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THIS QUARTERLY REPORT IS BEING PREPARED PURSUANT TO REQUIREMENTS CONTAINED IN THE INDENTURE DATED AS OF AUGUST 8, 2017 GOVERNING THE 6.750% SENIOR NOTES DUE 2025 ISSUED BY ASHTON WOODS USA L.L.C, IN THE INDENTURE DATED AS OF MARCH 27, 2019 GOVERNING THE 9.875% SENIOR NOTES DUE 2027 ISSUED BY ASHTON WOODS USA L.L.C., AND IN THE INDENTURE DATED AS OF JANUARY 23, 2020 GOVERNING THE 6.625% SENIOR NOTES DUE 2028 ISSUED BY ASHTON WOODS USA L.L.C..

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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 February 28, 2021

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

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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," "small 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.

We have reviewed the condensed consolidated financial information of Ashton Woods USA L.L.C., which comprise the condensed consolidated balance sheet as of February 28, 2021, and the related condensed consolidated statements of income for the three- and nine-month periods ended February 28, 2021 and February 29, 2020, condensed consolidated statements of changes in members' equity for each of the three-month periods in the period from May 31, 2019 to February 28, 2021, and condensed consolidated statements of cash flows for the nine-month periods ended February 28, 2021 and February 29, 2020.

### **Management's Responsibility for the Financial Information**

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

### **Auditor's Responsibility**

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

### **Conclusion**

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

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

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

March 31, 2021

## PART I. FINANCIAL INFORMATION

### Item 1. *Financial Statements*

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

	<u>February 28, 2021</u>	<u>May 31, 2020</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 100,283	\$ 255,314
Restricted cash	421	3,059
Receivables	47,658	33,683
Inventory	1,167,807	882,002
Property and equipment, net	8,975	11,217
Investments in unconsolidated entities	4,344	4,608
Deposits on real estate under option or contract	197,236	143,989
Other assets	124,847	118,373
Total assets	<u>\$ 1,651,571</u>	<u>\$ 1,452,245</u>
<b>Liabilities and members' equity:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 140,803	\$ 70,447
Other liabilities	162,256	167,375
Customer deposits	75,195	17,580
Debt	743,455	746,395
Total liabilities	<u>1,121,709</u>	<u>1,001,797</u>
<b>Commitments and contingencies (Note 13)</b>		
<b>Members' equity</b>	<u>529,862</u>	<u>450,448</u>
Total liabilities and members' equity	<u>\$ 1,651,571</u>	<u>\$ 1,452,245</u>

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(Unaudited)			
<b>Revenues:</b>				
Home sales	\$ 451,492	\$ 430,183	\$ 1,333,313	\$ 1,169,592
Land sales	3,213	2,783	3,278	8,753
Financial services and other revenues	7,775	11,671	21,404	26,650
	<u>462,480</u>	<u>444,637</u>	<u>1,357,995</u>	<u>1,204,995</u>
<b>Cost of sales:</b>				
Homes	346,731	352,688	1,048,148	966,557
Land	2,456	2,789	2,530	7,317
Financial services and other revenues	5,531	8,410	14,959	18,800
	<u>354,718</u>	<u>363,887</u>	<u>1,065,637</u>	<u>992,674</u>
Gross profit	107,762	80,750	292,358	212,321
<b>Other expense (income):</b>				
Selling, general and administrative	61,668	61,530	176,798	168,707
Interest expense	1,675	3,486	14,258	9,432
Depreciation and amortization	2,182	2,379	6,508	7,387
Other (income) expense	(102)	47	(431)	(564)
	<u>65,423</u>	<u>67,442</u>	<u>197,133</u>	<u>184,962</u>
Equity in earnings of unconsolidated entities	2,713	1,366	6,359	3,417
Net income	<u>\$ 45,052</u>	<u>\$ 14,674</u>	<u>\$ 101,584</u>	<u>\$ 30,776</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	Total members' equity
<b>Members' equity at May 31, 2019</b>	\$ 144,455	\$ 31,781	\$ 210,861	\$ 387,097
Net income	1,231	302	1,630	3,163
Distributions	(2,704)	(665)	(3,581)	(6,950)
<b>Members' equity at August 31, 2019</b>	\$ 142,982	\$ 31,418	\$ 208,910	\$ 383,310
Net income	5,035	1,237	6,667	12,939
Distributions	(628)	(155)	(832)	(1,615)
<b>Members' equity at November 30, 2019</b>	\$ 147,389	\$ 32,500	\$ 214,745	\$ 394,634
Net income	5,710	1,403	7,561	14,674
Distributions	(1,518)	(373)	(2,009)	(3,900)
<b>Members' equity at February 29, 2020</b>	\$ 151,581	\$ 33,530	\$ 220,297	\$ 405,408
Net income	17,525	4,310	23,205	45,040
<b>Members' equity at May 31, 2020</b>	\$ 169,106	\$ 37,840	\$ 243,502	\$ 450,448
Net income	6,907	1,698	9,145	17,750
Distributions	(1,537)	(378)	(2,035)	(3,950)
<b>Members' equity at August 31, 2020</b>	\$ 174,476	\$ 39,160	\$ 250,612	\$ 464,248
Net income	15,091	3,709	19,982	38,782
Distributions	(3,720)	(914)	(4,926)	(9,560)
<b>Members' equity at November 30, 2020</b>	\$ 185,847	\$ 41,955	\$ 265,668	\$ 493,470
Net income	17,531	4,308	23,213	45,052
Distributions	(3,370)	(828)	(4,462)	(8,660)
<b>Members' equity at February 28, 2021</b>	\$ 200,008	\$ 45,435	\$ 284,419	\$ 529,862

*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>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(Unaudited)	
<b>Cash flows used in operating activities:</b>		
Net income	\$ 101,584	\$ 30,776
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of unconsolidated entities	(6,359)	(3,417)
Returns on investments in unconsolidated entities	6,712	3,768
Long-term compensation expense	8,487	4,422
Loss on extinguishment of debt	182	—
Inventory impairments	147	1,295
Depreciation and amortization	6,508	7,387
Changes in operating assets and liabilities:		
Inventory	(283,516)	(201,467)
Receivables	(13,975)	(7,035)
Deposits on real estate under option or contract	(53,247)	(23,658)
Other assets	(6,153)	(5,770)
Accounts payable	70,356	(22,862)
Other liabilities	(12,966)	5,454
Customer deposits	57,615	5,961
Net cash used in operating activities	<u>(124,625)</u>	<u>(205,146)</u>
<b>Cash flows used in investing activities:</b>		
Returns of investments in unconsolidated entities	—	1,860
Additions to property and equipment	(4,813)	(5,976)
Net cash used in investing activities	<u>(4,813)</u>	<u>(4,116)</u>
<b>Cash flows (used in) provided by financing activities:</b>		
Borrowings from revolving credit facility	—	893,300
Repayments of revolving credit facility	—	(913,727)
Proceeds from issuance of debt	—	250,000
Payment of debt issuance costs	(1,336)	(6,230)
Repayment of note payable	(4,725)	—
Members' tax distributions	(22,170)	(12,465)
Net cash (used in) provided by financing activities	<u>(28,231)</u>	<u>210,878</u>
Change in cash, cash equivalents, and restricted cash	(157,669)	1,616
<b>Cash, cash equivalents, and restricted cash, beginning of period</b>	<u>258,373</u>	<u>189</u>
<b>Cash, cash equivalents, and restricted cash, end of period</b>	<u>\$ 100,704</u>	<u>\$ 1,805</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest, net of amounts capitalized	<u>\$ 17,341</u>	<u>\$ 7,381</u>

**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>February 28, 2021</b>	<b>February 29, 2020</b>
Cash and cash equivalents	\$ 100,283	\$ 1,418
Restricted cash	421	387
<b>Total cash, cash equivalents, and restricted cash</b>	<b>\$ 100,704</b>	<b>\$ 1,805</b>

*Supplemental disclosures of cash flows information:*

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 1,134	\$ 25	\$ 2,071	\$ 45

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



**ASHTON WOODS USA L.L.C.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**February 28, 2021**

**Note 1 — Basis of Presentation and Significant Accounting Policies**

***(a) Operations***

Ashton Woods USA L.L.C. (the “Company” or “Ashton Woods”), operating as Ashton Woods Homes, is a limited liability company that through its subsidiaries designs, builds, and markets detached and attached single-family homes under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name and offers entry-level homes under the Starlight Homes brand name. Included under the Starlight Homes brand, the Company offers construction and development services specifically tailored to the single-family rental industry under the Prelude Residential brand name, which we sell under bulk sales agreements to real estate investors. We refer to such sales as our wholesale homes sales. As of February 28, 2021, the Company has operations in the following markets:

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

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

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

***(b) Basis of presentation***

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

***(c) Cash, cash equivalents, and restricted cash***

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

***(d) Inventory***

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

When a home is closed, the Company generally has not yet recorded all incurred costs necessary to complete the home. Each month, the Company records as a liability and a charge to cost of sales - homes the amount it estimates

will ultimately be paid related to completed homes that have been closed as of the end of that month. The Company compares its updated home construction budgets to actual recorded costs to estimate the additional costs remaining to be paid on each closed home. The Company monitors the accuracy of each month's accrual by comparing actual costs paid on closed homes in subsequent months to the amount accrued. Actual costs to be paid on closed homes in the future could differ from the current estimate.

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

Based on the Company's review of its inventory for impairment during the nine months ended February 28, 2021, the Company recognized inventory impairment charges totaling \$0.1 million, which consisted of \$115.8 thousand of impairments on homes in inventory, which is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income, and \$31.4 thousand of impairments on land that was held for sale, which is included as a component of cost of sales – land in the unaudited condensed consolidated statements of income. The Company recorded inventory impairment charges of \$1.3 million during the nine months ended February 29, 2020, which consisted of \$1.1 million of impairments on homes in inventory, which is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income, and \$0.2 million of impairments on land that was held for sale, which is included as a component of cost of sales – land in the unaudited condensed consolidated statements of income.

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

**(e) Receivables**

Receivables at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
Closing funds due	\$ 7,769	\$ 6,373
Land development receivables	25,771	13,957
MUD receivables <sup>(1)</sup>	10,128	10,280
Other receivables <sup>(2)</sup>	3,990	3,073
	<u>\$ 47,658</u>	<u>\$ 33,683</u>

(1) Includes certain land development costs to be reimbursed by six and four Municipal Utility Districts in Houston, Texas at February 28, 2021 and May 31, 2020, respectively.

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

**(f) Real estate not owned**

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

**(g) Investments in unconsolidated entities**

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

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

Investments in unconsolidated entities are evaluated for other-than-temporary impairment during each reporting period pursuant to ASC Subtopic 323-10, *Investments—Equity Method and Joint Ventures*. A series of operating losses or other factors may indicate an other-than-temporary decrease in the value of the Company’s investment in the unconsolidated entity. The amount of impairment recognized is the excess of the investment’s carrying value over its estimated fair value. The Company did not recognize any other-than-temporary impairments during the nine months ended February 28, 2021 or February 29, 2020 related to its investments in unconsolidated entities.

**(h) Deposits and pre-acquisition costs**

Deposits and pre-acquisition costs related to purchase agreements are capitalized when paid and classified in the unaudited condensed consolidated balance sheets as deposits on real estate under option or contract (for deposits) and other assets (for pre-acquisition costs) until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for the costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income and totaled \$0.2 million and \$1.7 million for the three and nine months ended February 28, 2021, respectively, and \$1.2 million and \$2.1 million for the three and nine months ended February 29, 2020, respectively.

**(i) Property and equipment**

Property and equipment is recorded at cost. Depreciation and amortization is generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the term of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
Office furniture and equipment	\$ 3,540	\$ 3,852
Sales offices, design studios, and model furnishings	29,181	32,863
Leasehold improvements	2,762	2,414
	35,483	39,129
Accumulated depreciation and amortization <sup>(1)</sup>	(26,508)	(27,912)
	<u>\$ 8,975</u>	<u>\$ 11,217</u>

(1) Net of retirements and disposals.

Depreciation and amortization expense was approximately \$2.2 million and \$6.5 million for the three and nine months ended February 28, 2021, respectively, and \$2.4 million and \$7.4 million for the three and nine months ended February 29, 2020, respectively.

**(j) Revenue recognition**

With respect to home sale revenues, revenue from a home sale is recognized when we have satisfied the performance obligation in the home sales contract, which is generally at the time of the closing of each sale, when title to and possession of the property are transferred to the buyer. The revenue recognized for each home sale includes the base sales price of the home, as well as any purchased options and upgrades and is reduced for any sales price incentives. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings in transit or held in escrow for our benefit, which is typically received within two days of the home closing. Home sale contract assets totaled \$7.8 million and \$6.4 million at February 28, 2021 and May 31, 2020, respectively, and are classified as receivables in the unaudited condensed consolidated balance sheets. Home sale contract liabilities include customer deposit liabilities related to sold but undelivered homes and wholesale customer deposit liabilities to secure the purchase of homes or land in future communities or future phases of existing communities, which totaled \$75.2 million and \$17.6 million at February 28, 2021 and May 31, 2020, respectively. Of the customer deposit liabilities at May 31, 2020, \$17.3 million was recognized as revenue during the nine months ended February 28, 2021 upon the closing of the related homes. Also included in home sale revenues are our wholesale home sales offered under our Starlight Homes brand. Wholesale home sales consist of completed homes and or land in future communities or future phases of existing communities sold under bulk sales agreements to real estate investors who intend to use the homes as rental properties.

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

With respect to land sale revenues, we periodically elect to sell parcels of land or lots. These land and lot sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied. Land sale contract assets consist of cash from closed land sales in transit or held in escrow for our benefit, which is typically received within two days of closing on the land sale. Land sale contract assets are classified as receivables in the unaudited condensed consolidated balance sheets. Land sale contract liabilities consist of customer deposit liabilities related to land parcels under contract for sale. There were no land sale contract assets or liabilities at February 28, 2021 and May 31, 2020.

With respect to financial services and other revenues, financial services revenues, which are not within the scope of ASC 606, primarily consist of title premium income earned from the provision of title services for homebuyers. Other revenues consists of revenue from forfeited customer deposits that is recognized upon cancellation of the home sales contract when the Company is contractually entitled to retain the deposit, other miscellaneous customer

revenue that is recognized when the related performance obligation is satisfied, and revenue from fee development, development oversight, and/or construction agreements (collectively, “fee build arrangements”) entered into by the Company with third-party property owners. In accordance with ASC 606, the Company applies the percentage-of-completion method, using the cost-to-cost approach, to recognize revenue on its fee build arrangements 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 plus the applicable fee. 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 on the consolidated statements of income.

ASC 606 provides certain practical expedients that limit some accounting treatments and disclosure requirements. Accordingly, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. In addition, the expected revenue to be recognized in any future year relating to unsatisfied performance obligations with an original expected length greater than one year is not material.

**(k) Prepaid expenses**

Included in other assets are prepaid expenses of approximately \$17.9 million and \$8.9 million as of February 28, 2021 and May 31, 2020, respectively, which primarily represent prepaid insurance, fees, permits, and rent.

**(l) Warranty costs**

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

Presented below are summaries of the activity in the Company’s warranty liability account for the three and nine months ended February 28, 2021 and February 29, 2020 (in thousands):

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Warranty liability, beginning of period	\$ 10,014	\$ 9,658	\$ 10,122	\$ 11,933
Costs accrued during period	2,594	2,461	8,642	7,775
Costs incurred during period	(3,005)	(2,627)	(9,161)	(10,216)
Warranty liability, end of period	<u>\$ 9,603</u>	<u>\$ 9,492</u>	<u>\$ 9,603</u>	<u>\$ 9,492</u>

**(m) Advertising costs**

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income, was approximately \$0.7 million and \$3.8 million for the three and nine months ended February 28, 2021, respectively, and \$3.7 million and \$10.5 million for the three and nine months ended February 29, 2020, respectively.

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

The Company offers a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company’s future growth through the issuance of performance shares, which are the equivalent of phantom equity awards. The Company's performance shares are accounted for pursuant to ASC Subtopic 710-10-25-9 to 25-11, *Deferred Compensation Arrangements*, as the value

is not based on the shares of a comparable set of public builders or other equity instruments, but is based on the book value of equity of the Company. The Company measures the value of the performance shares on a quarterly basis using the intrinsic value method. Additional compensation expense may be recognized subsequent to completion of the vesting period for appreciation-only performance shares. See Note 11 for additional discussion regarding the Company's long-term incentive plan.

**(o) Income taxes**

The Company operates as a limited liability company and is treated as a partnership for income tax purposes. Accordingly, the Company incurs no liability for federal or state income taxes, since the taxable income or loss is passed through to its Members, but incurs liabilities for certain state taxes payable directly by the Company. The Company calculates its Members' potential tax liability related to their share of the Company's taxable income and may make distributions to such Members to allow them to satisfy their tax liability, subject to limitations contained in the Company's revolving credit facility and in the indentures governing its 6.750% Senior Notes due 2025 (the "6.750% Notes"), its 9.875% Senior Notes due 2027 (the "9.875% Notes"), and its 6.625% Senior Notes due 2028 (the "6.625% Notes" and together with the 6.750% Notes and the 9.875% Notes, the "Senior Notes"). Any tax distributions made to the Members are treated as a reduction of equity. The Company made tax distributions to its Members of \$22.2 million and \$12.5 million during the nine months ended February 28, 2021 and February 29, 2020, respectively.

**(p) Use of estimates**

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

**(q) Segments**

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

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

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

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

**(r) Risks and uncertainties**

The worldwide spread of the novel coronavirus ("COVID-19") has caused broad business and social disruption across many industries and locations, both domestically and abroad. Further, the spread of COVID-19 has also caused significant volatility in U.S. and international debt and equity markets. To date, the COVID-19 pandemic has caused significant negative impacts across our industry, from trade availability, increases in the cost and availability of certain building materials and appliances, suspension of services in, and approvals by, local municipalities, delays in homes closings, increased cancellations, various and differing shelter in place orders by state, county, and other local municipalities, and disruptions in normal operating procedures, to volatile economic conditions and a decline in consumer confidence. The state and local governments in all of the markets in which we operate have designated residential construction as an essential business, as critical infrastructure, and are currently allowing the construction and sales of homes. Although there is some optimism about the ongoing vaccine rollouts and decreasing infection and hospitalization rates, there remains significant uncertainty around the breadth, severity, and duration of COVID-19 and its variants and the business disruptions related to COVID-19, as well as its impact on the U.S. and international economies, consumer confidence and, in turn, the impact it will have on our results.

(s) *Subsequent events*

The Company has evaluated subsequent events through March 31, 2021. This date represents the date on which the unaudited condensed consolidated financial statements were available to be issued.

On March 31, 2021, the Board of Directors of the Company approved tax distributions of \$11.6 million to its Members based on estimates of its Members' tax liability related to their share of the Company's taxable income.

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

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

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

**Note 3 — Inventory**

Inventory consisted of the following at February 28, 2021 and May 31, 2020 (in thousands):

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
Homes under construction and finished homes	\$ 804,712	\$ 545,079
Finished lots	253,736	215,419
Land under development	80,204	86,964
Land held for future development	23,018	28,231
Land held for sale	6,137	6,309
	<u>\$ 1,167,807</u>	<u>\$ 882,002</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 \$1.7 million and \$14.3 million for the three and nine months ended February 28, 2021, respectively, and \$3.5 million and \$9.4 million for the three and nine months ended February 29, 2020, respectively, in the unaudited condensed consolidated statements of income.



The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three and nine months ended February 28, 2021 and February 29, 2020 (in thousands):

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Capitalized interest, beginning of period	\$ 21,972	\$ 22,323	\$ 21,646	\$ 19,040
Interest incurred	15,777	14,330	47,530	40,763
Interest amortized to cost of sales	(8,972)	(9,537)	(27,816)	(26,741)
Interest expensed	(1,675)	(3,486)	(14,258)	(9,432)
Capitalized interest, end of period	<u>\$ 27,102</u>	<u>\$ 23,630</u>	<u>\$ 27,102</u>	<u>\$ 23,630</u>

#### Note 4 — Other Assets

Other assets at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	February 28, 2021	May 31, 2020
Real estate not owned	\$ 80,445	\$ 79,738
Right-of-use assets <sup>(1)</sup>	12,391	13,121
Prepaid expenses	17,901	8,885
Architecture plans	3,987	4,626
Deferred financing fees	3,400	2,725
Pre-acquisition costs	4,536	7,161
Other deposits	2,187	2,117
	<u>\$ 124,847</u>	<u>\$ 118,373</u>

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

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

Pursuant to ASC 810, when the Company enters into a purchase agreement to acquire land or lots from an entity and pays a non-refundable deposit, the Company has concluded that a variable interest entity (“VIE”), for which consolidation is required, may be created because it is deemed to have provided subordinated financial support that will absorb some or all of an entity’s expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary of the VIE and thus must consolidate the entity by first determining if it has the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract; and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE’s losses or, if no party absorbs the majority of such losses, if it will benefit from potentially a significant amount of the VIE’s expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as “Real estate not owned” within other assets and the related liabilities as “Liabilities related to real estate not owned” within other liabilities. At February 28, 2021 and May 31, 2020, no purchase contracts or investments in unconsolidated entities were determined to require consolidation under ASC 810.



Pursuant to ASC 470-40, if a buying entity participates in an arrangement in which it is economically compelled to purchase land, then the entity is required to consolidate such an arrangement. In the ordinary course of business, the Company enters into arrangements in which it identifies lots that it desires to purchase, finds an investor to purchase the lots and then enters into option purchase agreements to acquire the lots in staged takedowns. In consideration for such options, the Company generally makes nonrefundable deposits. While the Company is generally not obligated to purchase the lots that are the subject of such agreements, it would forfeit the remaining deposits if the lots are not purchased. Although the Company is not obligated to purchase the lots under option unless it enters into a contract with specific performance obligations, if, at the reporting date, the Company believes that due to the terms of the purchase contracts it is compelled to purchase the lots under option, the Company will record "Real estate not owned" and the related liabilities as "Liabilities related to real estate not owned" in connection with such option purchase agreements. The Company has one lot purchase agreement with an unaffiliated investor group that is accounted for pursuant to ASC 470-40. At February 28, 2021 and May 31, 2020, the Company recorded real estate not owned of \$21.1 million and \$24.9 million, respectively, related to this lot purchase agreement accounted for pursuant to ASC 470-40.

Also, based on the provisions of ASC Subtopic 606-10, *Revenue From Contracts With Customers*, a seller may not recognize as a sale property it sells if an entity has an obligation or a right to repurchase lots and if the repurchase agreement is considered to be a financing arrangement. ASC 606 considers a repurchase option contract to be a financing arrangement, in accordance with ASC 606-10-55-70, if the entity will repurchase the lots for an amount that is equal to or greater than the original selling price of the asset. Therefore, if the Company enters into lot purchase option agreements for land it has sold and determines that the repurchase agreement is considered to be a financing arrangement, the Company records the lots subject to such sale as "Real estate not owned" and the related liabilities, under option agreement, as "Liabilities related to real estate not owned." At February 28, 2021 and May 31, 2020, the Company recorded real estate not owned of \$59.3 million and \$54.9 million, respectively, for the sale of lots because its repurchase agreements related to this real estate were considered to be financing arrangements. While these option agreements contain no specific performance obligations, should the Company choose not to purchase the land, it will forfeit the deposited amount.

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

Deferred financing fees included in other assets are comprised of costs incurred in connection with obtaining financing under the revolving credit facility. The Company incurred deferred financing fees of \$1.3 million and \$1.7 million during the nine months ended February 28, 2021 and February 29, 2020, respectively, as a result of the amendments to the Company's revolving credit facility as discussed below in Note 6.

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

#### **Note 5 — Investments in Unconsolidated Entities**

The Company enters into land joint ventures from time to time as a means of accessing larger parcels of land and lot positions, managing its risk profile and leveraging its capital base. As of February 28, 2021, the Company had an equity investment in one land joint venture with an affiliate of certain of the beneficial owners of the Company's equity or their affiliates (individually and collectively, the "Investors"). The Company has a 49% limited partner non-controlling interest in this joint venture, and has accounted for it under the equity method. The Company's share of the unconsolidated entity's earnings on the sale of lots to the Company is deferred until homes related to the lots purchased by the Company are delivered and title passes to a homebuyer. The partners generally share profits and losses in accordance with their ownership interests. As of February 28, 2021, the Company had recorded \$1.6 million for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company has entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of \$6.0 thousand for these services that is included in other income in the unaudited condensed consolidated statements of income. The Company is also a party to a lot purchase agreement with the joint venture, which required a 10% deposit and that permits but does not require the Company to purchase finished lots owned by the land joint venture, and has no specific performance requirements for the Company. Lot prices are generally negotiated prices that approximate fair value when the purchase contract is signed. As of February 28, 2021, the total purchase price of lots remaining to be purchased under this agreement was approximately \$8.3 million. As of February 28, 2021, the joint venture had no debt outstanding.

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

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of February 28, 2021 and May 31, 2020 and for the three and nine months ended February 28, 2021 and February 29, 2020 was as follows (in thousands):

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
<b>Assets:</b>		
Cash	\$ 3,465	\$ 5,650
Mortgage notes receivable	48,802	54,472
Real estate	4,610	9,384
Other	1,427	713
Total assets	<u>\$ 58,304</u>	<u>\$ 70,219</u>
<b>Liabilities and equity:</b>		
<b>Liabilities:</b>		
Accounts payable and other accruals	\$ 3,727	\$ 5,274
Notes payable <sup>(1)</sup>	45,813	55,643
Total liabilities	49,540	60,917
Equity	8,764	9,302
Total liabilities and equity	<u>\$ 58,304</u>	<u>\$ 70,219</u>

(1) The notes payable balance at February 28, 2021 is comprised of \$45.8 million outstanding on two warehouse lines which are each non-recourse to Ashton Woods. The notes payable balance at May 31, 2020 is comprised of \$52.0 million outstanding on two warehouse lines and \$3.6 million of secured debt, all of which are non-recourse to the Company.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>Revenues:</b>				
Lot sales	\$ 1,225	\$ 17	\$ 5,893	\$ 5,648
Financial services	8,859	5,124	22,289	12,872
Total revenues	<u>10,084</u>	<u>5,141</u>	<u>28,182</u>	<u>18,520</u>
Gross profit	<u>6,483</u>	<u>3,310</u>	<u>15,795</u>	<u>9,391</u>
<b>General and administrative expenses:</b>				
Lot sales	9	—	10	—
Financial services	894	788	2,626	2,170
Total general and administrative expenses	<u>903</u>	<u>788</u>	<u>2,636</u>	<u>2,170</u>
Net income	<u>\$ 5,580</u>	<u>\$ 2,522</u>	<u>\$ 13,159</u>	<u>\$ 7,221</u>

## Note 6 — Debt

Debt at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	February 28, 2021	May 31, 2020
6.750% Notes <sup>(1)</sup>	\$ 247,391	\$ 246,878
9.875% Notes <sup>(2)</sup>	249,923	249,182
6.625% Notes <sup>(3)</sup>	246,141	245,610
Note payable	—	4,725
	<u>\$ 743,455</u>	<u>\$ 746,395</u>

(1) Net of \$2.6 million and \$3.1 million of unamortized deferred financing costs as of February 28, 2021 and May 31, 2020, respectively.

(2) Net of \$3.6 million and \$4.2 million of unamortized deferred financing costs and \$1.5 million and \$1.6 million of unamortized discount as of February 28, 2021 and May 31, 2020, respectively.

(3) Net of \$3.9 million and \$4.4 million of unamortized deferred financing costs as of February 28, 2021 and May 31, 2020, respectively.

### The 6.750% Notes

On August 8, 2017, the Company issued \$250 million principal amount of 6.750% Senior Notes due 2025 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The 6.750% Notes were issued at a price of 100.00% of the principal amount to yield 6.750%.

The 6.750% Notes mature on August 1, 2025. Interest is payable on February 1 and August 1 of each year. The 6.750% Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 6.750% Notes are effectively subordinated to any of the Company's secured debt, to the extent of the value of the assets securing such debt. The obligations under the 6.750% Notes are jointly and severally guaranteed by each Restricted Subsidiary, as defined, other than certain Restricted Subsidiaries that have assets with a book value of less than \$2.0 million (the "Guarantors"). All of the Company's subsidiaries are Restricted Subsidiaries with respect to the 6.750% Notes, with the exception of AW Mortgage Holdings L.L.C., which has been designated an Unrestricted Subsidiary pursuant to the indenture governing the 6.750% Notes.

The Company has the option to redeem the 6.750% Notes at any time or from time to time, in whole or in part, (a) from August 1, 2020 until August 1, 2023, at certain redemption prices set forth in the indenture governing the 6.750% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (b) on or after August 1, 2023, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 6.750% Notes contains a number of covenants, including covenants relating to the following:

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

As of February 28, 2021, the Company was in compliance with the covenants in the indenture governing the 6.750% Notes.

### The 9.875% Notes

On March 27, 2019, the Company issued \$255.0 million principal amount of 9.875% Senior Notes due 2027 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The 9.875% Notes were issued at a price of 99.301% of the principal amount to yield 10.000%.

The 9.875% Notes mature on April 1, 2027. Interest is payable on the 9.875% Notes on April 1 and October 1 of each year. The 9.875% Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 9.875% Notes are effectively subordinated to any of the Company's secured debt, to the extent of the value of the assets securing such debt. The obligations under the 9.875% Notes are jointly and severally guaranteed by the Guarantors.

The indenture governing the 9.875% Notes gives the Company the option to redeem the 9.875% Notes at any time or from time to time, in whole or in part, (a) until April 1, 2022, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 9.875% Notes, (b) on or after April 1, 2022 until April 1, 2025, at certain redemption prices set forth in the indenture governing the 9.875% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after April 1, 2025, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 9.875% Notes contains a number of covenants, which are substantially the same as those contained in the indenture governing the 6.750% Notes.

As of February 28, 2021, the Company was in compliance with the covenants in the indenture governing the 9.875% Notes.

### ***The 6.625% Notes***

On January 23, 2020, the Company issued \$250.0 million principal amount of 6.625% Senior Notes due 2028 in a private offering pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The 6.625% Notes were issued at a price of 100.00% of the principal amount to yield 6.625%.

The 6.625% Notes mature on January 15, 2028. Interest is payable on the 6.625% Notes on January 15 and July 15 of each year. The 6.625% Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 6.625% Notes are effectively subordinated to any of the Company's secured debt, to the extent of the value of the assets securing such debt. The obligations under the 6.625% Notes are jointly and severally guaranteed by the Guarantors.

The indenture governing the 6.625% Notes gives the Company the option to redeem the 6.625% Notes at any time or from time to time, in whole or in part, (a) until January 15, 2023, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, plus an applicable premium as defined in the indenture governing the 6.625% Notes, (b) on or after January 15, 2023 until January 15, 2026, at certain redemption prices set forth in the indenture governing the 6.625% Notes together with accrued and unpaid interest thereon, if any, to and excluding the redemption date, and (c) on or after January 15, 2026, at 100% of the principal amount to be redeemed, together with accrued and unpaid interest thereon, if any, to and excluding the redemption date.

The indenture governing the 6.625% Notes contains a number of covenants, which are substantially the same as those contained in the indenture governing the 6.750% Notes.

As of February 28, 2021, the Company was in compliance with the covenants in the indenture governing the 6.625% Notes.

### ***Senior Unsecured Revolving Credit Facility***

On February 2, 2021, the Company entered into a Sixth Amended and Restated Credit Agreement (as amended, the "Restated Revolver"), which converted the revolving credit facility from a secured to an unsecured facility, thereby releasing all of the collateral that secured the prior facility. The Restated Revolver provides for, among other things, (i) an aggregate revolving loan commitment of up to \$250.0 million, with up to \$50.0 million available for the issuance of letters of credit and up to \$20.0 million available for swingline loans, and an accordion feature to permit the size of the facility to be increased in the future up to \$300.0 million (dependent upon Company needs and

available lender commitments), (ii) a maturity date of February 2, 2025, and (iii) modification of certain covenants and restating the agreement to reflect such changes.

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

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

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

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

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

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

The Restated Revolver permits certain tax distributions to Members and permits certain other distributions to Members if certain conditions are met. As of February 28, 2021, the Company was in compliance with the covenants in the Restated Revolver.

At February 28, 2021, there were no borrowings outstanding under the Restated Revolver and \$0.3 million of letters of credit outstanding. As of February 28, 2021, the Company had available additional borrowing capacity of \$249.7 million under the Restated Revolver based on outstanding borrowings on the Restated Revolver, outstanding letters of credit, and the borrowing base formula.

The Company recorded a \$0.2 million loss on the extinguishment of debt during the nine months ended February 28, 2021 comprised of a write-off of unamortized deferred financing fees in connection with entering into the Restated Revolver, which is included in other (income) expense in the unaudited condensed consolidated statements of income. The Company incurred deferred financing fees during the nine months ended February 28, 2021 of \$1.3 million in connection with entering into the Restated Revolver.

### ***Note Payable***

On December 13, 2019, the Company issued a \$4.7 million note payable to an unaffiliated third party, related to a purchase of land, which was scheduled to mature on July 13, 2022. The note payable had an interest rate of 10.0%. The note was collateralized by the land to which it related and had no recourse to any other assets or to the Company. During the nine months ended February 28, 2021, the note, along with interest, was paid in full.

## Note 7 — Other Liabilities

Other liabilities at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	February 28, 2021	May 31, 2020
Liabilities related to real estate not owned <sup>(1)</sup>	\$ 51,734	\$ 55,210
Salaries, bonuses, and benefits	38,193	35,080
Lease liabilities <sup>(2)</sup>	13,927	14,410
Accrued interest	14,092	15,718
Warranty accruals	9,603	10,122
Accrued long-term compensation	17,492	12,674
Accrued land development	5,046	5,960
Accrued real estate taxes	3,148	4,027
Other	9,021	14,174
	<u>\$ 162,256</u>	<u>\$ 167,375</u>

(1) Net of deposits of \$28.7 million and \$23.3 million in February 28, 2021 and May 31, 2020, respectively.

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

## Note 8 — Customer Deposits

Customer deposits at February 28, 2021 and May 31, 2020 consisted of the following (in thousands):

	February 28, 2021	May 31, 2020
Customer deposits - retail	\$ 42,594	\$ 14,713
Customer deposits - wholesale	32,601	2,867
	<u>\$ 75,195</u>	<u>\$ 17,580</u>

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

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

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

Effective January 27, 2021, the Company and Little Shots entered into a fourth amendment to the Regulations to: (1) increase the maximum size of the Board of Directors from the current 5 directors to 9 directors, (2) designate a new class of at large directors comprised of up to four members, and (3) eliminate provisions that are no longer necessary. The number of directors as of February 28, 2021 remains at 5.

At February 28, 2021, there were 20,628,729 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	38.91 %	100.00 %
Class B	1,922,151	9.32 %	97.43 %
Class C	8,167,244	39.59 %	76.84 %
<b>Total Little Shots Nevada L.L.C.</b>	<b>18,116,595</b>	<b>87.82 %</b>	
<b>Various Holders</b>			
Class B	50,649	0.25 %	2.57 %
Class C	2,461,485	11.93 %	23.16 %
	<u>20,628,729</u>	<u>100.00 %</u>	

#### **Note 10 — Transactions with Related Parties**

##### *Services agreement*

The Company is a party to a services agreement with the Investors that provides the Company with a license, as well as development and support, for certain of the Company's computer systems and administrative services. The Company pays a fee of \$800 per home closing quarterly, in arrears, for these services, which is included in selling, general and administrative expenses in the unaudited condensed consolidated statements of income. The Company incurred fees of \$1.1 million and \$3.2 million during the three and nine months ended February 28, 2021, respectively, and \$1.0 million and \$2.7 million during the three and nine months ended February 29, 2020, respectively, under the services agreement. As of February 28, 2021 and May 31, 2020, the balance due to the Investors under the terms of the service agreement was \$1.1 million and \$1.4 million, respectively, and was included in other liabilities in the unaudited condensed consolidated balance sheets.

##### *Lease*

The Company is a party to a lease as a lessee with the Investors to rent approximately 8,500 square feet of commercial space in Dallas, Texas. The Company has 22 months remaining on the lease as of February 28, 2021. Total minimum lease payments due under the lease were \$0.2 million and \$0.3 million as of February 28, 2021 and May 31, 2020, respectively.

##### *Lot purchase agreements*

The Company is a party to seven lot purchase agreements with the Investors. An initial deposit ranging from 10% to 20% was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is required to record two of these lot purchase agreements as real estate not owned in the unaudited condensed consolidated balance sheets. As of February 28, 2021, the total purchase price of lots remaining to be purchased under the seven lot purchase agreements was approximately \$38.2 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 an equity investment of less than 50% in the joint venture and does not have a controlling interest in the unconsolidated entity. Also, the Company is a party to a lot purchase agreement with the joint venture to purchase 76 lots as of February 28, 2021. A 10% deposit was required under the purchase agreement and there are no specific performance requirements for the Company. As of February 28, 2021, the total purchase price of lots remaining to be purchased was \$8.3 million. As of February 28, 2021, the joint venture had no debt outstanding.

The Company entered into a sale agreement with the Investors during the three months ended February 28, 2021. In accordance with the agreement, the Company reported 152 wholesale home sales to the Investors for an aggregate purchase price of \$31.1 million. The Company has not closed on any of these sales during the three months ended February 28, 2021. As of February 28, 2021, there was a deposit of \$3.1 million in connection with this agreement.

**Note 11 — Long-Term Incentive Plan**

The Company has made grants to its executive officers and certain officers and employees of the corporate and operating divisions' senior management teams under the Second Amended and Restated Performance Share Plan (the "Plan"), which is a long-term incentive compensation program designed to align the interests of the Company and its executives by enabling key employees to participate in the Company's future growth. The Plan provides for the grant to participants of full-value performance shares and appreciation-only performance shares, which are the equivalent of phantom equity awards. Full-value performance shares allow the participant to receive a cash payment equal to the total value of the performance share on the designated date of payment. Appreciation-only performance shares allow the participant to receive a cash payment equal to the increase in value of the performance share measured from the date of grant to the designated date of payment. In each July of 2013 through 2020, the Board of Directors awarded outstanding performance shares to the Company's executive officers, and certain officers and members of the corporate and operating divisions' senior management teams.

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

The following table represents a rollforward of the outstanding performance shares for the nine months ended February 28, 2021:

	<b>Full-value shares</b>	<b>Appreciation- only shares</b>	<b>Total shares</b>
Outstanding performance shares as of May 31, 2020	239,633	703,922	943,555
Performance shares awarded during the period	119,640	239,280	358,920
Shares forfeited during the period	(370)	(740)	(1,110)
Fully vested performance shares paid	(75,106)	(83,995)	(159,101)
<b>Total outstanding performance shares as of February 28, 2021</b>	<b>283,797</b>	<b>858,467</b>	<b>1,142,264</b>
<b>Total vested performance shares as of February 28, 2021</b>	<b>152,576</b>	<b>596,030</b>	<b>748,606</b>

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

The total number of performance shares vested as of February 28, 2021 and May 31, 2020 was 748,606 and 695,110, respectively. The Company recorded \$3.8 million and \$8.5 million for the three and nine months ended February 28, 2021, respectively, and \$1.9 million and \$4.4 million for the three and nine months ended February 29, 2020, respectively, in compensation expense associated with the full-value and appreciation-only performance shares. For the nine months ended February 28, 2021 and February 29, 2020, \$3.7 million (159,101 units) and \$2.9 million (144,394 units), respectively, of vested performance shares were paid out to employees. As of February 28,



2021 and May 31, 2020, the Company's liability for the performance shares was \$17.5 million and \$12.7 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

## Note 12 — Fair Value Disclosures

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

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

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

The following table presents the carrying amounts and estimated fair values of the Company's Senior Notes at February 28, 2021 and May 31, 2020:

	Fair Value Hierarchy	February 28, 2021		May 31, 2020	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)					
<b>Liabilities:</b>					
6.750% Notes	Level 2	\$ 247,391	\$ 259,375	\$ 246,878	\$ 237,500
9.875% Notes	Level 2	249,923	288,150	249,182	263,288
6.625% Notes	Level 2	246,141	268,125	245,610	226,875
		<u>\$ 743,455</u>	<u>\$ 815,650</u>	<u>\$ 741,670</u>	<u>\$ 727,663</u>

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

## Note 13 — Commitments and Contingencies

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

flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds the estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

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

In the normal course of business, the Company provides letters of credit and surety bonds to third parties to secure performance and provides deposits under various contracts and commitments. At February 28, 2021 and May 31, 2020, the Company had letters of credit outstanding of \$0.3 million and \$2.7 million, respectively, and surety bonds outstanding of \$123.7 million and \$73.6 million, respectively. As of February 28, 2021, the Company had \$49.7 million of unused letter of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, as of February 28, 2021, the Company has made nonrefundable deposits of \$223.6 million, which includes \$28.7 million of nonrefundable deposits related to purchase and option agreements recorded under ASC 606 or ASC 470-40 (See Note 4). The Company would forfeit the remaining deposits if the lots are not purchased. The total purchase price of lots remaining to be purchased under option agreements with nonrefundable deposits was approximately \$1.5 billion as of February 28, 2021.

#### *Leases*

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

Right-of-use assets are classified within other assets on the unaudited condensed consolidated balance sheets, while Lease liabilities are classified within other liabilities on the unaudited condensed consolidated balance sheets. Right-of-use assets and Lease liabilities were \$12.4 million and \$13.9 million at February 28, 2021, respectively, and \$13.1 million and \$14.4 million at May 31, 2020, respectively. During the nine months ended February 28, 2021 and February 29, 2020, there was \$2.1 million and \$44.9 thousand, respectively, of additions to the right-of-use assets under operating leases. Payments on Lease liabilities during the nine months ended February 28, 2021 and February 29, 2020 totaled \$3.4 million and \$3.0 million, respectively.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. For the nine months ended February 28, 2021 and February 29, 2020, our total lease expense was approximately \$3.8 million and \$4.2 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 February 28, 2021 are as follows (in thousands):

Year ending May 31, 2021	\$ 821
Year ending May 31, 2022	3,339
Year ending May 31, 2023	3,383
Year ending May 31, 2024	2,674
Year ending May 31, 2025	2,488
Thereafter	5,797
Total future minimum lease payments <sup>(a)</sup>	18,502
Less: Interest <sup>(b)(c)</sup>	4,575
Total future minimum lease payments less interest <sup>(c)</sup>	<u>\$ 13,927</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 4.7 years and 7.8%, respectively, at February 28, 2021.

#### Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

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

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>February 28, 2021</u>	<u>February 29, 2020</u>	<u>February 28, 2021</u>	<u>February 29, 2020</u>
<b>Revenues:</b>				
Homebuilding:				
East	\$ 193,862	\$ 191,409	\$ 601,783	\$ 557,250
Central	257,630	238,774	731,530	612,342
Total homebuilding revenues	451,492	430,183	1,333,313	1,169,592
Reconciling items:				
Land sales	3,213	2,783	3,278	8,753
Financial services and other revenue	7,775	11,671	21,404	26,650
Total revenues	<u>\$ 462,480</u>	<u>\$ 444,637</u>	<u>\$ 1,357,995</u>	<u>\$ 1,204,995</u>
<b>Gross profit<sup>(1)</sup>:</b>				
Homebuilding:				
East	\$ 40,185	\$ 28,814	\$ 110,795	\$ 83,284
Central	64,576	48,681	174,370	119,751
Total homebuilding gross profit	104,761	77,495	285,165	203,035
Reconciling items:				
Land sales gross profit (loss)	757	(6)	748	1,436
Financial services and other revenue gross profit	2,244	3,261	6,445	7,850
Total gross profit	<u>\$ 107,762</u>	<u>\$ 80,750</u>	<u>\$ 292,358</u>	<u>\$ 212,321</u>

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
<b>Depreciation and amortization:</b>				
East	\$ 820	\$ 1,009	\$ 2,540	\$ 3,229
Central	1,340	1,343	3,891	4,090
Total depreciation and amortization	<u>\$ 2,160</u>	<u>\$ 2,352</u>	<u>\$ 6,431</u>	<u>\$ 7,319</u>
<b>Equity in earnings of unconsolidated entities:</b>				
East	\$ 504	\$ 172	\$ 1,056	\$ 360
Central	2,209	1,194	5,303	3,057
Total equity in earnings of unconsolidated entities	<u>\$ 2,713</u>	<u>\$ 1,366</u>	<u>\$ 6,359</u>	<u>\$ 3,417</u>
<b>Net income (loss):</b>				
East	\$ 13,229	\$ (4,099)	\$ 27,706	\$ (3,313)
Central	29,562	19,875	77,903	37,060
	42,791	15,776	105,609	33,747
Other <sup>(2)</sup>	2,261	(1,102)	(4,025)	(2,971)
Total net income	<u>\$ 45,052</u>	<u>\$ 14,674</u>	<u>\$ 101,584</u>	<u>\$ 30,776</u>

- (1) Includes inventory impairments on homes totaling \$33.0 thousand and \$91.0 thousand for the east segment during the three and nine months ended February 28, 2021, respectively, and \$0.7 million and \$1.1 million for the east segment during the three and nine months ended February 29, 2020, respectively. There were no impairments for the central segment during the three months ended February 28, 2021 and February 29, 2020. There were \$56.0 thousand and \$41.0 thousand of impairments for the central segment during the nine months ended February 28, 2021 and February 29, 2020, respectively.
- (2) "Other" primarily consists of interest directly expensed.

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

	February 28, 2021	May 31, 2020
<b>Assets:</b>		
Homebuilding:		
East	\$ 728,528	\$ 644,009
Central	810,171	537,735
	1,538,699	1,181,744
Other <sup>(1)</sup>	112,872	270,501
Total assets	<u>\$ 1,651,571</u>	<u>\$ 1,452,245</u>

- (1) "Other" is comprised of cash, restricted cash, corporate, and financial services assets.

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>Additions to property and equipment:</b>				
Homebuilding:				
East	\$ 797	\$ 804	\$ 2,127	\$ 2,611
Central	604	685	2,647	3,149
	<u>1,401</u>	<u>1,489</u>	<u>4,774</u>	<u>5,760</u>
Other <sup>(1)</sup>	—	—	39	216
<b>Total additions to property and equipment</b>	<b>\$ 1,401</b>	<b>\$ 1,489</b>	<b>\$ 4,813</b>	<b>\$ 5,976</b>

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

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

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

### **Forward-Looking Statements**

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

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

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

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

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

## Overview and Outlook

### *COVID-19*

COVID-19 has had a material impact on the global and U.S. economies and has impacted our business operations. There has been continuing business uncertainty surrounding COVID-19, due to rapidly changing governmental orders, public health concerns, the resulting market reactions, a significant increase in the unemployment rate, and the behavior of potential homebuyers. Responses to COVID-19 have included, among other things, varying degrees of quarantines, “stay-at-home” or “shelter-in-place” orders, and similar mandates for many individuals, which in some instances have substantially restricted daily activities and have required many businesses to curtail or cease normal operations.

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

As restrictions on our business and normal daily activities began to be put in place in March 2020, we made a number of strategic decisions that focused on cash generation and preservation, including drawing down funds under our revolving credit facility during the fourth quarter of fiscal year 2020, slowing and delaying the construction of homes, delaying openings of new communities, and restructuring and delaying land investments. While we saw a slowdown in sales through late April with the emergence of COVID-19 in March, sales began to increase in late April and May, and our cancellation rates returned to normal levels. Sales have remained strong through February 28, 2021. With the strong demand for new homes beginning in late April 2020, and continuing through February 28, 2021, we have been starting construction on additional homes, making new land investments, and developing land we own, while continuing to focus on maintaining adequate liquidity through the uncertain times ahead. During the three and nine months ended February 28, 2021, our new home sales orders increased by 88% and 68%, respectively, compared to the three and nine months ended February 29, 2020.

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

Even with the resurgence of demand, we remain cautious as to the impact that COVID-19 may have on our operations and on the overall economy in the future. Although there is some optimism about the ongoing vaccine rollouts and decreasing infection and hospitalization rates, there remains significant uncertainty regarding the extent to which and how long COVID-19 and its related effects will impact the U.S. and global economy, and the level of unemployment, availability of debt, capital, the health of the mortgage markets, consumer confidence, and demand for our homes. In addition, our operations could be impacted by elongated cycle times due to lack of availability of trade labor and building materials, as well as the responsiveness of government services such as zoning, permitting and related government approvals. We may also be impacted by lack of availability and rising costs of trade labor. The extent to which these impact our operational and financial performance will depend upon future developments,

including the duration and spread of COVID-19 and its variants, the impact on our customers, trade partners and employees, and access to, and efficacy of, vaccines. In addition, as the resurgence of demand has caused an increase in the construction of new homes, the pricing of building materials, most notably lumber, has increased significantly.

### **Business**

We design, build, and market detached and attached single-family homes in six states under the Ashton Woods Homes and Starlight Homes brand names. The Company offers entry-level, move-up, and multi-move-up homes under the Ashton Woods Homes brand name, and offers entry-level and wholesale homes under the Starlight Homes brand name. Included under the Starlight Homes brand, the Company offers construction and development services specifically tailored to the single-family rental industry under the Prelude Residential brand name, which we sell under bulk sales agreements to real estate investors. We refer to such sales as our wholesale home sales. Our Ashton Woods communities are created to deliver design and personalization for our homebuyers through collaboration and expertise. Our Ashton Woods sales and marketing strategy leverages our national brand while allowing our operating divisions to customize execution to meet the needs and preferences of our local markets. While Ashton Woods' value proposition is grounded in design and personalization, Starlight is focused on delivering more affordable homes. Our strategy in approaching the Starlight market is primarily to convert renters into first-time homebuyers by offering affordable homes that include attractive features, without offering customers the opportunity to personalize their homes.

Presented below are certain operating and other data for our consolidated business based on buyer profile:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>Net new home orders (units):</b>				
Entry-Level - Starlight Homes	1,557	539	3,455	1,637
Entry-Level - Ashton Woods	270	279	769	717
Move-Up - Ashton Woods	658	485	1,882	1,343
Multi-Move-Up - Ashton Woods	204	127	625	320
Company Total	<u>2,689</u>	<u>1,430</u>	<u>6,731</u>	<u>4,017</u>
<b>Homes closed (units):</b>				
Entry-Level - Starlight Homes	692	481	1,963	1,374
Entry-Level - Ashton Woods	178	223	597	522
Move-Up - Ashton Woods	358	423	1,119	1,137
Multi-Move-Up - Ashton Woods	104	105	306	318
Company Total	<u>1,332</u>	<u>1,232</u>	<u>3,985</u>	<u>3,351</u>
			<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>Backlog (units) at end of period:</b>				
Entry-Level - Starlight Homes			1,975	585
Entry-Level - Ashton Woods			452	415
Move-Up - Ashton Woods			1,336	781
Multi-Move-Up - Ashton Woods			491	193
Company Total			<u>4,254</u>	<u>1,974</u>



	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>Active communities:</b>		
Entry-Level - Starlight Homes	42	29
Entry-Level - Ashton Woods	17	22
Move-Up - Ashton Woods	44	63
Multi-Move-Up - Ashton Woods	12	22
Company Total	<u>115</u>	<u>136</u>

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>Average monthly sales per average active community: <sup>(1)</sup></b>				
Entry-Level - Starlight Homes	13.5	6.3	10.7	6.6
Entry-Level - Ashton Woods	4.3	3.9	3.9	4.4
Move-Up - Ashton Woods	4.7	2.7	4.0	2.2
Multi-Move-Up - Ashton Woods	4.5	1.9	4.1	1.6
Company Average	7.4	3.5	5.9	3.3

(1) Average active community for the three months ended February is calculated by averaging the active community counts at February 28 or 29, as applicable, and November 30. For the nine months ended February, the average active community is calculated by averaging the active community counts at February 28 or 29, as applicable, and May 31.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>Average sales price per home closed (in thousands):</b>				
Entry-Level - Starlight Homes	\$ 253	\$ 224	\$ 241	\$ 221
Entry-Level - Ashton Woods	\$ 298	\$ 286	\$ 303	\$ 289
Move-Up - Ashton Woods	\$ 422	\$ 428	\$ 418	\$ 432
Multi-Move-Up - Ashton Woods	\$ 695	\$ 741	\$ 695	\$ 717
Company Average	\$ 339	\$ 349	\$ 335	\$ 349

During the nine months ended February 28, 2021, we closed 3,985 homes. Of those closings, 3,423 (86%) were single-family detached homes, while the remaining 562 (14%) homes closed were single-family attached homes.

During the twelve months ended February 28, 2021, the Company added 73 new active communities, while closing out 94 communities. Of the 73 active communities added during the twelve months ended February 28, 2021, 30 (41%) are considered to be entry-level Starlight Homes, 16 (22%) are considered to be entry-level Ashton Woods Homes, 24 (33%) are considered to be move-up Ashton Woods Homes, and 3 (4%) are considered to be multi-move-up Ashton Woods Homes.

Wholesale home sales, which are offered under our Starlight Homes brand, are included in consolidated net new home orders, homes closed, and backlog at end of period, as discussed in Note 1(j) to our unaudited condensed consolidated financial statements. The wholesale home sales, which are generally priced at a discount to retail, typically have lower average sales prices than retail home sales. Presented below are certain data for our wholesale home sales:

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
<b>Wholesale (units):</b>				
Net new home orders	872	21	1,303	337
Homes closed	54	93	155	176
Backlog at end of period	1,230	190	1,230	190

### Results of operations

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
<b>Revenues:</b>	(in thousands)			
Home sales	\$ 451,492	\$ 430,183	\$ 1,333,313	\$ 1,169,592
Land sales	3,213	2,783	3,278	8,753
Financial services and other revenues	7,775	11,671	21,404	26,650
	<u>\$ 462,480</u>	<u>\$ 444,637</u>	<u>\$ 1,357,995</u>	<u>\$ 1,204,995</u>
<b>Gross profit (loss):</b>				
Home sales	\$ 104,761	\$ 77,495	\$ 285,165	\$ 203,035
Land sales	757	(6)	748	1,436
Financial services and other revenues	2,244	3,261	6,445	7,850
	<u>\$ 107,762</u>	<u>\$ 80,750</u>	<u>\$ 292,358</u>	<u>\$ 212,321</u>
Selling, general and administrative	\$ 61,668	\$ 61,530	\$ 176,798	\$ 168,707
Net income <sup>(1)</sup>	\$ 45,052	\$ 14,674	\$ 101,584	\$ 30,776

- (1) Because we are structured as a limited liability company, income tax obligations are paid by our Members and are not borne by us. As a limited liability company, we periodically make tax distributions to our Members. The Company made tax distributions of \$22.2 million and \$12.5 million during the nine months ended February 28, 2021 and February 29, 2020, respectively.

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
<b>Supplemental data:</b>	(\$ in thousands)			
Active communities at end of period	115	136	115	136
Net new home orders (in units)	2,689	1,430	6,731	4,017
Homes closed (in units) <sup>(1)</sup>	1,332	1,232	3,985	3,351
Average sales price per home closed	\$ 339	\$ 349	\$ 335	\$ 349
Backlog at end of period (in units)	4,254	1,974	4,254	1,974
Sales value of backlog at end of period	\$ 1,533,756	\$ 730,222	\$ 1,533,756	\$ 730,222
Home gross margin <sup>(2)</sup>	23.2 %	18.0 %	21.4 %	17.4 %
Adjusted home gross margin <sup>(2)</sup>	25.2 %	20.4 %	23.5 %	19.7 %
Ratio of selling, general and administrative expenses to home sales revenue	13.7 %	14.3 %	13.3 %	14.4 %
Interest incurred <sup>(3)</sup>	\$ 15,777	\$ 14,330	\$ 47,530	\$ 40,763
Adjusted EBITDA <sup>(4)</sup>	\$ 58,063	\$ 30,076	\$ 150,348	\$ 74,336
Adjusted EBITDA margin <sup>(4)</sup>	12.6 %	6.8 %	11.1 %	6.2 %
Total debt to total capitalization <sup>(5)</sup>	58.8 %	65.2 %	58.8 %	65.2 %
Total net debt to net capitalization <sup>(6)</sup>	55.3 %	65.2 %	55.3 %	65.2 %
Cancellation rate (as a percentage of gross sales) <sup>(7)</sup>	11.7 %	17.2 %	13.2 %	18.3 %

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

(2) Home gross margin is defined as the difference between home sales revenues and cost of sales—homes, expressed as a percentage of home sales revenues. Cost of sales—homes includes the land costs, home construction costs, indirect costs of construction, previously capitalized interest, a reserve for warranty expense, architecture fee amortization, impairment charges, closing costs, and pre-acquisition costs related to real estate purchases that are no longer probable. Adjusted home gross margin is not a financial measure under GAAP and should not be considered an alternative to home gross margin determined in accordance with GAAP as an indicator of operating performance. We use this measure to evaluate our performance against other companies in the homebuilding industry and believe it is also relevant and useful to investors. Adjusted home gross margin is home gross margin that is adjusted to exclude inventory impairments and interest amortized to cost of sales. The following is a reconciliation of home gross margin, which is the most directly comparable GAAP measure, to adjusted home gross margin:

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
	(\$ in thousands)			
Home sales revenues	\$ 451,492	\$ 430,183	\$ 1,333,313	\$ 1,169,592
Cost of sales homes	346,731	352,688	1,048,148	966,557
Home gross margin	104,761	77,495	285,165	203,035
Add: Inventory impairments - homes	33	703	147	1,123
Interest amortized to cost of sales	8,972	9,537	27,816	26,741
Adjusted home gross margin	\$ 113,766	\$ 87,735	\$ 313,128	\$ 230,899
Ratio of home gross margin to home sales revenue	23.2 %	18.0 %	21.4 %	17.4 %
Ratio of adjusted home gross margin to home sales revenue	25.2 %	20.4 %	23.5 %	19.7 %

- (3) 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 nine months ended February 28, 2021 and February 29, 2020:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(in thousands)			
Capitalized interest, beginning of period	\$ 21,972	\$ 22,323	\$ 21,646	\$ 19,040
Interest incurred	15,777	14,330	47,530	40,763
Interest amortized to cost of sales	(8,972)	(9,537)	(27,816)	(26,741)
Interest expensed	(1,675)	(3,486)	(14,258)	(9,432)
Capitalized interest, end of period	<u>\$ 27,102</u>	<u>\$ 23,630</u>	<u>\$ 27,102</u>	<u>\$ 23,630</u>

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(in thousands)			
Net income	\$ 45,052	\$ 14,674	\$ 101,584	\$ 30,776
Depreciation and amortization	2,182	2,379	6,508	7,387
Interest amortized to cost of sales	8,972	9,537	27,816	26,741
Interest expensed	1,675	3,486	14,258	9,432
EBITDA	<u>57,881</u>	<u>30,076</u>	<u>150,166</u>	<u>74,336</u>
Loss on extinguishment of debt	182	—	182	—
Adjusted EBITDA	<u>\$ 58,063</u>	<u>\$ 30,076</u>	<u>\$ 150,348</u>	<u>\$ 74,336</u>

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

	<b>As of</b>	<b>As of</b>
	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(\$ in thousands)	
Total debt	\$ 755,000	\$ 759,725
Total Members' Equity	529,862	405,408
Total capitalization	<u>\$ 1,284,862</u>	<u>\$ 1,165,133</u>
Total debt to total capitalization	58.8 %	65.2 %

- (6) The total net debt to net capitalization ratio consists of total debt, net of cash, cash equivalents, and restricted cash, divided by net capitalization (Net debt plus total members' equity)

	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
	(\$ in thousands)	
Total debt	\$ 755,000	\$ 759,725
Less cash, cash equivalents, and restricted cash	100,704	1,805
Net debt	\$ 654,296	\$ 757,920
Total Members' Equity	529,862	405,408
Total net capitalization	<u>\$ 1,184,158</u>	<u>\$ 1,163,328</u>
Total net debt to net capitalization	55.3 %	65.2 %

- (7) The following table presents the cancellation rates (as a percentage of gross sales) by buyer profile for the three and nine months ended February 28, 2021 and February 29, 2020:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
Entry-Level - Starlight Homes	14.9 %	23.1 %	17.6 %	25.4 %
Entry-Level - Ashton Woods	9.1 %	11.9 %	9.8 %	11.8 %
Move-Up - Ashton Woods	7.0 %	13.5 %	7.6 %	12.8 %
Multi-Move-Up - Ashton Woods	5.9 %	14.5 %	8.9 %	13.3 %
Consolidated	11.7 %	17.2 %	13.2 %	18.3 %

## Results of operations - Segments

We have aggregated our homebuilding operating divisions into two reportable segments, east and central. At February 28, 2021, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

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

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

### Net new home orders (units):

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
East:				
Entry-Level - Starlight Homes	773	233	1,630	889
Entry-Level - Ashton Woods	130	114	261	212
Move-Up - Ashton Woods	257	147	658	402
Multi-Move-Up - Ashton Woods	109	97	331	242
Total east	1,269	591	2,880	1,745
Central:				
Entry-Level - Starlight Homes	784	306	1,825	748
Entry-Level - Ashton Woods	140	165	508	505
Move-Up - Ashton Woods	401	338	1,224	941
Multi-Move-Up - Ashton Woods	95	30	294	78
Total central	1,420	839	3,851	2,272
Company total	2,689	1,430	6,731	4,017

### Homes closed (units):

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
East:				
Entry-Level - Starlight Homes	328	259	1,005	764
Entry-Level - Ashton Woods	56	64	174	146
Move-Up - Ashton Woods	111	125	357	380
Multi-Move-Up - Ashton Woods	58	79	209	234
Total east	553	527	1,745	1,524
Central:				
Entry-Level - Starlight Homes	364	222	958	610
Entry-Level - Ashton Woods	122	159	423	376
Move-Up - Ashton Woods	247	298	762	757
Multi-Move-Up - Ashton Woods	46	26	97	84
Total central	779	705	2,240	1,827
Company total	1,332	1,232	3,985	3,351

**Average sales price per home closed:**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
	(in thousands)			
<b>East:</b>				
Entry-Level - Starlight Homes	\$ 259	\$ 221	\$ 243	\$ 219
Entry-Level - Ashton Woods	\$ 297	\$ 292	\$ 295	\$ 298
Move-Up - Ashton Woods	\$ 444	\$ 454	\$ 434	\$ 466
Multi-Move-Up - Ashton Woods	\$ 743	\$ 744	\$ 726	\$ 709
Average east	\$ 351	\$ 363	\$ 345	\$ 366
<b>Central:</b>				
Entry-Level - Starlight Homes	\$ 248	\$ 227	\$ 238	\$ 222
Entry-Level - Ashton Woods	\$ 299	\$ 284	\$ 306	\$ 286
Move-Up - Ashton Woods	\$ 412	\$ 417	\$ 411	\$ 415
Multi-Move-Up - Ashton Woods	\$ 636	\$ 733	\$ 627	\$ 741
Average central	\$ 331	\$ 339	\$ 327	\$ 335
Company average	\$ 339	\$ 349	\$ 335	\$ 349

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

	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>East:</b>		
Entry-Level - Starlight Homes	889	304
Entry-Level - Ashton Woods	167	125
Move-Up - Ashton Woods	470	205
Multi-Move-Up - Ashton Woods	222	143
Total east	1,748	777
<b>Central:</b>		
Entry-Level - Starlight Homes	1,086	281
Entry-Level - Ashton Woods	285	290
Move-Up - Ashton Woods	866	576
Multi-Move-Up - Ashton Woods	269	50
Total central	2,506	1,197
Company total	4,254	1,974

**Active communities:**

	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>East:</b>		
Entry-Level - Starlight Homes	18	14
Entry-Level - Ashton Woods	4	7
Move-Up - Ashton Woods	14	20
Multi-Move-Up - Ashton Woods	6	18
Total east	42	59
<b>Central:</b>		
Entry-Level - Starlight Homes	24	15
Entry-Level - Ashton Woods	13	15
Move-Up - Ashton Woods	30	43
Multi-Move-Up - Ashton Woods	6	4
Total central	73	77
Company total	115	136

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>February 28, 2021</b>	<b>February 29, 2020</b>	<b>February 28, 2021</b>	<b>February 29, 2020</b>
<b>East:</b>				
Entry-Level - Starlight Homes	15.6	5.5	10.3	7.1
Entry-Level - Ashton Woods	10.8	5.4	4.8	3.6
Move-Up - Ashton Woods	5.7	2.5	4.6	2.0
Multi-Move-Up - Ashton Woods	3.8	1.8	3.1	1.6
Average east	9.4	3.4	6.2	3.3
<b>Central:</b>				
Entry-Level - Starlight Homes	11.9	7.0	11.0	6.2
Entry-Level - Ashton Woods	2.7	3.2	3.5	4.9
Move-Up - Ashton Woods	4.2	2.7	3.8	2.3
Multi-Move-Up - Ashton Woods	5.8	2.5	6.5	1.7
Average central	6.2	3.6	5.7	3.4
Company average	7.4	3.5	5.9	3.3

- (1) Average active community for the three months ended February is calculated by averaging the active community counts at February 28 or 29, as applicable, and November 30. For the nine months ended February, the average active community is calculated by averaging the active community counts at February 28 or 29, as applicable, and May 31.



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

	Three months ended		Nine months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
<b>Homebuilding East:</b>	(in thousands)			
Home sales revenues	\$ 193,862	\$ 191,409	\$ 601,783	\$ 557,250
Cost of sales homes	153,677	162,595	490,988	473,966
Home gross margin	40,185	28,814	110,795	83,284
Add: Inventory impairments	33	703	91	1,082
Interest amortized to cost of sales	4,483	4,940	14,940	14,919
Adjusted home gross margin	\$ 44,701	\$ 34,457	\$ 125,826	\$ 99,285
Ratio of home gross margin to home sales revenues	20.7 %	15.1 %	18.4 %	14.9 %
Ratio of adjusted home gross margin to home sales revenues	23.1 %	18.0 %	20.9 %	17.8 %
<b>Homebuilding Central:</b>				
Home sales revenues	\$ 257,630	\$ 238,774	\$ 731,530	\$ 612,342
Cost of sales homes	193,054	190,093	557,160	492,591
Home gross margin	64,576	48,681	174,370	119,751
Add: Inventory impairments	—	—	56	41
Interest amortized to cost of sales	4,489	4,597	12,876	11,822
Adjusted home gross margin	\$ 69,065	\$ 53,278	\$ 187,302	\$ 131,614
Ratio of home gross margin to home sales revenues	25.1 %	20.4 %	23.8 %	19.6 %
Ratio of adjusted home gross margin to home sales revenues	26.8 %	22.3 %	25.6 %	21.5 %

## Results of operations - Discussion

### Three and Nine Months Ended February 28, 2021 Compared to Three and Nine Months Ended February 29, 2020

#### *Home sales revenues - Consolidated*

Home sales revenues increased by 5.0% (\$21.3 million) and 14.0% (\$163.7 million) for the three and nine months ended February 28, 2021, to \$451.5 million and \$1,333.3 million, respectively, from \$430.2 million and \$1,169.6 million for the three and nine months ended February 29, 2020, respectively. The increase in revenues for the three and nine months ended February 28, 2021, as compared to the three and nine months ended February 29, 2020, was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed.

The number of homes closed increased by 8.1% (100 homes) and 18.9% (634 homes) for the three and nine months ended February 28, 2021 to 1,332 and 3,985, respectively, from 1,232 and 3,351 for the three and nine months ended February 29, 2020, respectively. The increase in closings is largely driven by the strong demand for new homes beginning in late April 2020, and continuing through February 28, 2021, the period during which most of the homes that closed during the three and nine months ended February 28, 2021 were sold. During the nine months ended February 28, 2021, our new home sales orders increased by 67.6%, compared to the nine months ended February 29, 2020, resulting in an increase both in closings during the period and ending backlog.

The average sales price of homes closed decreased 2.9% and 4.0% to an average of \$339,000 and \$335,000 for the three and nine months ended February 28, 2021, respectively, from an average of \$349,000 for both the three and nine months ended February 29, 2020. The decrease in the average sales price of homes closed on a

consolidated basis reflected our continued, planned shift toward communities with lower average sales prices. For the three and nine months ended February 28, 2021, 870 (65.3%) and 2,560 (64.2%) closings, respectively, were from entry-level communities, with generally lower average sales prices, compared to 704 (57.1%) and 1,896 (56.6%) closings for the three and nine months ended February 29, 2020, respectively. Notwithstanding the shift to communities with lower average sales prices, due to the strong demand for new homes, we were able to raise prices and reduce incentives in most communities across all of our markets, which resulted in increased average sales prices for our entry-level product for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020 on a consolidated basis.

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

Home sales revenues for the east segment increased by 1.3% (\$2.5 million) and 8.0% (\$44.5 million) for the three and nine months ended February 28, 2021, to \$193.9 million and \$601.8 million, respectively, from \$191.4 million and \$557.3 million for the three and nine months ended February 29, 2020, respectively. The increase in revenues was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed.

The number of homes closed during the three and nine months ended February 28, 2021 increased 4.9% (26 homes) and 14.5% (221 homes), respectively, as compared to the three and nine months ended February 29, 2020. The average sales price of homes closed decreased 3.3% and 5.7% to an average of \$351,000 and \$345,000 for the three and nine months ended February 28, 2021, respectively, from an average of \$363,000 and \$366,000 for the three and nine months ended February 29, 2020, respectively. The increase in closings is largely driven by the strong demand for new homes beginning in late April 2020, and continuing through February 28, 2021, the period during which most of the homes that closed during the three and nine months ended February 28, 2021 were sold. During the nine months ended February 28, 2021 our new home sales orders increased by 65.0%, compared to the nine months ended February 29, 2020, resulting in an increase both in closings during the period and ending backlog.

The decrease in the average sales price of homes closed for the three and nine months ended February 28, 2021, compared to the three and nine months ended February 29, 2020, was primarily due to the continued, planned shift to a higher percentage of closings in entry-level communities, with generally lower average sales prices. During the three and nine months ended February 28, 2021, 384 (69.4%) and 1,179 (67.6%), respectively, of the homes closed were considered entry-level, compared to 323 (61.3%) and 910 (59.7%) for the three and nine months ended February 29, 2020, respectively. Notwithstanding the shift to communities with lower average sales prices, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets, which resulted in an increased aggregate average sales prices for our entry-level product in the east segment for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020.

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

Home sales revenues for the central segment increased by 7.9% (\$18.9 million) and 19.5% (\$119.2 million) for the three and nine months ended February 28, 2021, respectively, to \$257.6 million and \$731.5 million, respectively, from \$238.8 million and \$612.3 million for the three and nine months ended February 29, 2020, respectively. The increase in revenues for the three and nine months ended February 28, 2021, as compared to the three and nine months ended February 29, 2020, was due to an increase in the number of homes closed, partially offset by a decrease in the average sales price of homes closed.

The number of homes closed during the three and nine months ended February 28, 2021 increased 10.5% (74 homes) and 22.6% (413 homes), respectively, as compared to the three and nine months ended February 29, 2020. The average sales price of homes closed decreased 2.4% to an average of \$331,000 and \$327,000 in each of the three and nine months ended February 28, 2021, respectively, from an average of \$339,000 and \$335,000 for the three and nine months ended February 29, 2020, respectively. The increase in closings is largely driven by the strong demand for new homes beginning in late April 2020, and continuing through February 28, 2021, the period during which most of the homes that closed during the three and nine months ended February 28, 2021 were sold. During the nine months ended February 28, 2021 our new home sales orders increased by 69.5%, compared to the nine months ended February 29, 2020, resulting in an increase both in closings during the period and ending backlog.

The decrease in the average sales price of homes closed during the three and nine months ended February 28, 2021, compared to the three and nine months ended February 29, 2020, was primarily due to the continued, planned shift to a higher percentage of closings in entry-level communities, with generally lower average sales prices and higher sales paces. During the three and nine months ended February 28, 2021, 486 (62.4%) and 1,381 (61.7%), respectively, of the homes closed were considered entry-level, compared to 381 (54.0%) and 986 (54.0%) for the three and nine months ended February 29, 2020, respectively. Notwithstanding the shift to lower price communities, due to the strong demand for new homes, we were able to raise prices and reduce incentives in most communities across all of our markets, which resulted in increased aggregate average sales prices for our entry-level product in the central segment for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020.

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

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of the home closing. Net new home orders increased 88.0% (1,259 homes) and 67.6% (2,714 homes) for the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. Included in the net new home orders are 872 and 1,303 wholesale home sales to real estate investors for the three and nine months ended February 28, 2021, respectively, and 21 and 337 for the three and nine months ended February 29, 2020, respectively. These homes were sold under bulk sales agreements (see Note 1(j) to our unaudited condensed consolidated financial statements). These sales to real estate investors are opportunistic in nature and the timing and number of sales can vary from quarter to quarter. Excluding the wholesale home sales to real estate investors, net new home orders increased 29.0% (408 homes) and 47.5% (1,748 homes) for the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. The increase in net new home orders was primarily due to an increase in the average monthly sales per average active community across most of our buyer profiles due to continued strong demand for new homes, as well as an increase in the number of entry-level active communities, which typically have higher sales paces.

The cancellation rates (as a percentage of gross sales) on our entry-level homes have typically been higher than the cancellation rates on our move-up and multi-move-up homes. The most common reason for these cancellations is that the home buyer is not able to obtain financing. The largest improvement in cancellation rates for the three and nine months ended February 28, 2021 compared to the three and nine months ended February 29, 2020 was in our Starlight Homes business, largely because of the wholesale home sales to real estate investors which had no cancellations during the periods reported. Excluding wholesale home sales to real estate investors, the cancellation rates in our Starlight Homes business increased from 23.1% and 25.4% for the three and nine months ended February 29, 2020 to 28.7% and 25.6% for the three and nine months ended February 28, 2021.

Our backlog consists of homes that are under purchase contracts that have not yet closed. Backlog increased 115.5% from 1,974 homes in backlog at February 29, 2020 to 4,254 homes in backlog at February 28, 2021. Excluding wholesale home sales to real estate investors, backlog increased 69.5% from 1,784 homes in backlog at February 29, 2020 to 3,024 homes in backlog at February 28, 2021. The increase in backlog was a result of the continued strong demand for new homes as well as elongated construction cycle times due to some lack of availability of trade labor and building materials, resulting in the Company selling 8,023 homes during the twelve months ended February 28, 2021, which is 2,280 more homes than were closed (5,743 homes) during the twelve months ended February 28, 2021.

The sales value of backlog at February 28, 2021 was \$1,533.8 million, a 110.0% increase from the sales value of backlog at February 29, 2020 of \$730.2 million. Excluding wholesale home sales to real estate investors, the sales value of backlog at February 28, 2021 was \$1,248.0 million, an 80.2% increase from the sales value of backlog at February 29, 2020 of \$692.5 million. The increase in the sales value of backlog excluding wholesale home sales to real estate investors is primarily due to the 69.5% increase in the number of homes in backlog, as discussed above, and an increase in the average sales price of homes in backlog, excluding the wholesale home sales to real estate investors, from \$388,000 at February 29, 2020 to \$413,000 at February 28, 2021. Although our communities have continued to shift to a higher percentage of entry-level communities, the increase in the average sales price of homes in backlog is primarily related to the continued strong demand for new homes, which has enabled us to raise prices and reduce incentives in certain communities across all of our markets. In response to the emergence of COVID-19 as discussed above, the Company slowed and delayed the construction of homes in March and April 2020. This, coupled with elongated construction cycle times due to the availability of trade labor and building materials, as well

as the delayed responsiveness of government services such as zoning, permitting and related government approvals, has resulted in homes staying in backlog longer than in prior periods.

*Net new home orders and backlog - East segment*

Net new home orders in the east segment increased 114.7% (678 homes) and 65.0% (1,135 homes) during the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. Excluding the wholesale home sales to real estate investors, net new home orders increased 35.9% (212 homes) and 46.6% (698 homes) for the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. The increase in net new home orders was largely driven by an increase in the average sales pace per average active community due to continued strong demand for new homes as well as the shift in the mix of communities to a higher percentage of entry-level communities, which generally have a higher sales pace, for the three and nine months ended February 28, 2021, as compared to the three and nine months ended February 29, 2020.

	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>Backlog (units) at end of period:</b>		
Entry-Level - Starlight Homes	889	304
Entry-Level - Ashton Woods	167	125
Move-Up	470	205
Multi-Move-Up	222	143
Segment Total	<u>1,748</u>	<u>777</u>

Backlog consisted of 1,748 homes at February 28, 2021, which is a 125.0% increase from 777 homes in backlog at February 29, 2020. Included in backlog at February 28, 2021 and February 29, 2020 were 643 and 125 wholesale home sales with real estate investors, respectively. Excluding wholesale home sales to real estate investors, backlog increased 69.5% from 652 homes in backlog at February 29, 2020 to 1,105 homes in backlog at February 28, 2021. The increase in backlog is a result of selling 971 more homes than we closed during the twelve months ended February 28, 2021. The east segment sold 3,405 homes, while closing 2,434 homes during the twelve months ended February 28, 2021.

The sales value of backlog at February 28, 2021 was \$645.3 million, a 110.1% increase compared to the sales value of backlog at February 29, 2020 of \$307.2 million. Excluding wholesale home sales to real estate investors, the sales value of backlog at February 28, 2021 was \$489.5 million, a 73.1% increase from the sales value of backlog at February 29, 2020 of \$282.9 million. The increase in the sales value of backlog excluding wholesale home sales to real estate investors is due primarily to an increase in the number of homes in backlog and an increase in the average sales price of homes in backlog. The average sales price of homes in backlog excluding wholesale home sales to real estate investors at February 28, 2021 was \$443,000 compared to \$434,000 at February 29, 2020. The increase in the average sales price of homes in backlog excluding wholesale home sales to real estate investors is primarily a result of the mix of types of communities with homes in backlog, as well as continued strong demand for new homes. Of the 1,748 homes in backlog at February 28, 2021, 470 (26.9%) of the homes were considered move-up, compared to 205 (26.4%) of the 777 homes in backlog at February 29, 2020. Of the 1,748 homes in backlog at February 28, 2021, 1,056 (60.4%) of the homes were considered entry-level (including 643 wholesale home sales), compared to 429 (55.2%) of the 777 homes in backlog at February 29, 2020 (including 125 wholesale home sales).

*Net new home orders and backlog - Central segment*

Net new home orders in the central segment increased 69.2% (581 homes) and 69.5% (1,579 homes) during the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. Excluding the wholesale home sales to real estate investors, net new home orders increased 24.0% (196 homes) and 48.1% (1,050 homes) for the three and nine months ended February 28, 2021, respectively, compared to the three and nine months ended February 29, 2020. The increase in net new home orders was largely driven by an increase in the average sales pace per average active community due to continued strong demand for

new homes and was partially offset by a decrease in the number of active communities for the three and nine months ended February 28, 2021, as compared to the three and nine months ended February 29, 2020. As discussed above, our strategy has driven a shift in the mix of active communities at February 28, 2021, as compared to February 29, 2020, to a higher percentage of entry-level communities, which typically have a higher sales pace. The number of entry-level active communities in the central segment increased from 30 at February 29, 2020 to 37 at February 28, 2021.

	<b>As of February 28, 2021</b>	<b>As of February 29, 2020</b>
<b>Backlog (units) at end of period:</b>		
Entry-Level - Starlight Homes	1,086	281
Entry-Level - Ashton Woods	285	290
Move-Up	866	576
Multi-Move-Up	269	50
Segment Total	2,506	1,197

Backlog consisted of 2,506 homes at February 28, 2021, which is a 109.4% increase from 1,197 homes in backlog at February 29, 2020. Included in backlog at February 28, 2021 and February 29, 2020 were 587 and 65 wholesale home sales with real estate investors, respectively. Excluding wholesale home sales to real estate investors, backlog increased 69.5% from 1,132 homes in backlog at February 29, 2020 to 1,919 homes in backlog at February 28, 2021. The increase in backlog is the result of selling 1,309 more homes than were closed during the twelve months ended February 28, 2021. The central segment sold 4,618 homes, while closing 3,309 homes during the twelve months ended February 28, 2021.

The sales value of backlog at February 28, 2021 was \$888.5 million, a 110.0% increase over the sales value of backlog at February 29, 2020 of \$423.1 million. Excluding wholesale home sales to real estate investors, the sales value of backlog at February 28, 2021 was \$758.5 million, a 85.1% increase from the sales value of backlog at February 29, 2020 of \$409.7 million. The increase in the sales value of backlog excluding wholesale home sales to real estate investors is due to the increase in the number of homes in backlog, as discussed above, and an increase in the average sales price of homes in backlog. The average sales price of homes in backlog excluding wholesale home sales to real estate investors at February 28, 2021 was \$395,000 compared to \$362,000 at February 29, 2020. The increase in the average sales price of homes in backlog is a result of the mix of types of communities with homes in backlog. Of the 2,506 homes in backlog at February 28, 2021, 1,371 (54.7%) of the homes were considered entry-level (including 587 wholesale home sales), compared to 571 (47.7%) of the 1,197 homes in backlog at February 29, 2020 (including 65 wholesale home sales).

#### *Home gross margins - Consolidated*

The average gross margin from homes closed for the three and nine months ended February 28, 2021 increased to 23.2% and 21.4%, respectively, from 18.0% and 17.4% for the three and nine months ended February 29, 2020, respectively. The increase in average gross margin for the three and nine months ended February 28, 2021 was due primarily to the shift in community mix toward entry-level communities. We have generally experienced higher demand for our entry level and lower priced homes, while offering fewer incentives, resulting in higher gross margins in our entry-level communities. During the three and nine months ended February 28, 2021, 65.3% and 64.2%, respectively, of closings were from entry-level communities, compared to 57.1% and 56.6% of closings during the three and nine months ended February 29, 2020, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across all of our markets.

Adjusted gross margin from homes closed for the three and nine months ended February 28, 2021 increased to 25.2% and 23.5%, respectively, from 20.4% and 19.7% for the three and nine months ended February 29, 2020, respectively. This increase in the adjusted gross margin was due to the improvement in gross margins as described above, along with an increase in the interest amortized through cost of sales, offset in part by a decrease in impairment charges during the nine months ended February 28, 2021 as compared to the nine months ended February 29, 2020.

### *Home gross margins - East segment*

The average gross margin from homes closed in the east segment for the three and nine months ended February 28, 2021 increased to 20.7% and 18.4%, respectively, from 15.1% and 14.9% for the three and nine months ended February 29, 2020, respectively. The increase in average gross margin for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020 was due primarily to the shift in community mix to more entry-level communities, which typically have a higher gross margin. During the three and nine months ended February 28, 2021, 69.4% (384 homes) and 67.6% (1,179 homes), respectively, of closings were from entry-level communities compared to 61.3% (323 homes) and 59.7% (910 homes) of closings for the three and nine months ended February 29, 2020, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across the east segment.

### *Home gross margins - Central segment*

The average gross margin from homes closed in the central segment for the three and nine months ended February 28, 2021 increased to 25.1% and 23.8%, respectively, from 20.4% and 19.6% for the three and nine months ended February 29, 2020, respectively. The increase in average gross margin for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020 was due primarily to the shift in community mix to more entry-level communities, which typically have a higher gross margin. During the three and nine months ended February 28, 2021, 62.4% (486 homes) and 61.7% (1,381 homes), respectively, of closings were from entry-level communities compared to 54.0% (381 homes) and 54.0% (986 homes) of closings for the three and nine months ended February 29, 2020, respectively. In addition, due to the strong demand for new homes, we were able to raise prices and reduce incentives in certain communities across the central segment.

### *Selling, general and administrative expenses ("SG&A")*

SG&A totaled \$61.7 million and \$176.8 million for the three and nine months ended February 28, 2021, respectively, compared to \$61.5 million and \$168.7 million for the three and nine months ended February 29, 2020, respectively. SG&A as a percentage of home sales revenue decreased to 13.7% and 13.3% for the three and nine months ended February 28, 2021, respectively, from 14.3% and 14.4% for the three and nine months ended February 29, 2020, respectively. The decrease in SG&A as a percentage of home sales revenue was primarily related to a decrease in sales and marketing costs as a percentage of revenue due to a reduction in advertising and marketing costs, given the strong demand we have been experiencing for new homes across all of our markets. This was partially offset by an increase in sales commissions due to an increase in the number of home closings.

### *Land sales*

We periodically elect to sell parcels of land or lots. We had \$3.2 million and \$3.3 million in sales of land and lots during the three and nine months ended February 28, 2021, respectively, and \$2.8 million and \$8.8 million in sales of land and lots during the three and nine months ended February 29, 2020, respectively.

### *Net income*

Net income increased \$30.4 million and \$70.8 million for the three and nine months ended February 28, 2021, respectively, as compared to the three and nine months ended February 29, 2020. The increase in net income for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020 is primarily attributable to an increase in revenues for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020, as a result of the 8.1% and 18.9% increase in the number of homes closed during the three and nine months ended February 28, 2021, respectively, as compared to the three and nine months ended February 29, 2020, as well as an increase in home gross margins for the three and nine months ended February 28, 2021 as compared to the three and nine months ended February 29, 2020.

### **Liquidity and capital resources**

We currently fund our operations with proceeds from the sales of homes and land, borrowings under our Restated Revolver, and long-term financing. Our principal uses of cash are land and lot purchases, land development, home construction, repayments under our Restated Revolver, interest costs, overhead, and tax distributions. As we utilize our capital resources and liquidity to fund the growth of our business, we monitor our

balance sheet leverage ratios to ensure that we maintain reasonable levels. We also monitor current and expected operational requirements, as well as financial market conditions, to evaluate accessing other available financing sources. Based on our existing financial condition and credit relationships, we believe that our operations and capital resources are sufficient to provide for our current and foreseeable capital needs. However, we continue to evaluate the impact of market conditions on our liquidity and will consider, as appropriate, additional funding opportunities. The Company did not access the Restated Revolver to fund operations during the nine months ended February 28, 2021 and had no borrowings outstanding under the Restated Revolver as of February 28, 2021. The Company's total liquidity, including cash and cash equivalents, restricted cash, and available additional borrowing capacity, was \$350.4 million as of February 28, 2021.

#### *Operating cash flows*

Net cash used in operating activities for the nine months ended February 28, 2021 was \$124.6 million compared to \$205.1 million of net cash used in operating activities for the nine months ended February 29, 2020. The primary sources of funds from operations are from the closing of home sales. The decrease in net cash used in operations for the nine months ended February 28, 2021 was primarily due to an increase in customer deposits from both retail and wholesale customers due to strong demand for new homes, as well as elongated cycle times due to lack of availability of trade labor and building materials.

#### *Investing cash flows*

Net cash used in investing activities was \$4.8 million for the nine months ended February 28, 2021 and \$4.1 million for the nine months ended February 29, 2020. Net cash used in investing activities for the nine months ended February 28, 2021 was for additions to property and equipment to furnish and/or update furnishings in model homes and sales offices, purchase equipment, and make leasehold improvements.

#### *Financing cash flows*

Net cash used in financing activities was \$28.2 million for the nine months ended February 28, 2021, compared to \$210.9 million of cash provided by financing activities for the nine months ended February 29, 2020. The funds used in financing activities during the nine months ended February 28, 2021 consisted primarily of (i) tax distributions of approximately \$22.2 million to our Members, (ii) a \$4.7 million repayment of a note payable, and (iii) \$1.3 million of debt issuance costs paid in connection with entering into to the Restated Revolver. At February 28, 2021, we had no outstanding borrowings under our Restated Revolver and available additional borrowing capacity of \$249.7 million based on outstanding letters of credit and the borrowing base formula.

The total debt to total capitalization ratio consists of total debt divided by total capitalization (debt plus members' equity). Our ratio of total debt to total capitalization decreased to 58.8% at February 28, 2021 from 65.2% at February 29, 2020. The net debt to net capitalization ratio consists of total debt, net of cash and restricted cash ("Net Debt"), divided by net capitalization (Net Debt plus members' equity). Our ratio of Net Debt to net capitalization decreased to 55.3% at February 28, 2021 from 65.2% at February 29, 2020.

### **Inventory**

As of February 28, 2021, 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	415	7	979	59	37	156	1,653
Central	621	13	1,638	28	70	158	2,528
Company total	1,036	20	2,617	87	107	314	4,181

(1) Includes 15 models under the Ashton Woods brand name and 5 sales offices under the Starlight Homes brand name.

(2) Includes 72 models under the Ashton Woods brand name and 35 sales offices under the Starlight Homes brand name.



As of February 28, 2021, we controlled the following residential homes and lots (in units):

	Total Homes	Finished Lots	Land Under Development	Land Held for Future Development	Total Owned	Total Under Option	Total Controlled
East	1,653	1,613	1,418	646	5,330	14,823	20,153
Central	2,528	1,625	2,101	923	7,177	16,806	23,983
<b>Total Company</b>	<b>4,181</b>	<b>3,238</b>	<b>3,519</b>	<b>1,569</b>	<b>12,507</b>	<b>31,629</b>	<b>44,136</b>
Percentage of total controlled	9.5 %	7.3 %	8.0 %	3.5 %	28.3 %	71.7 %	100.0 %

As of February 28, 2021 and February 29, 2020, we had the following unsold homes in inventory (in units):

	As of February 28, 2021	As of February 29, 2020
Entry-Level - Starlight Homes	717	743
Entry-Level - Ashton Woods	100	228
Move-Up	239	499
Multi-Move-Up	67	180
<b>Consolidated</b>	<b>1,123</b>	<b>1,650</b>

The total number of unsold homes in inventory decreased from 1,650 at February 29, 2020 to 1,123 at February 28, 2021. As discussed above, during the three months ended May 31, 2020 the Company made a number of strategic decisions focused on cash generation and preservation in the wake of COVID-19, one of which included a halt in construction of unsold homes for a time period. As a result of this decision, as well as the strong demand beginning during the latter part of the spring season and continuing through February 28, 2021, the number of unsold homes in inventory decreased at February 28, 2021 compared to February 29, 2020.

In addition to the 12,507 lots we owned, we controlled, through the use of purchase and option agreements, 31,629 lots at February 28, 2021. Purchase and option agreements that did not require consolidation at February 28, 2021 under ASC 810, ASC 606, or ASC 470-40 had an aggregate remaining purchase price of \$1.5 billion. In connection with these agreements, we had cash deposits of \$197.2 million at February 28, 2021. In addition, as of February 28, 2021, we had purchase and option agreements consolidated under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of \$122.1 million and cash deposits of \$28.7 million (See Note 4 to our unaudited condensed consolidated financial statements).

During the nine months ended February 28, 2021, we acquired 7,030 lots for a total purchase price of \$367.0 million. We spent \$107.5 million on land development during the nine months ended February 28, 2021. We spent \$4.8 million during the nine months ended February 28, 2021 to furnish and/or update furnishings in model homes and sales offices.

#### **Aggregate contractual commitments and off-balance sheet arrangements**

There have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments, compared to those contained in our audited consolidated financial statements for the year ended May 31, 2020. Our debt obligations are fully discussed in Note 6 to our unaudited condensed consolidated financial statements as of February 28, 2021.

In the ordinary course of business, we provide letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At February 28, 2021, we had letters of credit and surety bonds outstanding of \$0.3 million and \$123.7 million, respectively. As of February 28, 2021, we had \$49.7 million of unused letter of credit capacity under the Restated Revolver.



On December 13, 2019, the Company issued a \$4.7 million note payable to an unaffiliated third party, related to a purchase of land, which was scheduled to mature on July 13, 2022. The note payable had an interest rate of 10.0%. The note was collateralized by the land to which it related and had no recourse to any other assets or to the Company. During the nine months ended February 28, 2021, the note, along with interest, was paid in full.

At February 28, 2021, we controlled 44,136 lots and homes available to close. Of the 44,136 lots and homes controlled, we owned 28.3%, or 12,507 lots and homes, and 71.7%, or 31,629 lots, were under contract. In the ordinary course of business, we enter into purchase and option agreements in order to procure land for the construction of homes in the future. At February 28, 2021, these agreements had an aggregate remaining purchase price of \$1.5 billion, net of deposits of \$197.2 million. In addition, we had purchase and option agreements recorded under ASC 606 or ASC 470-40 with an aggregate remaining purchase price of \$122.1 million and cash deposits of \$28.7 million. Pursuant to these land purchase and land option agreements, we generally provide a deposit to the seller as consideration for the right, but not the obligation, to purchase land at different times in the future, usually at predetermined prices. In certain instances, we are required to record the land under option as if we own it.

As of February 28, 2021, real estate not owned totaled \$80.4 million related to eleven lot purchase agreements with \$28.7 million of non-refundable deposits. Refer to our discussion in Note 4 to our unaudited condensed consolidated financial statements as of February 28, 2021.

As of February 28, 2021, we participated in one land development joint venture in which we have less than a controlling interest. We account for our interest in this joint venture under the equity method. Our share of profits from lots we purchase from the joint venture is deferred until we close on the home.

As of February 28, 2021, we participated in a mortgage joint venture in which the Company offers residential mortgage services to its homebuyers and the public at large in Austin, Coastal Carolinas, Dallas, Houston, Orlando, Phoenix, Raleigh, San Antonio, and Southwest Florida. The Company does not have a controlling interest in the joint venture. We account for our interest in the mortgage joint venture under the equity method. Our share of profits is included within equity in earnings in unconsolidated entities in the unaudited condensed consolidated statements of income.

### **Seasonality and inflation**

Our historical quarterly results of operations have tended to be impacted by the seasonal nature of the homebuilding industry. We have historically experienced increases in revenues and cash flow from operations during the fourth quarter of each fiscal year based on the timing of home closings. Any period of high inflation is likely to have an adverse effect on us and the homebuilding industry in general since it may contribute to higher land, financing, labor, and construction costs. We attempt to pass on at least a portion of the cost increases to our homebuyers via increased sales prices; however, we may be limited in our ability to increase our prices. Further, higher mortgage interest rates may accompany inflation and affect the affordability of mortgage financing for homebuyers. If we are unable to increase our sales prices to compensate for any increased costs, or if mortgage interest rates increase significantly, thereby affecting the ability of potential homebuyers to obtain financing for their home purchases, our results of operations will likely be adversely affected.

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

### **Critical accounting policies and estimates**

There have been no significant changes to our critical accounting policies and estimates during the nine months ended February 28, 2021, compared with those disclosed in our audited consolidated financial statements for the fiscal year ended May 31, 2020.

### **Transactions with related parties**

See Note 10 to our unaudited condensed consolidated financial statements as of February 28, 2021 for transactions with related parties. The Company is a party to seven lot purchase agreements with the Investors. A deposit ranging from 10% to 20% was required under each of the purchase agreements, and there are no specific performance requirements for the Company. The Company is a party to a lease as a lessee with the Investors to rent

approximately 8,500 square feet of commercial space in Dallas, Texas. See the audited consolidated financial statements for the fiscal year ended May 31, 2020 for transactions existing at such date.

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

See Note 2 to our unaudited condensed consolidated financial statements as of February 28, 2021.

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

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

The borrowings under the Restated Revolver accrue interest at a variable rate. As of February 28, 2021, we had no outstanding borrowings under the Restated Revolver.

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

Pursuant to section 4.03 of each of the indentures governing the 6.750% Notes, 9.875% Notes, and 6.625% Notes, the Company is not required to comply with Section 302 or Section 404 of the Sarbanes-Oxley Act of 2002, or related Items 307 and 308 of Regulation S-K promulgated by the Securities and Exchange Commission.

## **PART II. OTHER INFORMATION**

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

We are involved in lawsuits and other contingencies in the ordinary course of business. The amounts demanded by the claimants in these lawsuits and claims may vary widely, with large demands made in certain cases, which are aggressively defended by the Company. Management believes that, while the ultimate outcome of these ordinary course contingencies cannot be predicted with certainty, the ultimate liability, if any, net of anticipated recoveries including from any insurance, will not have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

Pursuant to section 4.03 of each of the indentures governing the 6.750% Notes, the 9.875% Notes, and the 6.625% Notes, the Company is not required to comply with this Item.