NOT FILED WITH THE SEC

THIS QUARTERLY REPORT IS BEING PREPARED PURSUANT TO REQUIREMENTS CONTAINED IN THE INDENTURE, DATED AS OF FEBRUARY 6, 2013 GOVERNING THE 6.875% SENIOR NOTES DUE 2021 ISSUED BY ASHTON WOODS USA L.L.C.

QUARTERLY REPORT FOR QUARTERLY AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the quarterly period ended **November 30, 2014**

OR

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

For the transition period from ________ to________.

Commission files number ___**N/A**___

Ashton Woods USA L.L.C.

(Exact Name of Registrant as Specified in Its Charter)

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

(770)998-9663

Registrant’s telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to

Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes__ No __ N/A X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer, "large accelerated filer" and smaller company: in Rule 12b-2 of the Exchange Act. (Check One):

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

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

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Review Report of Independent Auditors

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

We have reviewed the condensed consolidated financial information of Ashton Woods USA L.L.C., which comprise the condensed consolidated balance sheet as of November 30, 2014, and the related condensed consolidated statements of income and cash flows for the three-month and six-month periods ended November 30, 2014 and 2013 and the condensed consolidated statements of members' equity for each of the three-month periods in the six-month period ended November 30, 2014.

Management's Responsibility for the Financial Information

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

Auditor's Responsibility

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

Conclusion

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

A member firm of Ernst & Young Global Limited

Report on Condensed Balance Sheet as of May 31, 2014

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, 2014, and the related consolidated statements of operations, 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 23, 2014. In our opinion, the accompanying condensed consolidated balance sheet of Ashton Woods USA L.L.C. as of May 31, 2014, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

January 13, 2015

A member firm of Ernst & Young Global Limited

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	November 30, 2014	May 31, 2014
	(Unaudited)	
Assets		
Cash and cash equivalents	$ -	$ 64,105
Restricted cash	4	3,118
Accounts receivable	1,758	11,499
Inventory	564,030	458,153
Real estate not owned	25,216	23,272
Property and equipment, net	22,615	17,746
Investments in unconsolidated entities	9,968	10,885
Deposits on real estate under option or contract	59,462	45,772
Other assets	37,081	35,641
Total assets	$ 720,134	$ 670,191
Liabilities and members' equity		
Liabilities:		
Accounts payable	$ 48,652	$ 35,882
Other liabilities	31,071	35,688
Customer deposits	21,964	16,625
Liabilities related to real estate not owned	20,182	17,466
Debt	388,362	347,179
Total liabilities	510,231	452,840
Members' equity	209,903	217,351
Total liabilities and members' equity	$ 720,134	$ 670,191

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(Unaudited)			
Revenues:				
Home sales	$ 198,346	$ 183,357	$ 373,379	$ 330,644
Land sales	-	95	3,938	448
	198,346	183,452	377,317	331,092
Cost of sales:				
Cost of sales - homes	157,881	148,208	299,273	267,521
Cost of sales - land	-	60	3,530	428
	157,881	148,268	302,803	267,949
Gross profit	40,465	35,184	74,514	63,143
Other expense (income):				
Selling, general and administrative	30,935	26,014	59,455	49,026
Interest expense	1,972	1,775	4,199	3,962
Depreciation and amortization	2,747	2,421	5,367	4,499
Other income	(675)	(505)	(1,144)	(829)
	34,979	29,705	67,877	56,658
Equity in earnings in unconsolidated entities	186	318	615	509
Net income	$ 5,672	$ 5,797	$ 7,252	$ 6,994

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Class A interest	Class B interests	Class C interests	Total members' equity
		(Unaudited)		
Members' equity at May 31, 2014	**$ 82,313**	**$ 16,508**	**$ 118,530**	**$ 217,351**
Net income	637	156	787	1,580
Distributions	(4,332)	(1,065)	(5,353)	(10,750)
Members' equity at August 31, 2014	**$ 78,618**	**$ 15,599**	**$ 113,964**	**$ 208,181**
Net income	2,286	562	2,824	5,672
Distributions	(1,592)	(391)	(1,967)	(3,950)
Members' equity at November 30, 2014	**$ 79,312**	**$ 15,770**	**$ 114,821**	**$ 209,903**

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended November 30,	
	2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 7,252	$ 6,994
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings in unconsolidated entities	(615)	(509)
Return on investments in unconsolidated entities	218	1,141
Increase (decrease) in liability for long-term compensation	394	(110)
Depreciation and amortization	5,367	4,499
Changes in operating assets and liabilities:		
Inventory	(104,338)	(78,558)
Accounts receivable	9,741	1,550
Deposits on real estate under option or contract	(13,690)	(13,127)
Other assets	(650)	(4,115)
Accounts payable	12,770	2,309
Other liabilities	(5,020)	(3,952)
Customer deposits	5,339	4,283
Net cash used in operating activities	(83,232)	(79,595)
Cash flows from investing activities:		
Return of investments in unconsolidated entities	1,323	-
Additions to property and equipment	(10,303)	(8,144)
Changes in restricted cash	3,114	2,850
Net cash used in investing activities	(5,866)	(5,294)
Cash flows from financing activities:		
Borrowings from revolving credit facility	107,000	-
Repayments of revolving credit facility	(65,984)	-
Payments of debt issuance costs	(1,323)	-
Members' contributions	-	30,250
Members' distributions	(14,700)	(8,135)
Net cash provided by financing activities	24,993	22,115
Change in cash and cash equivalents	(64,105)	(62,774)
Cash and cash equivalents, beginning of period	64,105	95,490
Cash and cash equivalents, end of period	$ -	$ 32,716
Supplemental cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 3,546	$ 3,680

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1 — Basis of Presentation and Significant Accounting Policies

(a) Operations

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

East: Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota and Naples)

Central: Houston, Dallas, Central Texas (Austin and Killeen), San Antonio, and Phoenix

In addition, the Company owns land held for sale in Denver, and commercial parcels in Orlando and Dallas.

The Company also provides title services to buyers in certain of its Texas markets through two unconsolidated entities in which the Company has 49.0% ownership interests. The Company recently formed a wholly-owned title agency that began offering title services in its Southwest Florida and Orlando markets during the first quarter of fiscal year 2015 and in its Atlanta market during the second quarter of fiscal year 2015.

(b) Basis of presentation and reclassification

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year balances to conform to the current year presentation. On the unaudited condensed consolidated statements of income, the write-off of pre-acquisition costs related to real estate purchases that are no longer probable has been reclassified to cost of sales – homes, from selling, general and administrative expense. In the Company's opinion, all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation of the results for the interim periods presented have been included in the accompanying unaudited condensed consolidated financial statements.

(c) Cash and cash equivalents

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

(d) Restricted cash

Restricted cash consists of amounts held in a restricted account as collateral for letters of credit issued and outstanding, as permitted by the Company's senior secured revolving credit facility and other investments.

(e) Inventory

In addition to the costs of direct land acquisition, land development and home construction, inventory costs include interest, real estate taxes and indirect overhead costs incurred during development and home construction. The Company uses the specific identification method for the purpose of accumulating home construction costs. Cost

of sales for homes closed includes the specific construction costs of each home (both incurred and estimated to be incurred) and all applicable land acquisition, land development and related costs based upon the total number of homes expected to be closed in each community. Any changes to the estimated total development costs subsequent to the initial home closings in a community are allocated to the remaining homes in the community.

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

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

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

(f) Accounts receivable

Accounts receivable totaled $1.8 million and $11.5 million as of November 30, 2014 and May 31, 2014, respectively. Net proceeds due from home closings as of November 30, 2014 and May 31, 2014, were approximately $0.6 million and $11.1 million, respectively. Other receivables of $1.2 million and $0.4 million at November 30, 2014 and May 31, 2014, respectively, included amounts due from municipalities and utility companies, escrow deposits, and drawn amounts due from salespersons.

(g) Real estate not owned

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

(h) Investments in unconsolidated entities

The Company participates in three land development entities in which it has less than a controlling interest. The Company accounts for its interests in these entities under the equity method. The Company's share of profits from lots it purchases from these entities is deferred and treated as a reduction of the cost basis of land purchased from the entity. The Company's share of profits from lots purchased by other parties is recognized immediately and included within equity in earnings in unconsolidated entities on the unaudited condensed consolidated statements of income (see Note 6).

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

Investments in unconsolidated entities are evaluated for other-than-temporary impairment during each reporting period pursuant to ASC Subtopic 323-10, *Investments—Equity Method and Joint Ventures*. A series of operating losses or other factors may indicate an other-than-temporary decrease in the value of the Company's investment in the unconsolidated entity. The amount of impairment recognized is the excess of the investment's carrying value over its estimated fair value.

(i) Deposits on real estate under option or contract

Deposits and pre-acquisition costs paid related to purchase agreements are capitalized when paid and classified as other assets until the related land is acquired. These costs are transferred to inventory at the time the land or lots are acquired. Nonrefundable deposits and pre-acquisition costs are charged to expense when the real estate purchase is no longer considered probable. If the Company intends to terminate a purchase agreement, it records a charge to earnings for these costs associated with the purchase agreement in the period such a decision is made. This expense is included as a component of cost of sales – homes in the unaudited condensed consolidated statements of income was $0.3 million and $0.3 million for the three months ended November 30, 2014 and 2013, respectively, and $0.6 million and $0.5 million for the six months ended November 30, 2014 and 2013, respectively.

(j) Property and equipment

Property and equipment is recorded at cost. Depreciation is generally recorded using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Depreciable lives for leasehold improvements reflect the lesser of the economic life of the asset or the life of the lease. Repairs and maintenance costs are expensed as incurred. The Company's property and equipment at November 30, 2014 and May 31, 2014 consisted of the following (in thousands):

	November 30, 2014		May 31, 2014	
Office furniture and equipment	$	2,753	$	2,853
Sales offices, design studios and model furnishings		36,296		28,220
Leasehold improvements		1,187		895
		40,236		31,968
Accumulated depreciation		(17,621)		(14,222)
	$	22,615	$	17,746

Depreciation and amortization expense approximated $2.7 million and $2.4 million for the three months ended November 30, 2014 and 2013, respectively, and $5.4 million and $4.5 million for the six months ended November 30, 2014 and 2013, respectively.

(k) Revenue recognition

Homebuilding and lot sale revenues are recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. Sales commissions are included in selling, general and administrative expenses. Virtually all homebuilding, land and lot net proceeds are received in cash within two business days of closing.

(l) Prepaid expenses

Included in other assets are prepaid expenses of approximately $7.5 million and $6.3 million as of November 30, 2014 and May 31, 2014, respectively, which primarily represent prepaid insurance, fees, permits, and rent.

(m) Warranty costs

The Company provides its homebuyers with limited warranties that generally provide for ten years of structural coverage, two years of coverage for plumbing, electrical and heating, ventilation and air conditioning systems and one year of coverage for workmanship and materials. Warranty liabilities are initially established on a per home basis by charging cost of sales and establishing a warranty liability for each home delivered to cover expected costs of materials and labor during the warranty period. The amounts accrued are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. The Company's warranty liability is based upon historical warranty cost experience in each operating division and is adjusted as appropriate to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built. The Company's warranty liability is included in other liabilities in the unaudited condensed consolidated balance sheets. Presented below are summaries of the activity in the Company’s warranty liability account for the three months ended November 30, 2014 and 2013 and the six months ended November 30, 2014 and 2013 (in thousands):

	Three months ended November 30,				Six months ended November 30,			
	2014		2013		2014		2013	
Warranty liability, beginning of period	$	6,095	$	4,817	$	6,500	$	5,012
Costs accrued during period		1,778		1,556		3,339		2,681
Costs incurred during period		(1,826)		(1,340)		(3,792)		(2,660)
Warranty liability, end of period	$	6,047	$	5,033	$	6,047	$	5,033

(n) Advertising costs

The Company expenses advertising costs as they are incurred. Advertising expense, which is included in selling, general and administrative expenses on the unaudited condensed consolidated statements of income, was approximately $2.2 million and $0.9 million for the three months ended November 30, 2014 and 2013, respectively, and $3.7 million and $1.7 million for the six months ended November 30, 2014 and 2013, respectively.

(o) 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 718-30, *Compensation – Awards Classified as Liabilities*. The Company measures the value of the performance shares on a quarterly basis using the intrinsic value method. Compensation expense is recorded on a straight-line basis over the vesting period based on the intrinsic value of the shares. Additional compensation expense may be recognized subsequent to completion of the vesting period for appreciation-only performance shares, based on the intrinsic value through the settlement date. See Note 11 for additional discussion regarding the Company's long-term incentive plan.

(p) Provision for 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 franchise taxes payable directly by the Company. The Company calculates its Members' tax liability related to their share of the Company's taxable income and may make a distribution to such members to allow them to satisfy their tax liability, subject to limitations contained in the Company's senior secured revolving credit facility and in the indenture governing its 6.875% Senior Notes due 2021 (the "6.875% Notes"). Any tax distribution made to the Members is treated as a reduction of equity. The Company made tax distributions of $14.7 million and $8.1 million during the six months ended November 30, 2014 and November 30, 2013, respectively.

(q) Use of estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In particular, changes in the prices of certain significant components of home construction costs, particularly lumber and fuel, may cause unexpected short-term increases in construction costs.

(r) Segments

ASC Topic 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 (or divisions) is an operating segment. In accordance with the aggregation criteria defined in ASC 280, the Company has grouped its homebuilding operations into two reportable segments as follows:

1) East— Raleigh, Charleston, Atlanta, Orlando, and Southwest Florida (Tampa, Sarasota and Naples)

2) Central— Houston, Dallas, Central Texas (Austin and Killeen), San Antonio, and Phoenix

The Company has determined that the homebuilding operating markets within its respective reportable segments have similar economic characteristics and product types, and are similar in terms of geography. The Company's

homebuilding operating markets also share all other relevant aggregation characteristics prescribed in ASC 280, such as similar product types, production processes and methods of distribution. See Note 14 for further discussion of the Company’s reportable segments.

(s) Subsequent events

The Company has evaluated subsequent events through January 13, 2015. This date represents the date on which the financial statements were available to be issued.

Note 2 — Pending and Recently Adopted Accounting Pronouncements

In April 2013, the FASB issued Accounting Standards Update No. 2013-04, *Liabilities* (“ASU 2013- 04”), which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for annual reporting periods ending after December 15, 2014 (and interim and annual periods thereafter) and should be applied retrospectively for these obligations subject to the guidance. The adoption of ASU 2013-04 on June 1, 2014 did not have a material impact on the Company’s consolidated financial statements or disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU 2014-09 states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The allowable methods of adoption are full retrospective adoption or modified retrospective adoption. The effective date for ASU 2014-09 for the Company is for annual periods beginning after December 15, 2017. The Company is currently evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and disclosures. At this time the Company is unable to determine whether adoption of this standard will have a material impact on its consolidated financial position, results of operations, cash flows, or related disclosures.

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

Note 3 — Inventory

Inventory consisted of the following at November 30, 2014 and May 31, 2014 (in thousands):

	November 30, 2014	May 31, 2014
Homes under construction and finished homes	$ 333,965	$ 247,737
Finished lots	181,332	148,645
Land under development	35,237	34,867
Land held for future development	4,506	20,647
Commercial land	1,352	1,790
Land held for sale	7,638	4,467
	$ 564,030	$ 458,153

The Company capitalizes all interest incurred to the extent its qualifying assets exceed its debt obligations. However, if qualifying assets are less than the Company's debt obligations, there are limits on the amount of interest that can be capitalized, and the remainder of interest incurred must be directly expensed. The Company directly expensed interest of $2.0 million and $4.2 million for the three and six months ended November 30, 2014, respectively, and $1.8 million and $4.0 million for the three and six months ended November 30, 2013, respectively, on the unaudited condensed consolidating statements of income.

The following table summarizes interest costs incurred, charged to cost of sales and directly expensed during the three and six months ended November 30, 2014 and 2013 (in thousands):

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
Capitalized interest, beginning of period	$ 11,287	$ 11,481	$ 10,592	$ 10,678
Interest incurred	7,305	6,146	14,401	12,408
Interest amortized to cost of sales	(4,277)	(4,058)	(8,451)	(7,330)
Interest expensed	(1,972)	(1,775)	(4,199)	(3,962)
Capitalized interest, end of period	$ 12,343	$ 11,794	$ 12,343	$ 11,794

Note 4 — Real Estate Not Owned

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

Pursuant to ASC 810, *Consolidations*, when the Company enters into a purchase agreement to acquire land or lots from an entity and pays a non-refundable deposit, the Company has concluded that a VIE, for which consolidation is required, may be created because it is deemed to have provided subordinated financial support that will absorb some or all of an entity's expected losses if they occur. For each VIE, the Company assesses whether it is the primary beneficiary and thus must consolidate the entity by first determining if it has the ability to control the

activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract; and the ability to change or amend the existing purchase contract with the VIE. If the Company is determined not to control such activities, it is not considered the primary beneficiary of the VIE. If it does have the ability to control such activities, it will continue the analysis by determining if it is expected to absorb a potentially significant amount of the VIE's losses or, if no party absorbs the majority of such losses, if it will benefit from potentially a significant amount of the VIE's expected gain. If the Company determines that it is the primary beneficiary of the VIE, it will consolidate the VIE in its financial statements and reflect such assets as "Real estate not owned" and the related liabilities as "Liabilities related to real estate not owned." At November 30, 2014 and May 31, 2014, no purchase contracts or investments in unconsolidated entities were determined to require consolidation under ASC 810.

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

At November 30, 2014 and May 31, 2014, the Company recorded real estate not owned of $21.8 million and $18.9 million, respectively, for the sale of lots because of its continuing involvement.

Pursuant to ASC Subtopic 470-40, *Product Financing Arrangements,* if a buying entity participates in an arrangement in which it is economically compelled to purchase land, then the entity is required to consolidate such an arrangement. From time to time, the Company enters into arrangements in which it locates lots that it desires to purchase, finds an investor to purchase the lots and then enters into option purchase agreements to acquire the lots in staged takedowns. In consideration for such options, the Company generally makes nonrefundable deposits. The Company is generally not obligated to purchase the lots that are the subject of such agreements, but it would forfeit the remaining deposits if the lots are not purchased. Although the Company is not obligated to purchase the lots under option unless it enters into a contract with specific performance obligations, if, at the reporting date, it believes that 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 entered into one lot purchase agreement with an unaffiliated investor group in October 2012, which was accounted for pursuant to ASC 470-40. At November 30, 2014 and May 31, 2014, the Company had recorded real estate not owned of $3.4 million and $4.4 million, respectively, related to the lot purchase agreement accounted for pursuant to ASC 470-40.

Note 5 — Other Assets

Other assets at November 30, 2014 and May 31, 2014 consisted of the following (in thousands):

	November 30, 2014	May 31, 2014
Deferred financing fees	$ 10,614	$ 10,702
Architecture plans	8,973	7,057
MUD receivables	2,557	3,676
Land development receivables	4,361	5,741
Prepaid expenses	7,510	6,273
Pre-acquisition costs	1,758	983
Other deposits	1,308	1,209
	$ 37,081	$ 35,641

Deferred financing fees are comprised of costs incurred in connection with obtaining financing from third parties and are amortized as interest over the terms of the related financing arrangements using the effective interest method.

Included in other assets as of November 30, 2014 and May 31, 2014, are certain land development costs to be reimbursed by three Municipal Utility Districts ("MUD receivables") in Houston, Texas of $2.6 million and $3.7 million, respectively.

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

Note 6 — Investments in Unconsolidated Entities

The Company enters into land joint ventures from time to time as a means of accessing larger parcels of land and lot positions, managing its risk profile and leveraging its capital base. As of November 30, 2014, the Company participated in three such land joint ventures. The Company's partners in such joint ventures are both related parties and unrelated parties, including homebuilders, land developers or other real estate entities. The partners generally share profits and losses in accordance with their ownership interests. The Company accounts for its interests in these entities under the equity method.

At November 30, 2014, the Company had equity investments of less than 50% in each of its three land joint ventures and did not have a controlling interest in these unconsolidated entities. The Company and/or its land joint venture partners will sometimes enter into lot purchase agreements that permit the Company and/or its joint venture partners to purchase finished lots owned by the land joint venture. Lot prices are generally negotiated prices that approximate fair value when the purchase contract is signed. The Company's share of the unconsolidated entity's earnings on the sale of lots to the Company is deferred until homes related to the lots purchased by the Company are delivered and title passes to a homebuyer. The Company's share of the unconsolidated entity's earnings on the sale of lots to other parties is recognized at the time of the sale.

One of the Company's land joint ventures was entered into in February 2014 with certain beneficial owners of the Company's equity or their affiliates (each and collectively, the "Investors"), in which the Company has a 49% limited partner interest that was accounted for under the equity method. As of November 30, 2014, the Company recorded $7.1 million for its investment in this unconsolidated entity in the consolidated balance sheet. The Company entered into a services agreement with the joint venture to provide accounting and administrative services to the joint venture. The Company receives a monthly fee of $6,000 for these services that is included in other

income in the unaudited condensed consolidated statements of income. The Company entered into a lot purchase agreement with the joint venture, in which a 10% deposit was required, and there were no specific performance requirements for the Company. As of November 30, 2014, the total purchase price of lots remaining to be purchased under such agreement was approximately $19.3 million. As of November 30, 2014, the joint venture had debt outstanding of $4.5 million, which is non-recourse to the joint venture and to the Company. The loan was obtained to acquire the land and fund the first phase of land development. The Company provided the lender with a performance guarantee for the substantial completion of the first phase of development for this joint venture. The guarantee of performance may include the payment of money for costs incurred during the completion of the development. In the event that the Company pays money or performs any services pursuant to the guarantee, the joint venture has agreed to indemnify and reimburse the Company for any such costs incurred.

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

Summarized unaudited financial information related to unconsolidated entities that are accounted for using the equity method as of November 30, 2014 and May 31, 2014 and for the three and six months ended November 30, 2014 and 2013 were as follows (in thousands):

	November 30, 2014	May 31, 2014
	(Unaudited)	
Assets:		
Cash	$ 4,640	$ 5,002
Real estate	30,649	32,000
Other	206	456
	$ 35,495	$ 37,458
Liabilities:		
Accounts payable and other accruals	$ 3,849	$ 3,598
Notes payable	4,602	4,210
Total liabilities	8,451	7,808
Equity	27,044	29,650
Total liabilities and equity	$ 35,495	$ 37,458

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(Unaudited)			
Revenues	$ 4,562	$ 3,621	$ 7,182	$ 5,341
Gross profit	1,015	1,530	2,227	2,287
Operating expenses	221	200	551	445
Net earnings	794	1,348	1,677	1,907

Note 7 — Debt

Debt at November 30, 2014 and May 31, 2014 consisted of the following (in thousands):

	November 30, 2014	May 31, 2014
Senior secured revolving credit facility	$ 41,016	$ -
6.875% senior notes	347,346	347,179
	$ 388,362	$ 347,179

Senior Secured Revolving Credit Facility

On August 21, 2014, the Company amended its senior secured revolving credit facility by entering into a First Amendment to Fourth Amended and Restated Credit Agreement (the "First Amendment"), providing for, among other things, an aggregate revolving loan commitment of $195.0 million with up to $45.0 million available for the issuance of letters of credit and extending the maturity date to February 21, 2018. The Fourth Amended and Restated Credit Agreement as amended by the First Amendment is referred to herein as the "Restated Revolver."

Interest accrues on borrowings under the Restated Revolver at the London Interbank Offered Rate (LIBOR) plus an applicable margin that ranges from 325 to 385 basis points. Letters of credit may be issued under the Restated Revolver at a rate of 100 basis points if secured by cash, or at a rate of 325 to 385 basis points if not secured by cash. The Restated Revolver has a maturity date of February 21, 2018, subject to an extension in accordance with the terms set forth therein. The Restated Revolver is secured by a continuing first priority security interest in the real property of certain operating divisions selected by the Company for inclusion in the borrowing base, and the personal property of the Company and its subsidiaries affixed to, placed upon, used in connection with, arising from or appropriated for use on the pledged real property and the continuing guarantee of substantially all of its subsidiaries. The Company may pledge additional collateral as needed to increase the borrowing base consistent with the maximum availability under the Restated Revolver.

The Restated Revolver contains the following material financial covenants:

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

Availability under the Restated Revolver is based upon a borrowing base formula. Additionally, the Restated Revolver contains covenants in addition to the financial covenants noted above. The Restated Revolver permits sales and transfers of ownership interests so long as no change of control, as defined in the Restated Revolver, occurs and permits certain tax distributions to Members and certain other distributions to Members if certain Leverage Ratio and other conditions are met. As of November 30, 2014, the Company was in compliance with the covenants in the Restated Revolver.

At November 30, 2014, there was $41.0 million outstanding under the Restated Revolver and $3.5 million of letters of credit outstanding. As of November 30, 2014, and subject to a borrowing base formula, the Company had available additional borrowing capacity of $120.8 million under the Restated Revolver based on outstanding

borrowings on the Restated Revolver, outstanding letters of credit, and the value of collateral then pledged to secure the facility.

The 6.875% Notes

On February 6, 2013, the Company issued $300 million principal amount of 6.875% Senior Notes due February 15, 2021 (the "6.875% Notes") in a private offerings pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The 6.875% Notes were sold at an offering price of 99.239% of the principal amount to yield 7.00%.

On December 16, 2013, the Company issued $50 million aggregate principal amount of 6.875% Senior Notes due February 15, 2021 in a private offering pursuant to Rule 144A and Regulation S promulgated under the Securities Act of 1933, as amended. The notes were sold at an offering price of 98.251% plus accrued interest from August 15, 2013. The new notes constitute a further issuance of the $300 million aggregate principal amount of 6.875% Notes issued in February 2013. The new notes and the existing notes form a single series of debt securities and have identical terms, other than the issue date and the offer price.

Interest is payable on the 6.875% Notes on February 15 and August 15 of each year, commencing August 15, 2013. The 6.875% Notes are senior, unsecured obligations of the Company and rank equally in right of payment to all of the Company's existing and future senior debt and senior in right of payment to all of the Company's existing and future subordinated debt. The 6.875% Notes are effectively subordinated to any of the Company's existing and future secured debt, including the Restated Revolver, to the extent of the value of the assets securing such debt. The obligations under the 6.875% Notes are jointly and severally guaranteed by each Restricted Subsidiary, as defined, that has assets with a book value of more than $2.0 million.

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

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

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

As of November 30, 2014, the Company was in compliance with the covenants in the indenture governing the 6.875% Notes.

Note 8 — Other liabilities

Other liabilities at November 30, 2014 and May 31, 2014 consisted of the following (in thousands):

	November 30, 2014	May 31, 2014
Salaries, bonuses and benefits	$ 7,282	$ 11,567
Accrued interest	7,327	7,148
Warranty accruals	6,047	6,500
Accrued long-term compensation	1,589	1,634
Other	8,826	8,839
	$ 31,071	$ 35,688

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

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

At November 30, 2014, 19,918,117 membership interests were outstanding, comprised as follows:

	Membership Interests	Ownership percentage	Percentage of membership class
Little Shots Nevada L.L.C.			
Class A	8,027,200	40.30%	100.00%
Class B	1,867,561	9.38%	94.67%
Class C	7,543,098	37.87%	76.05%
Various Holders			
Class B	105,239	0.53%	5.33%
Class C	2,375,019	11.92%	23.95%
	19,918,117	100.00%	

Note 10 — Transactions with Related Parties

Services agreement

A services agreement with a related party provides the Company with a license, as well as development and support, for the Company's computer systems and certain administrative services. The Company pays $800 per home closing quarterly, in arrears, for these services, which are included in selling, general and administrative expense in the unaudited condensed consolidated statements of income. During each of the three months ended

November 30, 2014 and 2013, the Company incurred fees of $0.4 million, and for each of the six months ended November 30, 2014 and 2013, the Company incurred fees of $0.8 million under the services agreement.

Lease Agreement

During the first quarter of fiscal year 2015, the Company entered into a lease with the Investors to rent approximately 8,000 square feet of commercial space in Dallas, Texas. The term of the lease is 66 months. The Company has the option to renew the lease for one additional five-year term. Total minimum lease payments due under the lease were $0.5 million as of November 30, 2014.

Lot purchase agreements

The Company has entered into four lot purchase agreements with the Investors. A 10% deposit was required under each of the purchase agreements, and there were no specific performance requirements for the Company. These lot purchase agreements were not required to be consolidated as real estate not owned in the unaudited condensed consolidated balance sheets. As of November 30, 2014, the total purchase price of lots remaining to be purchased under such agreements was approximately $25.1 million (see Note 13).

In addition, the Company had $1.9 million in land development receivables due from the Investors at November 30, 2014 associated with these lot purchase agreements. The amounts are included in other assets on the consolidated balance sheet (see Note 6).

Joint Venture

In February 2014, the Company entered into a land joint venture with the Investors that was 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, in February 2014, the Company entered into a lot purchase agreement with the joint venture to purchase 186 lots. A 10% deposit was required under the purchase agreement and there were no specific performance requirements for the Company. As of November 30, 2014, the total purchase price of lots remaining to be purchased was $19.3 million (see Note 6).

Note 11 – Long-Term Incentive Plan

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

The value of a performance share awarded under the Plan is determined by multiplying the Company's book value, as defined under the Plan, by a multiple that is equal to the weighted average multiple of a book value of a share of common stock of a predetermined group of publicly traded homebuilders, divided by the number of

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

The following table represents a rollforward of the outstanding units as of November 30, 2014:

	Full-value awards	Appreciation-only awards	Total awards
Outstanding units as of May 31, 2014	74,791	183,791	258,582
Units awarded during the period	40,228	80,456	120,684
Fully vested units paid	(20,599)	-	(20,599)
Total outstanding units as of November 30, 2014	94,420	264,247	358,667
Total vested units as of November 30, 2014	24,011	123,432	147,443

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

The total number of units vested as of November 30, 2014 and May 31, 2014 was 147,443 and 168,042, respectively. For the three months ended November 30, 2014 and 2013, the Company recorded $0.2 million and $0.1 million, respectively, in compensation expense associated with the full-value and appreciation-only awards. For the six months ended November 30, 2014 and 2013, the Company recorded $0.4 million in compensation expense and a $46,000 reduction in compensations expense, respectively, for the full-value and appreciation-only awards. For the three months ended November 30, 2014 and 2013, no vested awards were paid out to employees. For the six months ended November 30, 2014 and 2013, $0.4 million (20,599 units) and $0.3 million (17,107 units), respectively, of vested awards were paid out to employees. As of November 30, 2014 and May 31, 2014, the Company's liability for the Plan awards was $1.6 million and $1.6 million, respectively, which is recorded in other liabilities in the unaudited condensed consolidated balance sheets.

Note 12 — Fair Value Disclosures

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

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.

- Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

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

The following table presents the carrying amounts and estimated fair values of the Company's outstanding debt at November 30, 2014 and May 31, 2014, derived from quoted market prices by independent dealers (Level 2).

		November 30, 2014		May 31, 2014	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
			(in thousands)		
Liabilities:					
6.875% senior notes	Level 2	$ 347,346	$ 341,250	$ 347,179	$ 352,625

Note 13 — Commitments and Contingencies

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

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

In the normal course of business, the Company provides letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At November 30, 2014 and May 31, 2014, the Company had letters of credit of $3.5 million and $3.0 million, respectively, and surety bonds outstanding of $20.6 million and $20.2 million, respectively. As of November 30, 2014, the Company had $41.5 million of unused letters of credit capacity under the Restated Revolver.

The Company enters into various option purchase agreements to acquire land. In connection with such agreements, the Company has made nonrefundable deposits of $58.9 million as of November 30, 2014. The Company would forfeit the remaining deposits if the lots are not purchased. Total purchase price of lots remaining to be purchased under such agreements was approximately $603.6 million as of November 30, 2014. With respect to these purchase agreements, the Company had one specific performance agreement as of November 30, 2014 under which the Company had a $1.9 million deposit and an aggregate purchase price of $65.4 million.

Note 14 — Information on Segments

The Company's homebuilding reportable segments are as follows:

1) East: *Raleigh, Charleston, Atlanta, Orlando, Southwest Florida (Tampa, Sarasota and Naples)*

2) Central: *Houston, Dallas, Central Texas (Austin and Killeen), San Antonio and Phoenix*

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

	Three months ended November 30,		Six months ended November 30,	
	2014	**2013**	**2014**	**2013**
Revenues:				
Homebuilding:				
East	$ 106,021	$ 95,051	191,561	$ 169,738
Central	92,325	88,306	181,818	160,906
Consolidated revenues	198,346	183,357	373,379	330,644
Gross profit:				
Homebuilding:				
East	22,887	16,990	39,502	30,771
Central	17,578	18,159	34,604	32,352
Consolidated gross profit	40,465	35,149	74,106	63,123
Depreciation and amortization:				
East	1,424	1,465	2,731	2,727
Central	1,282	938	2,563	1,739
Consolidated depreciation and amortization	2,706	2,403	5,294	4,466
Equity in earnings in unconsolidated entities:				
East	(64)	-	2	-
Central	250	318	613	509
Consolidated equity in earnings in unconsolidated entities	186	318	615	509
Net income (loss):				
East	5,413	2,937	7,215	3,944
Central	2,245	4,946	4,355	6,962
	7,658	7,883	11,570	10,906
Other [1]	(1,986)	(2,086)	(4,318)	(3,912)
Consolidated net income	$ 5,672	$ 5,797	$ 7,252	$ 6,994

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

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

	November 30, 2014	May 31, 2014
Assets:		
Homebuilding:		
East	$ 383,338	$ 301,249
Central	316,400	262,693
	699,738	563,942
Other(2)	20,396	106,249
Consolidated assets	$ 720,134	$ 670,191

(2) "Other" includes corporate assets, commercial parcels in Orlando and Dallas and land owned in Denver.

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

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
Additions to property and equipment:				
Homebuilding:				
East	$ 3,030	$ 1,661	$ 4,789	$ 4,662
Central	2,138	1,575	5,243	3,342
	5,168	3,236	10,032	8,004
Other(3)	24	27	271	140
Consolidated additions to property and equipment	$ 5,192	$ 3,263	$ 10,303	$ 8,144

(3) "Other" is comprised of property and equipment additions for the Corporate office.

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

The following management's discussion and analysis is intended to assist the reader in understanding the Company's business and is provided as a supplement to, and should be read in conjunction with, the Company's unaudited condensed consolidated financial statements and accompanying notes. The Company's results of operations discussed below are presented in conformity with U.S. GAAP.

Forward-Looking Statements

Certain statements included in this report contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, which represent our expectations or beliefs concerning future events, and no assurance can be given that the results described in this report will be achieved. These forward-looking statements can generally be identified by the use of statements that include words such as "estimate," "project," "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will," "target," "could," "seek" or other similar words or phrases. All forward-looking statements are based upon information available to us on 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 publicly any forward-looking statement, to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events or new information, even if future events make it clear that any expected results that we have expressed or implied will not be realized. Though we are of the view that such forward-looking statements are reasonable, the results or savings or benefits in the forward-looking statement may not be achieved. New factors emerge from time to time and it is not possible for management to predict all such factors.

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

- Fluctuations in mortgage interest rates and the availability of mortgage financing;
- The availability of high quality undeveloped land and improved lots at suitable prices;
- The volatility of the capital markets and the banking industry;
- An ownership change which could have unfavorable implications for our debt instruments;
- The availability of qualified employees, skilled labor, qualified subcontractors and raw materials;
- The competitive nature of the homebuilding industry;
- Deterioration of the economic climate either nationally or in the regions in which we operate, which could impact growth and expansion opportunities, impact the price of labor and materials, impact the value of our inventory and impact inflation, consumer confidence and consumer preferences;
- Government regulatory actions, which could affect tax laws and 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;
- Changes in accounting guidelines or our interpretation of those guidelines;
- Adverse weather conditions and acts of war or terror; and
- Other factors over which the Company has little or no control.

Results of operations

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

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

	For the three months ended November 30,		For the six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Revenues:				
Home sales	$ 198,346	$ 183,357	$ 373,379	$ 330,644
Land sales	-	95	3,938	448
	$ 198,346	$ 183,452	$ 377,317	$ 331,092
Gross profit:				
Home sales	$ 40,465	$ 35,149	$ 74,106	$ 63,123
Land sales	-	35	408	20
	$ 40,465	$ 35,184	$ 74,514	$ 63,143
Selling, general and administrative	$ 30,935	$ 26,014	$ 59,455	$ 49,026
Net income [1]	$ 5,672	$ 5,797	$ 7,252	$ 6,994

(1) Because we are structured as a limited liability company, income tax obligations are paid by our Members and are not borne by us. Therefore, our net income is higher than it would be if we were structured as a corporation. However, as a limited liability company, we periodically make distributions to our Members. During the six months ended November 30, 2014 and 2013, the Company made distributions of $14.7 million and $8.1 million, respectively.

	For the three months ended November 30,		For the six months ended November 30,	
	2014	2013	2014	2013
	($ in thousands)			
Supplemental data :				
Active communities at end of period	77	69	77	69
Net new home orders (in units)	530	542	1,107	1,095
Homes closed (in units) [(2)]	514	552	995	1,002
Average sales price per home closed	$ 386	$ 332	$ 375	$ 330
Backlog at end of period (in units)	1,118	1,041	1,118	1,041
Sales value of backlog at end of period	$ 495,982	$ 402,845	$ 495,982	$ 402,845
Home gross margin [(3)]	20.4%	19.2%	19.8%	19.1%
Adjusted home gross margin [(4)]	22.6%	21.6%	22.2%	21.2%
Ratio of selling, general and administrative expenses to home sales revenue	15.6%	14.2%	15.9%	14.8%
Interest incurred[(5)]	$ 7,305	$ 6,146	$ 14,401	$ 12,408
EBITDA[(6)]	$ 14,668	$ 14,051	$ 25,269	$ 22,785
EBITDA margin[(6)]	7.4%	7.7%	6.7%	6.9%
Total debt to total capitalization	64.9%	60.4%	64.9%	60.4%
Total net debt to net capitalization	64.9%	57.3%	64.9%	57.3%
Cancellation rate (as a percentage of gross sales)	12.5%	12.4%	12.6%	12.7%

(2) A home is included in “homes closed” when title is transferred to the buyer. Revenues and cost of sales for a home are recognized at the date of closing.

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

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

	For the three months ended November 30,		For the six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Home sales revenues	$ 198,346	$ 183,357	$ 373,379	$ 330,644
Cost of sales - homes	157,881	148,208	299,273	267,521
Home gross margin	40,465	35,149	74,106	63,123
Add: Inventory impairments	21	92	149	108
Interest amortized to cost of sales	4,277	4,058	8,451	7,330
Adjusted home gross margin	$ 44,763	$ 39,299	$ 82,706	$ 70,561
Ratio of home gross margin to home sales revenue	20.4%	19.2%	19.8%	19.1%
Ratio of adjusted home gross margin to home sales revenue	22.6%	21.4%	22.2%	21.3%

(5) Interest incurred for any period is the aggregate amount of interest that is capitalized or charged directly to general and administrative expenses during such period. The following table summarizes (in thousands) interest costs incurred, capitalized and charged to cost of sales during the three and six months ended November 30, 2014 and 2013:

	For the three months ended November 30,		For the six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Capitalized interest, beginning of period	$ 11,287	$ 11,481	$ 10,592	$ 10,678
Interest incurred	7,305	6,146	14,401	12,408
Interest amortized to cost of sales	(4,277)	(4,058)	(8,451)	(7,330)
Interest expensed	(1,972)	(1,775)	(4,199)	(3,962)
Capitalized interest, end of period	$ 12,343	$ 11,794	$ 12,343	$ 11,794

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

EBITDA margin is calculated by dividing EBITDA by total revenues.

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

	For the three months ended November 30,		For the six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Net income	$ 5,672	$ 5,797	$ 7,252	$ 6,994
Depreciation and amortization	2,747	2,421	5,367	4,499
Interest expense in cost of sales	4,277	4,058	8,451	7,330
Interest expense	1,972	1,775	4,199	3,962
EBITDA	$ 14,668	$ 14,051	$ 25,269	$ 22,785

Results of operations—consolidated discussion

Three and Six Months Ended November 30, 2014 Compared to Three and Six Months Ended November 30, 2013

Home sales revenues

Home sales revenues increased by 8.2% ($15.0 million) and 12.9% ($42.7 million) for the three and six months ended November 30, 2014 to $198.4 million and $373.4 million, respectively, from $183.4 million and $330.6 million for the three and six months ended November 30, 2013, respectively. The increase in revenues for the quarter was due to an increase in the average sales price of homes closed, offset by a slight decrease in the number of homes closed. The average sales price of homes closed increased 16.2% and 13.7% in the three and six months ended November 30, 2014 to an average of $386,000 and $375,000, respectively, from an average of $332,000 and $330,000 for the three and six months ended November 30, 2013, respectively. The number of homes closed decreased 6.9% and 0.7% in the three and six months ended November 30, 2014 to 514 and 995, respectively, from 552 and 1,002 for the three and six months ended November 30, 2013, respectively.

The increase in average sales price of homes closed was primarily due to a decrease in the number of entry-level homes closed. Of the homes that closed during the three and six months ended November 30, 2014, 14.4% and 15.8%, respectively, were entry-level homes compared to 17.7% and 18.9% for three and six months ended November 30, 2013, respectively. Additionally, we were able to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed.

Land sales

We periodically elect to sell parcels of land or finished lots. These land sales are incidental to our business of selling and building homes and have fluctuated in the past. We had no land sales and land sales of $3.9 million for the three and six months ended November 30, 2014, respectively, compared to $0.1 million and $0.5 million for the three and six months ended November 30, 2013, respectively. No significant profits were realized from the sale of land, as the land parcels were sold at prices that were substantially equivalent to their cost basis.

Net new home orders and backlog

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of home closing, which is generally within six months of the date the home is sold. Net new home orders decreased 2.2% (12 homes) and increased 1.1% (12 homes) during the three and six months ended November 30, 2014, respectively, compared to the three and six months ended November 30, 2013. These new home orders contributed to a backlog at November 30, 2014 of 1,118 homes, which is a 7.4% increase from the 1,041 homes in

backlog at November 30, 2013. The sales value of backlog at November 30, 2014 was $496.0 million, a 23.1% increase over the sales value of backlog at November 30, 2013 of $402.9 million. The average sales price of homes in backlog increased 14.7% from $387,000 at November 30, 2013 to $444,000 at November 30, 2014. The increase was primarily driven by our ability to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed, as well as by sales in our new, higher priced communities.

Gross margins

The average gross margin from homes closed for the three and six months ended November 30, 2014 was 20.4% and 19.8%, respectively, compared to 19.2% and 19.1% for the three and six months ended November 30, 2013. The improved average gross margin for the three months ended November 30, 2014 as compared to the three months ended November 30, 2013 was primarily due to a decrease in construction costs as a percent of revenue, offset in part by an increase in land cost of sales as a percent of revenue. The improved average gross margin for the six months ended November 30, 2014 as compared to the six months ended November 30, 2013 was primarily due to a decrease in construction costs as a percent of revenue, offset in part by increases in land cost of sales as a percent of revenue. The reductions in construction costs as a percentage of revenue were primarily due to our ability to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed.

Selling, general and administrative expenses

Selling, general and administrative expenses totaled $30.9 million and $59.5 million for the three and six months ended November 30, 2014, compared to $26.0 million and $49.0 million for the three and six months ended November 30, 2013. The increases of $4.9 million and $10.5 million were primarily due to an increase in sales and marketing costs, as well as an increase in compensation expense.

Sales and marketing costs increased $3.2 million and $5.4 million for the three and six months ended November 30, 2014, respectively, due to a 47.1% increase in start-up communities with selling activity, from 34 communities as of November 30, 2013 to 50 communities as of November 30, 2014. A smaller portion of the increase was attributable to additional commission expense. While commissions as a percentage of revenues remained relatively flat at 4.0% of housing revenue, commission expense increased $0.4 million and $1.3 million for the three and six months ended November 30, 2014, respectively, due to a 16.2% and 13.7% increase in the average sales price of homes closed, offset by a 6.9% and 0.7% decrease in home closings for the three and six months ended November 30, 2014, respectively. Compensation expense increased $1.3 million and $3.7 million for the three and six months ended November 30, 2014, respectively, as a result of an increase in employee count of 14.3% or 26 additional employees, from 182 employees as of November 30, 2013 to 208 employees as of November 30, 2014, due to overall growth in our operations. Employee count includes general and administrative, purchasing, land acquisition and development, architecture, and accounting and finance employees.

Net income

Net income for the three and six months ended November 30, 2014 was $5.7 million and $7.3 million compared to net income of $5.8 million and $7.0 million for the three and six months ended November 30, 2013. The increase in net income for the six months ended November 30, 2014 is attributable, in part, to an increase in the average sales price of homes closed, and improved gross margins.

Results of operations—Homebuilding segments discussion

We have grouped our homebuilding operating divisions into two reportable segments, East and Central. At November 30, 2014, our reportable homebuilding segments consisted of homebuilding operating divisions located in the following areas:

1) East (eastern segment): Raleigh, Charleston, Atlanta, Orlando and Southwest Florida (Tampa, Sarasota and Naples)

2) Central (central segment): Houston, Dallas, Central Texas (Austin and Killeen), San Antonio and Phoenix

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

Net new home orders (units):

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
East	267	298	561	571
Central	263	244	546	524
Company total	530	542	1,107	1,095

Homes closed (units):

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
East	249	268	465	486
Central	265	284	530	516
Company total	514	552	995	1,002

Average sales price per home closed:

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
		(in thousands)		
East	$ 426	$ 355	$ 412	$ 349
Central	348	311	343	312
Company average	$ 386	$ 332	$ 375	$ 330

Backlog (units) at end of period:

	As of November 30,			
	2014	2013	Change	% Change
East	565	568	(3)	-0.5%
Central	553	473	80	16.9%
Company total	1,118	1,041	77	7.4%

Sales value of backlog at end of period:

	As of November 30,			
	2014	2013	Change	% Change
	(in thousands)			
East	$ 285,537	$ 232,912	52,625	22.6%
Central	210,445	169,933	40,512	23.8%
Company total	$ 495,982	$ 402,845	$ 93,137	23.1%

Active communities:

	As of November 30,			
	2014	2013	Change	% Change
East	32	34	(2)	-5.9%
Central	45	35	10	28.6%
Company total	77	69	8	11.6%

Homebuilding—East

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Homebuilding East:				
Home sales revenues	$ 106,021	$ 95,051	$ 191,561	$ 169,738
Home closed (in units)	249	268	465	486
Average sales price per home closed	$ 426	$ 355	$ 412	$ 349
Home gross margin	21.6%	17.9%	20.6%	18.1%
Adjusted home gross margin (1)	23.8%	20.2%	22.9%	20.4%

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

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Home sales revenues	$ 106,021	$ 95,051	$ 191,561	$ 169,738
Cost of sales - homes	83,134	78,061	152,059	138,967
Home gross margin	22,887	16,990	39,502	30,771
Add: Inventory Impairments	16	58	97	58
Interest amortized to cost of sales	2,281	2,121	4,254	3,750
Adjusted home gross margin	$ 25,185	$ 19,169	$ 43,853	$ 34,579
Ratio of home gross margin to home sales revenues	21.6%	17.9%	20.6%	18.1%
Ratio of adjusted home gross margin to home sales revenues	23.8%	20.2%	22.9%	20.4%

Three and Six Months Ended November 30, 2014 Compared to Three and Six Months Ended November 30, 2013

Home sales revenues

Revenues for the eastern segment increased by 11.5% ($11.0 million) and 12.9% ($21.8 million) for the three and six months ended November 30, 2014 to $106.0 million and $191.6 million, respectively, from $95.1 million and $169.7 million for the three and six months ended November 30, 2013. The increase in revenues for the three and six months ended November 30, 2014 was due to increases in the average price of homes closed offset by a slight decrease in the number of homes closed. The average sales price of homes closed increased 20.0% and 18.0% in the three and six months ended November 30, 2014 to an average of $426,000 and $412,000, respectively, from an average of $355,000 and $349,000 for the three and six months ended November 30, 2013, respectively. The number of homes closed decreased 7.1% and 4.3% in the three and six months ended November 30, 2014 to 249 and 465, respectively, from 268 and 486 for the three and six months ended November 30, 2013, respectively.

The increase in the average sales price of homes closed in the eastern segment for the three and six months ended November 30, 2014 was due to a decrease in the percentage of entry-level closings and an increase in sales prices and/or reduction in incentives in the eastern segment. Of the homes that closed in the eastern segment during the three and six months ended November 30, 2014, 11.2% and 13.0% were entry-level homes compared to 14.2% and 15.7% for the three and six months ended November 30, 2013, respectively.

Gross margins

The average gross margin from homes closed for the three and six months ended November 30, 2014 was 21.6% and 20.6%, compared to 17.9% and 18.1% for the three and six months ended November 30, 2013, respectively. The improved average gross margin for the three months ended November 30, 2014 as compared to the three months ended November 30, 2013 was due to a decrease in construction costs as a percent of revenue. The improved average gross margin for the six months ended November 30, 2014 as compared to the six months ended November 30, 2013 was primarily due to a decrease in construction costs as a percent of revenue. The reductions in construction costs as a percentage of revenue were primarily due to our ability to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed.

Net new home orders and backlog

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of home closing, which is generally within six months of the date the home is sold. Net new home orders decreased 10.4% (31 homes) and decreased 1.8% (10 homes) during the three and six months ended November 30, 2014, respectively, compared to the three and six months ended November 30, 2013. These new home orders contributed to a backlog at November 30, 2014 of 565 homes, which is a 0.5% decrease from the 568 homes in backlog at November 30, 2013. The sales value of backlog at November 30, 2014 was $285.5 million, a 22.6% increase over the sales value of backlog at November 30, 2013 of $232.9 million. The average sales price of homes in backlog increased 23.2% from $410,000 at November 30, 2013 to $505,000 at November 30, 2014. The decrease in net new home orders and backlog units is primarily due to a decrease in active communities of 5.9% from 34 communities at November 30, 2013 to 32 communities at November 30, 2014. The increase in the sales value of backlog is primarily driven by our ability to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed, as well as by sales in our new, higher priced communities.

Homebuilding—Central

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Homebuilding Central:				
Home sales revenues	$ 92,325	$ 88,306	$ 181,818	$ 160,906
Home closed (in units)	265	284	530	516
Average sales price per home closed	$ 348	$ 311	$ 343	$ 312
Home gross margin	19.0%	20.6%	19.0%	20.1%
Adjusted home gross margin[1]	21.2%	22.8%	21.4%	22.4%

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

	Three months ended November 30,		Six months ended November 30,	
	2014	2013	2014	2013
	(in thousands)			
Home sales revenues	$ 92,325	$ 88,306	$ 181,818	$ 160,906
Cost of sales - homes	74,747	70,147	147,214	128,554
Home gross margin	17,578	18,159	34,604	32,352
Add: Inventory Impairments	5	34	53	50
Interest amortized to cost of sales	1,996	1,937	4,197	3,580
Adjusted home gross margin	$ 19,579	$ 20,130	$ 38,854	$ 35,982
Ratio of home gross margin to home sales revenues	19.0%	20.6%	19.0%	20.1%
Ratio of adjusted home gross margin to home sales revenues	21.2%	22.8%	21.4%	22.4%

Three and Six Months Ended November 30, 2014 Compared to Three and Six Months Ended November 30, 2013

Home sales revenues

Revenues for the central segment increased by 4.6% ($4.0 million) and 13.0% ($20.9 million) for the three and six months ended November 30, 2014 to $92.3 million and $181.8 million, respectively, from $88.3 million and $160.9 million for the three and six months ended November 30, 2013, respectively. The increase in revenues for the three and six months ended November 30, 2014 was due to an increase in the average price of homes closed offset in the most recent three month period in part by a slight decrease in the number of homes closed. The average sales price of homes closed increased 12.0% and 10.0% in the three and six months ended November 30, 2014 to an average of $348,000 and $343,000, respectively, from an average of $311,000 and $312,000 for the three and six months ended November 30, 2013, respectively. The number of homes closed decreased 6.7% in the three months ended November 30, 2014 to 265 from 284 for the three months ended November 30, 2013.

The increase in the average sales price of homes that closed in the central segment for the three and six months ended November 30, 2014 was due, in part, to an increase in the percentage of move-up closings. Of the homes that closed in the central segment during the three and six months ended November 30, 2014, 82.6% and 81.7% were move-up homes compared to 79.0% and 78.1% for the three and six months ended November 30, 2013, respectively.

Gross margins

The average gross margin from homes closed for the three and six months ended November 30, 2014 was 19.0% and 19.0% compared to 20.6% and 20.1% for the three and six months ended November 30, 2013. The reduction in average gross margin for the three months ended November 30, 2014 as compared to the three months ended November 30, 2013 was primarily due to increases in land costs as a percent of revenue, construction costs as a percent of revenue, and indirect costs as a percent of revenue. The reduction in average gross margin for the six months ended November 30, 2014 as compared to the six months ended November 30, 2013 was primarily due to an increases in land costs as a percent of revenue and an increase in warranty costs as a percent of revenue.

Net new home orders and backlog

Net new home orders and backlog do not have a current effect on our revenues; however, both provide important information about our future revenues and business prospects. New home orders are converted to revenues at the time of home closing, which is generally within six months of the date the home is sold. Net new home orders increased 7.8% (19 homes) and increased 4.2% (22 homes) during the three and six months ended November 30, 2014, respectively, compared to the three and six months ended November 30, 2013. These new home orders contributed to a backlog at November 30, 2014 of 553 homes, which is a 16.9% increase from the 473 homes in backlog at November 30, 2013. The sales value of backlog at November 30, 2014 was $210.5 million, a 23.8% increase over the sales value of backlog at November 30, 2013 of $169.9 million. The average sales price of homes in backlog increased 5.9% from $359,000 at November 30, 2013 to $381,000 at November 30, 2014. The increase in net new home orders and backlog units is primarily due to an increase in active communities of 28.6% from 35 communities at November 30, 2013 to 45 communities at November 30, 2014. The increase in the sales value of backlog is primarily driven by our ability to increase sales prices and/or reduce incentives in certain communities throughout our divisions as the market allowed, as well as by sales in our new, higher priced communities.

Liquidity and capital resources

Our principal uses of cash are land and lot purchases, land development, home construction, interest costs and overhead. We currently fund our operations with cash flows from operating activities, borrowings under our senior secured credit facility, long-term financing and equity investments. As we utilize our capital resources and liquidity to fund the growth of our business, we monitor our balance sheet leverage ratios to ensure that we maintain reasonable levels. We also monitor current and expected operational requirements, as well as financial market conditions, to evaluate accessing other available financing sources. Based on our existing financial condition and credit relationships, we believe that our operations and capital resources are sufficient to provide for our current and foreseeable capital needs. However, we continue to evaluate the impact of market conditions on our liquidity and will consider, as appropriate, additional funding opportunities.

Operating cash flow

Net cash used in operating activities for the six months ended November 30, 2014 was $83.2 million compared to $79.6 million for the six months ended November 30, 2013. The primary source of operating funds was the sale of homes, and we primarily used these funds to buy land, build homes, pay interest and fund overhead expenses.

Investing cash flow

Net cash used in investing activities was $5.9 million for the six months ended November 30, 2014 compared to $5.3 million for the six months ended November 30, 2013. Net cash used in investing activities for the six months ended November 30, 2014 included $6.8 million for model home furnishings and sales offices, and $2.7 million for new design studios. The cash outflows were partially offset by the release of $3.1 million in restricted cash used to cash collateralize letters of credit (see Note 1(d)).

Financing cash flow

Net cash provided by financing activities was $25.0 million for the six months ended November 30, 2014, compared to $22.1 million for the six months ended November 30, 2013. The funds provided by financing activities during the six months ended November 30, 2014 consisted of $107.0 million of borrowings from the Restated Revolver offset by $66.0 million of repayments of Restated Revolver, distributions of $14.7 million to our Members, and $1.3 million of debt issuance costs paid in connection with the First Amendment to the Fourth Amended and Restated Credit Agreement. The funds provided by financing activities during the six months ended November 30, 2013 consisted of $30.3 million received from the sale of Class C membership interests to our Members offset by $8.1 million of distributions to our Members. As of November 30, 2014, we had outstanding borrowings under our senior secured revolving credit facility of $41.0 million and available additional borrowing capacity of $120.8 million.

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 increased to 64.9% as of November 30, 2014 from 60.4% as of November 30, 2013. Our ratio of net debt to net capitalization increased to 64.9% as of November 30, 2014 from 57.3% as of November 30, 2013. The net debt to net capitalization ratio consists of total debt, net of cash and restricted cash, divided by net capitalization (debt plus members' equity), net of cash and restricted cash.

Inventory

As of November 30, 2014, we had the following owned homes in our reportable segments (in units):

	Homes Under Construction			**Completed Homes**		
	Unsold	**Models**	**Sold**	**Unsold**	**Models**	**Sold**
East	148	23	368	46	51	39
Central	184	13	346	29	64	44
Company total	**332**	**36**	**714**	**75**	**115**	**83**

As of November 30, 2014 we controlled the following residential lots (in units):

	Specs	Models	Backlog	Finished Lots	Land Under Development	Residential Land Held for Future Development	Total Residential Lots Owned	Residential Lots Under Option	Total Residential Lots Controlled
East	194	74	565	1,144	287	11	2,275	3,912	6,187
Central	213	77	553	912	246	58	2,059	4,980	7,039
Total Company	407	151	1,118	2,056	533	69	4,334	8,892	13,226
Percentage of total lots controlled	3.1%	1.1%	8.5%	15.5%	4.0%	0.5%	32.8%	67.2%	100.0%

In addition to the lots in the table above, the Company also owned a commercial tract of land in Dallas with a book value of $1.3 million at November 30, 2014 and 2013. This land is not being actively marketed and is included in commercial land. The Company also owned a commercial tract of land in Orlando, with a book value of $0.4 million at November 30, 2014. This land is being actively marketed and is included in land held for sale. In addition, the Company has 218 lots held for sale in Denver, 6 lots held for sale in Orlando, and 2 lots held for sale in Raleigh as of November 30, 2014 that are excluded from the table above.

In addition to the 4,334 lots we owned, we controlled, through the use of purchase and option agreements, 8,892 lots at November 30, 2014. Purchase and option agreements that did not require consolidation under ASC 810, *Consolidations* at November 30, 2014 had an aggregate purchase price of $657.5 million. In connection with these agreements, we had cash deposits included in other assets of $59.5 million at November 30, 2014. With respect to these purchase agreements, there was one specific performance agreement as of November 30, 2014 under which the Company had a $1.9 million deposit and an aggregate purchase price of $65.4 million.

During the six months ended November 30, 2014, we acquired 1,217 lots for a total purchase price of $93.1 million. We spent $29.3 million on land development for the six months ended November 30, 2014. Additionally, we spent $9.5 million during the six months ended November 30, 2014, to furnish model homes and sales offices, to build and furnish design studios and to update furnishings in existing communities.

Aggregate contractual commitments

There have been no significant changes outside the ordinary course of business to our contractual obligations under our debt agreements and lease payments as of November 30, 2014 compared with those contained in our audited consolidated financial statements for the year ended May 31, 2014. Our debt obligations are fully discussed in Note 7 of our unaudited condensed consolidated financial statements as of November 30, 2014.

On August 21, 2014, the Company amended its Restated Revolver, providing for, among other things, an aggregate revolving loan commitment of $195.0 million with up to $45.0 million available for the issuance of letters of credit and extending the maturity date to February 21, 2018.

As of November 30, 2014, the Company was in compliance with the covenants in the Restated Revolver and in the indenture governing the 6.875% Notes.

Off-balance sheet arrangements

In the ordinary course of business, we provide letters of credit and surety bonds to third parties to secure performance and provide deposits under various contracts and commitments. At November 30, 2014, we had letters of credit and surety bonds outstanding of $3.5 million and $20.6 million, respectively. As of November 30, 2014, we had $41.5 million of unused letters of credit capacity under the Restated Revolver.

At November 30, 2014, we controlled 13,226 lots and homes available to close. Of the 13,226 lots and homes controlled, we owned 32.8%, or 4,334 lots and homes, and 67.2%, or 8,892 lots were under contract. In the ordinary course of business, we enter into purchase and option agreements in order to procure land for the construction of homes in the future. At November 30, 2014, these agreements had an aggregate remaining purchase price of $657.5 million, net of deposits of $59.5 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. With respect to these purchase agreements, there was one specific performance agreement as of November 30, 2014 under which the Company had a $1.9 million deposit and an aggregate purchase price of $65.4 million.

As of November 30, 2014, we recorded real estate not owned of $25.2 million for three lot purchase agreements, two with an unaffiliated investor and one with an investor group that was comprised of certain beneficial owners of our equity or their affiliates.

Seasonality

Our historical quarterly results of operations have tended to be variable due to the seasonal nature of the homebuilding industry. We have historically experienced increases in revenues and cash flow from operations during the calendar second quarter based on the timing of home closings.

Interest rates and Inflation

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. Further, higher mortgage interest rates may accompany inflation and affect the affordability of mortgage financing for homebuyers. We have, in the past, attempted to pass on at least a portion of the cost increases to our customers via increased sales prices; however, we may be limited in our ability to increase our prices. If we are unable to increase our sales prices to compensate for any increased costs, or if mortgage interest rates increase significantly, thereby affecting the ability of potential homebuyers to adequately finance home purchases, our results of operations will likely be adversely affected.

Critical accounting policies and estimates

There have been no significant changes to our critical accounting policies and estimates during the six months ended November 30, 2014, compared with those contained in Note 1 of our audited consolidated financial statements for the fiscal year ended May 31, 2014.

Transactions with related parties

See Note 10 in our unaudited condensed consolidated financial statements as of November 30, 2014 and 2013 for transactions with related parties.

During fiscal year 2014, we entered into three lot purchase agreements with the Investors. The affiliate of the Investors purchased the land positions directly from a third party; therefore, the lot purchase agreements entered into with the Company were accounted for as any other purchase agreement.

In February 2014, the Company entered into a land joint venture with the Investors in which the Company has a 49% limited partner interest that was accounted for under the equity method (see Note 10). As of November 30, 2014, the Company recorded $7.1 million for its investment in this unconsolidated entity in the unaudited condensed consolidated balance sheets. The Company entered into a services agreement with the joint venture to provide accounting and administrative services. The Company receives a monthly fee of $6,000 for these services that is included in other income in the unaudited condensed consolidated statements of income. The Company entered into a lot purchase agreement with the joint venture, in which a 10% deposit was required, and there were no specific performance requirements for the Company. As of November 30, 2014, the total purchase price of lots remaining to be purchased under such agreement was approximately $19.3 million. As of November 30, 2014, the joint venture had debt outstanding of $4.5 million, which is non-recourse to the joint venture and to the Company. The loan was obtained to acquire the land and fund the first phase of land development. The Company provided the lender with a performance guarantee for the substantial completion of the first phase of development for this joint venture.

During the first quarter of fiscal year 2015, the Company entered in to a lease with the Investors to rent approximately 8,000 square feet of commercial space in Dallas, Texas. The term of the lease is 66 months. The Company has the option to renew the lease for one additional five-year term. Total minimum lease payments due under the lease totaled $0.5 million as of November 30, 2014.

Pending accounting pronouncements

See Note 2 in our unaudited condensed consolidated financial statements as of November 30, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk

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

We do not believe our exposure in these areas is material to cash flows or earnings. The borrowings under the Restated Revolver accrue interest at a variable rate. As of November 30, 2014, we had outstanding borrowings under our senior secured revolving credit facility of $41.0 million.

Item 4. Controls and Procedures

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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