closings for the east segment during the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022, was primarily due to the increased availability of homesites and speculative home inventory and the improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023. This increase in demand has also contributed to improved cancellation rates in the east segment during the six months ended November 30, 2023, compared to the six months ended November 30, 2022.

The average sales price of homes closed increased 1.2% and 2.2% to an average of \$427,000 for both the three and six months ended November 30, 2023, respectively, from an average of \$422,000 and \$418,000 for the three and six months ended November 30, 2022, respectively. The increase in the average sales price of homes closed in the east segment for the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022, is primarily due to an increase in the number of closings in our multi-move up communities with higher sales prices from new community openings and the availability of homesites to sell.

#### *Home sales revenues - Central segment*

Home sales revenues for the central segment increased by \$19.6 million (4.8%) and decreased \$27.4 million (-3.1%) for the three and six months ended November 30, 2023, to \$430.2 million and \$845.1 million, respectively, from \$410.6 million and \$872.5 million for the three and six months ended November 30, 2022, respectively. The increase in home sales revenues for the three months ended November 30, 2023, as compared to the three months ended November 30, 2022, was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed. The decrease in home sales revenues for the six months ended November 30, 2023, as compared to the six months ended November 30, 2022, was primarily due to a decrease in the average sales price of homes closed, partially offset by an increase in the number of homes closed.

The number of homes closed during the three and six months ended November 30, 2023 increased 15.6% (151 homes) and 9.7% (196 homes), respectively, as compared to the three and six months ended November 30, 2022. Closings for the central segment during the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022, increased primarily as a result of the improvement in the demand for new homes as a result of adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023. This increase in demand also contributed to improved cancellation rates in the central segment during the six months ended November 30, 2023, compared to the six months ended November 30, 2022.

The average sales price of homes closed decreased 9.2% and 11.8% for the three and six months ended November 30, 2023, to an average of \$384,000 and \$381,000, respectively, from an average of \$423,000 and \$432,000 for the three and six months ended November 30, 2022, respectively. The decrease in the average sales price of homes closed for the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022 is primarily due to adjustments in pricing and increased sales and financing incentives made in response to changing market conditions that we began offering during the fiscal year ended May 31, 2023. In addition, newly opened communities in the central segment during the twelve months ended November 30, 2023 generally offered lower initial prices and/or had higher incentive offerings compared to new community openings during the twelve month period ended November 30, 2022.

#### *Net new home orders, cancellations, and backlog - Consolidated*

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of the home closing. Net new home orders decreased 16.9% (352 homes) and increased 12.8% (400 homes) for the three and six months ended November 30, 2023, respectively, compared to the three and six months ended November 30, 2022.

Included in the net new home orders are wholesale home sales to real estate investors. Wholesale homes are sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements included in this quarterly report). 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. During the three and six months ended November 30, 2023, we had 45 and negative 14 net wholesale home sales, respectively. The negative 14 orders during the six months ended November 30, 2023 is the result of the termination of a single wholesale home sales contract with a real estate investor during the quarter ended August 31, 2023. There were 945 wholesale home sales to real estate investors during both the three and six months ended November 30, 2022, respectively. Excluding the wholesale home sales contracts with real estate investors, net new home orders increased 47.9% (548 homes) and 62.6% (1,359 homes) for the three and six months ended November 30, 2023, respectively, compared to the three and six months ended November 30, 2022. As a result, the average monthly sales per average active community, excluding wholesale home sales contracts with real estate investors, increased from 3.2 and 3.1 for the three and six months ended November 30, 2022, respectively, to 4.2 and 4.4 for the three and six months ended November 30, 2023, respectively. The increase in net new home orders was primarily due to the improvement in demand for new homes as a result of adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023.

Our cancellation rates (as a percentage of gross sales) improved across most of our buyer profiles during the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022. The lower cancellation rates across most of our buyer profiles were primarily due to improved consumer sentiment regarding market conditions coupled with the adjustments in pricing and sales and financing incentives offered across all of our markets during the six months ended November 30, 2023. As a result, excluding wholesale home sales contracts with real estate investors, which was negatively impacted during the three and six months ended November 30, 2023 by the termination of a single wholesale home sales contract with a real estate investor during the quarter ended August 31, 2023, our consolidated cancellation rate improved from 26.4% and 24.6% for the three and six months ended November 30, 2022, respectively, to 17.2% and 15.7% for the three and six months ended November 30, 2023.

Backlog consists of homes that are under purchase contracts that have not yet closed. Backlog decreased 30.3% from 2,447 homes in backlog at November 30, 2022, to 1,705 homes in backlog at November 30, 2023. The decrease in backlog was primarily due to the increase in the number of homes closed during the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022, partially offset by the decrease in wholesale home sales to real estate investors from 945 during the three months ended November 30, 2022, to 45 during the three months ended November 30, 2023.

The sales value of backlog at November 30, 2023 was \$821.3 million, a 20.2% decrease from the \$1,029.6 million sales value of backlog at November 30, 2022. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2023 was \$756.4 million, a 5.9% increase from the \$714.3 million sales value of backlog excluding wholesale home sales contracts with real estate investors at November 30, 2022. The increase in the sales value of backlog, excluding wholesale home sales contracts with real estate investors, was primarily due to a 21 home increase in the number of homes in backlog, excluding wholesale home sales contracts with real estate investors, and the increase in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, from \$485,000 at November 30, 2022, to \$506,000 at November 30, 2023 as a result of the adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023.

#### *Net new home orders and backlog - East segment*

Net new home orders in the east segment decreased 12.0% (104 homes) and increased 9.8% (135 homes) during the three and six months ended November 30, 2023, respectively, compared to the three and six months ended November 30, 2022. Excluding wholesale home sales contracts with real estate investors, net new home orders increased 71.4% (304 homes) and 65.6% (613 homes) for the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022. Average monthly sales per average active community, excluding wholesale home sales contracts with real estate investors, increased from 3.1 and 3.5 for the three and six months ended November 30, 2022, respectively, to 4.2 and 4.4 for the three and six months ended November 30, 2023, respectively. The increase in net new home orders, excluding wholesale home sales contracts with real estate investors, during the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022, was primarily due to the improvement in demand for new homes as a result of

adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023.

Backlog consisted of 848 homes at November 30, 2023, which is a 29.2% decrease from 1,198 homes in backlog at November 30, 2022. The decrease in backlog was primarily the result of the increase in the number of homes closed during the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022, partially offset by the significant decrease in wholesale home sales to real estate investors from 440 during the three months ended November 30, 2022, to 32 during the three months ended November 30, 2023.

The sales value of backlog at November 30, 2023 was \$454.7 million, a 11.3% decrease compared to the \$512.5 million sales value of backlog at November 30, 2022. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2023 was \$410.2 million, a 12.7% increase from the \$363.9 million sales value of backlog excluding wholesale home sales contracts with real estate investors at November 30, 2022. The increase in the sales value of backlog, excluding wholesale home sales contracts with real estate investors, was primarily due to an increase in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, to \$580,000 at November 30, 2023, from \$500,000 at November 30, 2022, partially offset by a 21 home decrease in the number of homes in backlog, excluding wholesale home sales contracts with real estate investors, at November 30, 2023 compared to November 30, 2022. The increase in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, was primarily due to the mix of communities with homes in backlog. As of November 30, 2023, of the 707 homes in backlog, excluding wholesale home sales contracts with real estate investors, 215 (30.4%) of the homes were considered multi-move-up, compared to 83 (11.4%) of the 728 homes in backlog at November 30, 2022, excluding wholesale home sales contracts with real estate investors. The increase in the percentage of multi-move-up homes in backlog at November 30, 2023 was primarily driven by the mix of active communities in the east segment, as well as the availability of homesites and inventory to sell.

#### *Net new home orders and backlog - Central segment*

Net new home orders in the central segment decreased 20.3% (248 homes) and increased 15.2% (265 homes) during the three and six months ended November 30, 2023, respectively, compared to the three and six months ended November 30, 2022. Excluding wholesale home sales contracts with real estate investors, net new home orders increased 34.0% (244 homes) and 60.3% (746 homes) for the three and six months ended November 30, 2023, compared to the three and six months ended November 30, 2022. Average monthly sales per average active community, excluding wholesale home sales contracts with real estate investors, increased from 3.3 and 2.9 for the three and six months ended November 30, 2022, respectively, to 4.2 and 4.5 for the three and six months ended November 30, 2023, respectively. The increase in net new home orders, excluding wholesale home sales contracts with real estate investors, during the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022 was primarily due to the improvement in demand for new homes as a result of adjustments in pricing and sales and financing incentives that we began offering during the fiscal year ended May 31, 2023 and continued throughout the six months ended November 30, 2023.

Backlog consisted of 857 homes at November 30, 2023, which is a 31.4% decrease from 1,249 homes in backlog at November 30, 2022. The decrease in backlog was primarily the result of the increase in the number of homes closed during the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022, partially offset by the significant decrease in wholesale home sales to real estate investors from 505 during the three months ended November 30, 2022, to 13 during the three months ended November 30, 2023.

The sales value of backlog at November 30, 2023 was \$366.6 million, a 29.1% decrease over the \$517.1 million sales value of backlog at November 30, 2022. Excluding wholesale home sales contracts with real estate investors, the sales value of backlog at November 30, 2023 was \$346.2 million, a 1.2% decrease from the \$350.3 million sales value of backlog excluding wholesale home sales contracts with real estate investors at November 30, 2022. The decrease in the sales value of backlog, excluding wholesale home sales contracts with real estate investors, was primarily due to a decrease in the average sales price of homes in backlog, excluding wholesale home sales contracts with real estate investors, from \$470,000 at November 30, 2022, to \$439,000 at November 30, 2023, partially offset by a 42 home increase in the number of homes in backlog, excluding wholesale home sales contracts with real estate investors, at November 30, 2023 compared to November 30, 2022. The decrease in the average sales price of homes in backlog was primarily due to the adjustments in pricing and sales and financing incentives that we began offering

during the fiscal year ended May 31, 2023 and continued throughout the three and six months ended November 30, 2023.

#### *Home sales gross margins - Consolidated*

The home sales gross margin percentage from homes closed for the three and six months ended November 30, 2023 increased to 26.2% and decreased to 26.5%, respectively, from 24.6% and 27.1% for the three and six months ended November 30, 2022, respectively. The increase in home sales gross margin percentage for the three months ended November 30, 2023 compared to the three months ended November 30, 2022, was primarily the result of a decrease in pre-acquisition cost write-offs, as a percentage of home sales revenues, partially offset by a decrease in the average sales price of homes closed, during the three months ended November 30, 2023 compared to the three months ended November 30, 2022. The decrease in home sales gross margin percentage for the six months ended November 30, 2023 compared to the six months ended November 30, 2022 was a result of a decrease in the average sales price of homes closed, primarily driven by pricing adjustments and an increase in sales and financing incentives, and an increase in the cost of materials and labor, as a percentage of home sales revenues, for the homes closed during the six months ended November 30, 2023.

Adjusted home sales gross margin percentage from homes closed for the three and six months ended November 30, 2023 increased to 27.4% and decreased to 27.8%, respectively, from 26.2% and 28.6% for the three and six months ended November 30, 2022, respectively. These changes in the adjusted home sales gross margin percentage for the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022 were primarily due to the changes in gross margins during the comparable periods described above.

#### *Home sales gross margins - East segment*

The home sales gross margin percentage from homes closed in the east segment for the three and six months ended November 30, 2023 increased to 26.9% and 27.0%, respectively, from 24.0% and 24.7% for the three and six months ended November 30, 2022, respectively. The increase in home sales gross margin percentage for the three and six months ended November 30, 2023 compared to the three and six months ended November 30, 2022 was a result of both an increase in the average sales prices of homes closed in the east segment and a decrease in the cost of materials and labor, as a percentage of home sales revenues, offset, in part, by an increase in sales and financing incentives for the homes closed in the east segment during the three and six months ended November 30, 2023.

#### *Home sales gross margins - Central segment*

The home sales gross margin percentage from homes closed in the central segment for the three and six months ended November 30, 2023 increased to 25.5% and decreased to 26.1%, respectively, from 25.0% and 28.6% for the three and six months ended November 30, 2022, respectively. The increase in home sales gross margin percentage for the three months ended November 30, 2023 compared to the three months ended November 30, 2022, was primarily the result of a decrease in pre-acquisition cost write-offs, as a percentage of home sales revenues, partially offset by a decrease in the average sales price of homes closed, during the three months ended November 30, 2023 compared to the three months ended November 30, 2022. The decrease in home sales gross margin percentage for the six months ended November 30, 2023 compared to the six months ended November 30, 2022 was a result of a decrease in the average sales price of homes closed, primarily driven by pricing adjustments and an increase in sales and financing incentives, and an increase in the cost of materials and labor, as a percentage of home sales revenues, for the homes closed during the six months ended November 30, 2023.

#### *Selling, general and administrative expense*

Selling, general and administrative expense ("SG&A") totaled \$119.6 million and \$222.4 million for the three and six months ended November 30, 2023, respectively, compared to \$85.3 million and \$175.9 million for the three and six months ended November 30, 2022, respectively. The increase in SG&A for the three and six months ended November 30, 2023, as compared to the three and six months ended November 30, 2022, was primarily due to increases in sales commissions due to an increase in the number of home closings 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 increased to 14.0% and 13.9% for the three and six months ended November 30, 2023, respectively, from 12.4% and 12.7% for the three and six months ended November 30, 2022, respectively.

#### *Land sales*

We periodically elect to sell parcels of land or lots. We had no sales of lots and land during the three and six months ended November 30, 2023. We had \$4.0 million in sales of land and lots during the three and six months ended November 30, 2022, respectively.

#### *Net income*

Net income increased \$24.5 million and \$11.6 million to \$114.2 million and \$223.4 million for the three and six months ended November 30, 2023, respectively, as compared to the three and six months ended November 30, 2022. The increase in net income for the three and six months ended November 30, 2023, as compared to the three and six months ended November 30, 2022, is primarily attributable to the increase in home sales revenues from the increase in the number of homes closed during the three and six months ended November 30, 2023, respectively, as compared to the three and six months ended November 30, 2022, respectively, partially offset by the increase in SG&A as a percentage of home sales revenues, as discussed above.

### **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 with the goal of maintaining 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, overhead expenditures, interest payments, 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 which matures on January 28, 2026, and repayment or refinancing of our senior notes, with the first maturity of such 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 \$630.0 million as of November 30, 2023. 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 44.6% at November 30, 2023, from 48.9% at November 30, 2022. 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 36.1% at November 30, 2023, from 41.0% at November 30, 2022.



### *Material Cash Requirements*

As of November 30, 2023, there have been no material changes to our known contractual and other obligations appearing in the “Liquidity and Capital Resources - Material Cash Requirements” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2023 Annual Report.

At November 30, 2023, we controlled 55,659 lots. Of the 55,659 lots controlled, we owned 21.5%, or 11,985 lots, and 78.5%, or 43,674 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, 2023, these agreements had an aggregate remaining purchase price of \$2.4 billion and cash deposits of \$320.9 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of \$452.3 million and cash deposits of \$100.2 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 First Amendment to 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 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 (as defined in the Restated Revolver), (ii) a maximum Leverage Ratio (as defined in the Restated Revolver), (iii) a minimum Interest Coverage Ratio (as defined in the Restated Revolver), and (iv) a minimum liquidity requirement. At November 30, 2023, 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, 2023. As of November 30, 2023, the Company had no borrowings outstanding under the Restated Revolver and \$19.0 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 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. 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. 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 (the "Add-on 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 Add-on Notes represent a further issuance of the Companies' 2030 Notes.

Our debt obligations are fully discussed in Note 7 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, 2023, we had letters of credit and surety bonds outstanding of \$19.0 million and \$200.2 million, respectively. As of November 30, 2023, we had \$31.0 million of unused letter of credit capacity under the Restated Revolver.

#### *Off-Balance-Sheet Arrangements*

As of November 30, 2023, 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, 2023, 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. We account for our interests in the mortgage joint ventures under the equity method. Our share of profits is included within equity in earnings of unconsolidated entities in the unaudited condensed consolidated statements of income.

#### *Operating cash flows*

Net cash used in operating activities for the six months ended November 30, 2023 was \$162.9 million compared to \$12.5 million for the six months ended November 30, 2022. The primary source of funds from operations is from the closing of homes. The increase in net cash used in operations for the six months ended November 30, 2023 was primarily due to an increase in the capital invested for inventory, partially offset by a modest decrease in deposits on real estate under option or contract and a modest increase in customer deposits received.

#### *Investing cash flows*

Net cash used in investing activities was \$6.8 million for the six months ended November 30, 2023 and \$3.7 million for the six months ended November 30, 2022. Net cash used in investing activities for the six months ended November 30, 2023 was primarily to furnish and/or update furnishings in model homes and community sales offices.

#### *Financing cash flows*

Net cash used in financing activities was \$133.4 million for the six months ended November 30, 2023, compared to \$198.0 million for the six months ended November 30, 2022. The funds used in financing activities during the six months ended November 30, 2023 primarily consisted of tax distributions of \$65.5 million and non-tax distributions of \$73.0 million to our Members. At November 30, 2023, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of \$331.0 million based on outstanding letters of credit and the borrowing base formula.

## Inventory

As of November 30, 2023, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			Completed Homes			Total Homes
	Unsold	Models <sup>(1)</sup>	Sold	Unsold	Models <sup>(2)</sup>	Sold	
East	928	12	541	321	71	176	2,049
Central	1,180	12	465	419	86	341	2,503
Company total	2,108	24	1,006	740	157	517	4,552

(1) Includes 15 models under the Ashton Woods brand name and 9 sales offices under the Starlight Homes brand name.

(2) Includes 90 models under the Ashton Woods brand name and 67 sales offices under the Starlight Homes brand name.

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

	Homes Under Construction			Completed Homes			Total Homes
	Unsold	Models <sup>(1)</sup>	Sold	Unsold	Models <sup>(2)</sup>	Sold	
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, 2023 and 2022, the cost of homes under construction and finished homes in inventory consisted of the following (in thousands):

	As of November 30,	
	2023	2022
Sold homes	\$ 427,513	\$ 434,625
Unsold homes	623,819	551,950
Model homes	57,164	44,316
Homes under construction and finished homes	\$ 1,108,496	\$ 1,030,891

As of November 30, 2023 and 2022, we had the following unsold homes in inventory (in units):

	As of November 30,	
	2023	2022
Entry-Level - Starlight Homes	1,598	1,394
Entry-Level - Ashton Woods	89	11
Move-up	1,107	1,005
Multi-Move-Up	54	42
Consolidated	2,848	2,452

As of November 30, 2023, 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	2,049	2,145	1,492	424	4,061	22,323	26,384
Central	2,503	1,975	2,160	3,789	7,924	21,351	29,275
<b>Total Company</b>	<b>4,552</b>	<b>4,120</b>	<b>3,652</b>	<b>4,213</b>	<b>11,985</b>	<b>43,674</b>	<b>55,659</b>
Percentage of total controlled		7.4 %	6.5 %	7.6 %	21.5 %	78.5 %	100.0 %

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
<b>Total Company</b>	<b>4,397</b>	<b>3,114</b>	<b>5,300</b>	<b>4,992</b>	<b>13,406</b>	<b>37,873</b>	<b>51,279</b>
Percentage of total controlled		6.1 %	10.3 %	9.7 %	26.1 %	73.9 %	100.0 %

In addition to the 11,985 lots we owned at November 30, 2023, we controlled, through the use of purchase and option agreements, 43,674 lots at November 30, 2023. Purchase and option agreements that did not require consolidation under ASC 810, ASC 606, or ASC 470-40 at November 30, 2023 had an aggregate remaining purchase price of \$2.4 billion. In connection with these agreements, we had cash deposits of \$320.9 million at November 30, 2023. In addition, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of \$452.3 million and cash deposits of \$100.2 million (see Note 4 to our unaudited condensed consolidated financial statements included in this quarterly report).

During the six months ended November 30, 2023, we acquired 3,347 lots for a total purchase price of \$376.2 million. We spent \$96.2 million on land development during the six months ended November 30, 2023. During the six months ended November 30, 2023, we spent \$6.3 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, if at all. 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 stay elevated or increase further 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 2023 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, 2023, compared with those disclosed in our 2023 Annual Report.

## **Transactions with related parties**

See Note 11 to our unaudited condensed consolidated financial statements included in this quarterly report for information about transactions with related parties.

## **Pending and recently adopted accounting pronouncements**

See Note 2 to our unaudited condensed consolidated financial statements included in this quarterly report for information about pending and recently adopted accounting pronouncements.

## **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, 2023, we had no outstanding borrowings under the Restated Revolver.

## **Item 4. *Controls and Procedures***

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

## **PART II. OTHER INFORMATION**

### **Item 1. *Legal Proceedings***

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

### **Item 1A. *Risk Factors***

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2023 Annual Report which could materially affect our business, financial condition, or future results. The risks described in our 2023 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 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.