

KB HOME
Form 10-K
January 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended November 30, 2015

or

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

For the transition period from _____ to _____
Commission File No. 001-09195

KB HOME

(Exact name of registrant as specified in its charter)

Delaware

95-3666267

(State or other jurisdiction of
incorporation or organization)

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

10990 Wilshire Boulevard, Los Angeles, California 90024

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (310) 231-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange
on which registered

Common Stock (par value \$1.00 per share)

New York Stock Exchange

Rights to Purchase Series A Participating Cumulative Preferred Stock

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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The aggregate market value of the voting common stock held by non-affiliates of the registrant on May 31, 2015 was \$1,512,772,004, including 10,335,461 shares held by the registrant's grantor stock ownership trust and excluding 13,116,459 shares held in treasury.

There were 92,275,658 shares of the registrant's common stock, par value \$1.00 per share, outstanding on December 31, 2015. The registrant's grantor stock ownership trust held an additional 10,135,461 shares of the registrant's common stock on that date.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2016 Annual Meeting of Stockholders (incorporated into Part III).

KB HOME
 FORM 10-K
 FOR THE YEAR ENDED NOVEMBER 30, 2015
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PART I

Item 1. BUSINESS

General

KB Home is one of the largest and most recognized homebuilding companies in the U.S. and has been building homes for nearly 60 years. We construct and sell a variety of new homes designed primarily for first-time, move-up and active adult homebuyers, including attached and detached single-family residential homes, townhomes and condominiums. We offer homes in development communities, at urban in-fill locations and as part of mixed-use projects. Our homebuilding operations represent most of our business, accounting for 99.6% of our total revenues in 2015. Our financial services operations, which accounted for .4% of our total revenues in 2015, offer certain insurance products to our homebuyers and title services in certain markets. Since July 2014, our financial services operations have also provided mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through Home Community Mortgage, LLC (“HCM”). HCM is an unconsolidated joint venture we formed with Nationstar Mortgage LLC (“Nationstar”).

Unless the context indicates otherwise, the terms “we,” “our” and “us” used in this report refer to KB Home, a Delaware corporation, and its predecessors and subsidiaries. Also as used in this report, “home” is a single-family residence, whether it is a single-family home or other type of residential property; “community” is a single development in which new homes are constructed as part of an integrated plan; and “community count” is the number of communities we have open for sales with at least five homes/lots left to sell.

The following charts present homes delivered and homebuilding revenues for the years ended November 30, 2013, 2014 and 2015:

Markets

Reflecting the geographic reach of our homebuilding business, we have ongoing operations in the nine states and 39 major markets presented below. We also operate in various submarkets within these major markets. From time to time, we refer to these markets and submarkets collectively as our “served markets.” For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast.

Segment	State(s)	Major Market(s)
West Coast	California	Contra Costa County, Fresno, Los Angeles, Madera, Oakland, Orange County, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Jose, Santa Rosa-Petaluma, Stockton, Vallejo, Ventura and Yuba City
Southwest	Arizona	Phoenix and Tucson
	Nevada	Las Vegas
Central	Colorado	Denver
	Texas	Austin, Dallas, Fort Worth, Houston and San Antonio
Southeast	Florida	Daytona Beach, Jacksonville, Lakeland, Orlando, Palm Coast, Punta Gorda, Sarasota, Sebastian-Vero Beach and Tampa
	Maryland	Baltimore and Rockville
	North Carolina	Raleigh
	Virginia	Washington, D.C.

Segment Operating Information. The following table presents certain operating information for our homebuilding reporting segments for the years ended November 30, 2015, 2014 and 2013 (dollars in millions, except average selling price):

	Years Ended November 30,		
	2015	2014	2013
West Coast:			
Homes delivered	2,258	1,913	2,179
Percentage of total homes delivered	27	% 27	% 31
Average selling price	\$587,000	\$569,700	\$467,800
Total revenues (a)	\$1,402.3	\$1,089.9	\$1,020.2
Southwest:			
Homes delivered	1,311	736	738
Percentage of total homes delivered	16	% 10	% 10
Average selling price	\$284,600	\$271,100	\$237,500
Total revenues (a)	\$398.2	\$199.5	\$175.3
Central:			
Homes delivered	3,183	3,098	2,841
Percentage of total homes delivered	39	% 43	% 40
Average selling price	\$252,200	\$223,800	\$198,900
Total revenues (a)	\$809.7	\$698.4	\$565.1
Southeast:			
Homes delivered	1,444	1,468	1,387
Percentage of total homes delivered	18	% 20	% 19
Average selling price	\$281,900	\$263,600	\$233,900
Total revenues (a)	\$410.8	\$401.9	\$324.4
Total:			
Homes delivered	8,196	7,215	7,145
Average selling price	\$354,800	\$328,400	\$291,700
Total revenues (a)	\$3,021.0	\$2,389.6	\$2,085.0

(a) Total revenues include revenues from housing and land sales.

Additional financial and operational information related to our homebuilding reporting segments, including revenues, pretax income (losses), inventories and assets, is provided below in the "Management's Discussion and Analysis of Financial Condition"

and Results of Operations” section and in Note 2. Segment Information in the Notes to Consolidated Financial Statements in this report.

Unconsolidated Joint Ventures. The above table does not include homes delivered or revenues from unconsolidated joint ventures in which we participate. These unconsolidated joint ventures acquire and develop land in various markets where our homebuilding operations are located and, in some cases, build and deliver homes on the land developed.

Strategy

Since 1997, we have followed the principles of an operational business model that we call KBnxt. KBnxt provides the core framework under which we have established the primary strategic goals for our homebuilding business. We believe the principles of KBnxt set us apart from other high-production homebuilders and provide the foundation for our long-term growth.

KBnxt. With KBnxt, we seek to generate improved operating efficiencies and return on investment through a disciplined, fact-based and process-driven approach to homebuilding that is founded on a constant and systematic assessment of consumer preferences and market opportunities. The key principles of KBnxt include the following: gaining a detailed understanding of consumer location and home design and interior/exterior design option preferences through regular surveys and research. In this report and elsewhere, we refer to our home designs and design options as our “products;”

managing our working capital and reducing our operating risks by primarily acquiring developed and entitled land at reasonable prices in identified preferred markets and submarkets that meet our investment return standards and market positioning (or “marketing”) strategy;

using our knowledge of consumer preferences to design, offer, construct and deliver products that meet the needs and interests of the largest demographic of homebuyers in our served markets. Historically, this demographic has been comprised of first-time and move-up homebuyers;

in general, commencing construction of a home only after we have a signed purchase contract with a buyer and have obtained preliminary credit approval or other evidence of the buyer’s financial ability to purchase the home;

building a backlog of orders to maintain an even flow production of homes, and minimizing the cycle time from the start of construction to the delivery of homes to buyers; and

offering customers a distinctive homebuying experience designed to offer the best combination of value and choice through affordable sales prices plus the opportunity to customize their homes as they desire by selecting a lot location within a community, various house elevations and floor plans, and numerous interior and exterior design options and upgrades available at our design studios. As part of this process, in-house teams of sales representatives, design consultants and other personnel work with each buyer to create a home that meets the buyer’s needs and budget.

We consider KBnxt to be integral to our success in the homebuilding industry. However, there may be market-driven circumstances where we believe it is necessary or appropriate to temporarily deviate from certain KBnxt principles. These deviations may include starting construction on a small number of homes in a community before corresponding purchase contracts are signed with buyers to more quickly meet customer delivery expectations and generate revenues; or acquiring undeveloped or unentitled land that otherwise fits within our marketing strategy and meets our investment return standards. In addition, other circumstances could arise in the future that may lead us to make specific short-term shifts from our KBnxt principles.

Strategic and Operational Focus. Guided by our KBnxt principles, we have since 2012 implemented an aggressive land acquisition and development investment strategy targeted at positioning more of our communities in attractive, land-constrained locations featuring higher-income homebuyers. We have also refined our product offerings to meet these buyers’ preferences both for larger homes with the option for more lot and product premiums and the choice of design options and upgrades to include with the construction of their homes. Over the last three years, we have invested approximately \$3.57 billion in land and land development and substantially expanded our operating platform and community count. To further accelerate our growth, we have prioritized enhancing the profitability of each home delivered and generating higher revenues, as well as improving our asset efficiency and return on invested capital. Through this integrated strategic framework and its corresponding initiatives, we have produced significant improvement in our financial results and have been profitable for each of the last three fiscal years. We believe we can

sustain our progress in 2016 by continuing to advance our top strategic priorities, which are discussed further in this report, subject to conditions in the overall economy and the housing, capital, credit and financial markets.

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Promotional Marketing Strategy. Our promotional marketing efforts are centered on differentiating the KB Home brand from resale homes and from new homes sold by other homebuilders. These efforts increasingly involve interactive Internet-based applications, social media outlets and other evolving communication technologies. Our design studios are a key component of our distinct homebuying experience and help increase the revenues we generate from home sales. These showrooms, which are generally centrally located within our served markets and utilize electronic displays and virtual design tools, allow our homebuyers to customize their home by selecting from a wide variety of design options and upgrades that are available at no cost or for purchase as part of the original construction of their home. The coordinated efforts of our sales representatives and design studio consultants are intended to generate higher customer satisfaction and lead to enhanced customer retention and referrals.

Customer Service. Our on-site construction supervisors perform regular pre-closing quality checks and our sales representatives maintain regular contact with our homebuyers during the home construction process in an effort to ensure our homes meet our standards and our homebuyers' expectations. We also have employees who are responsible for responding to homebuyers' post-closing needs, including warranty claims. Information about our limited warranty program is provided in Note 15. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report.

Operational Structure. We operate our homebuilding business through divisions with experienced management teams who have in-depth local knowledge of their particular served markets, which helps us acquire land in preferred locations; develop communities with products that meet local demand; and understand local regulatory environments. Our division management teams exercise considerable autonomy in identifying land acquisition opportunities; developing land and communities; implementing product, marketing and sales strategies; and controlling costs. To help maintain consistent execution within our organization, our division management teams and other employees are continuously trained on KBnxt principles and are evaluated, in part, based on their achievement of relevant operational objectives.

Our corporate management and support personnel develop and oversee the implementation of our overall operational policies and internal control standards, and perform various centralized functions, including treasury and cash management; land acquisition approval; accounting and financial reporting; internal audit and compliance activities; and investor and media relations.

Community Development and Land Inventory Management

Developable land for the production of homes is a core resource for our business. Based on our current strategic plans, we seek to own or control land sufficient to meet our forecasted production goals for the next three to five years. In 2016, we intend to continue to selectively acquire or control additional land that meets our investment return and marketing standards. However, we may decide to sell certain land interests as part of our capital allocation and marketing strategy, or to monetize land previously held for future development, or for other reasons.

Our community development process generally consists of four phases: land acquisition, land development into finished lots for a community (if necessary), home construction and delivery of completed homes to buyers. Historically, our community development process has ranged from six to 24 months in our West Coast homebuilding reporting segment, with a somewhat shorter duration in our other homebuilding reporting segments. Our community development process varies based on, among other things, the extent and speed of required government approvals and utility service activations, the overall size of a particular community, the scope of necessary site preparation activities, the type of product(s) that will be offered, weather conditions, time of year, promotional marketing results, the availability of construction resources, consumer demand, local and general economic and housing market conditions, and other factors.

Although they vary significantly in size and complexity, our communities typically consist of 30 to 250 lots ranging in size from 1,900 to 11,500 square feet. In our communities, we typically offer three to 15 home design choices. We also generally build one to three model homes at each community so that prospective buyers can preview various products available. Depending on the community, we may offer premium lots containing more square footage, better views and/or location benefits. Some of our communities consist of multiple-story structures that encompass several attached condominium-style units.

Land Acquisition and Land Development. We continuously evaluate land acquisition opportunities against our investment return and marketing standards, balancing competing needs for financial strength, liquidity and land inventory for future growth. When we acquire land, we generally focus on parcels with lots that are fully entitled for residential construction and are either physically developed to start home construction (referred to as “finished lots”) or partially finished. However, depending on market conditions and available opportunities, we may acquire undeveloped and/or unentitled land. We may also invest in land that requires us to repurpose and re-entitle the property for residential use, such as in-fill developments. We expect that the overall balance of undeveloped, unentitled, entitled, partially finished and finished lots in our inventory will vary over time, and in

implementing our strategic growth initiatives, we may acquire a greater proportion of undeveloped or unentitled land in the future if and as the availability of reasonably-priced land with finished or partially finished lots diminishes. We target geographic areas for potential land acquisitions and community development based on the results of periodic surveys of both new and resale homebuyers in particular markets, prevailing local economic conditions, the supply and type of homes available for sale, and other research activities. Local, in-house specialists analyze specific geographic areas to identify desirable land acquisition targets or to evaluate whether to dispose of an existing land interest. We also use studies performed by third-party specialists.

We generally structure our land acquisition and land development activities to minimize, or to defer the timing of, expenditures in order to reduce both the market risks associated with holding land and our working capital and financial commitments, including interest and other carrying costs. We typically use contracts that in exchange for a small initial option or earnest money deposit payment give us an option or similar right to acquire land at a future date, usually at a pre-determined price and pending our satisfaction with the feasibility of developing and selling homes on the land and/or an underlying land seller's completion of certain obligations, such as securing entitlements, developing infrastructure or finishing lots. We refer to land subject to such option or similar contractual rights as being "controlled." Our decision to exercise a particular land option or similar right is based on the results of our due diligence and continued market viability analysis after entering into such a contract. Information related to our land option contracts and other similar contracts is provided in Note 7. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report.

The following table presents the number of inventory lots we owned, in various stages of development, or controlled under land option contracts or other similar contracts by homebuilding reporting segment as of November 30, 2015 and 2014:

	Homes Under Construction and Land Under Development		Land Held for Future Development		Land Under Option		Total Land Owned or Under Option	
	2015	2014	2015	2014	2015	2014	2015	2014
West Coast	4,526	5,467	2,768	3,157	4,126	4,210	11,420	12,834
Southwest	6,349	6,985	1,871	2,255	761	317	8,981	9,557
Central	13,793	13,692	1,254	1,339	2,700	4,098	17,747	19,129
Southeast	3,999	4,618	3,500	3,879	1,752	2,181	9,251	10,678
Total	28,667	30,762	9,393	10,630	9,339	10,806	47,399	52,198

The following charts present the percentage of inventory lots we owned or controlled under land option contracts or other similar contracts by homebuilding reporting segment and the percentage of total lots we owned and controlled under option as of November 30, 2015:

Home Construction and Deliveries. Following the acquisition of land and, if necessary, the development of the land into finished lots, we typically begin constructing model homes and marketing homes for sale. We have developed and refined a standardized set of value-engineered home designs to enhance our construction efficiency. To minimize the costs and risks of unsold homes in production, we generally begin construction of a home only after we have a signed purchase contract with a buyer and we have obtained preliminary credit approval or other evidence of the buyer's financial ability to purchase the home. However, cancellations of home purchase contracts prior to the delivery of the underlying homes, the construction of attached products with some unsold units, or specific strategic considerations will result in our having unsold completed or partially-completed homes in our inventory.

We act as the general contractor for the majority of our communities, and engage outside general contractors in all other instances. We, or the outside general contractors we engage, contract with a variety of independent subcontractors, who are typically locally-based, to perform all land development and home construction work through their own employees or subcontractors. We do not self-perform any land development or home construction work. These independent subcontractors also supply some of the building materials required for such production activities. Our contracts with these independent subcontractors require that they comply with all laws applicable to their work, including wage and safety laws, meet performance standards, and follow local building codes and permits.

Raw Materials. Outside of land, the principal raw materials used in our production process are concrete and forest products. Other primary materials used in home construction include drywall and plumbing and electrical items. We source all of our building materials from third parties. We attempt to enhance the efficiency of our operations by using, where practical, standardized materials that are commercially available on competitive terms from a variety of outside sources. In addition, we have national and regional purchasing programs for certain building materials, appliances, fixtures and other items that allow us to benefit from large-quantity purchase discounts and, where available, participate in outside manufacturer or supplier rebate programs. When possible, we arrange for bulk purchases of these products at favorable prices from such manufacturers and suppliers. Although our purchasing strategies have helped us in negotiating favorable prices for raw materials, in recent years we have encountered higher prices for lumber, drywall and concrete.

Backlog

Our “backlog” consists of homes that are under a purchase contract but have not yet been delivered to a buyer. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less cancellations) generated during the current period minus the number of homes delivered during the current period. Our backlog at any given time will be affected by cancellations, homes delivered and our community count. Our cancellation rates and the factors affecting our cancellation rates are further discussed below in both the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections in this report. The number of homes we deliver has historically increased from the first to the fourth quarter in any year. Substantially all of our homes in backlog at November 30, 2015 are expected to be delivered during the year ended November 30, 2016.

Our backlog at November 30, 2015 increased 36% to 3,966 homes from 2,909 homes at November 30, 2014, largely due to a year-over-year increase in our net orders in 2015. Our backlog at November 30, 2015 represented potential future housing revenues of approximately \$1.28 billion, a 40% increase from approximately \$914.0 million at November 30, 2014, reflecting the larger number of homes in our backlog and a higher average selling price of those homes.

The following charts present our ending backlog (number of homes and value) by homebuilding reporting segment as of November 30, 2014 and 2015:

Employees

At December 31, 2015 and 2014, we had approximately 1,680 and 1,590 full-time employees, respectively. None of our employees are represented by a collective bargaining agreement.

Competition, Seasonality, Delivery Mix and Other Factors

Competition. The homebuilding industry and housing market are highly competitive with respect to selling homes; contracting for construction services, such as carpentry, roofing, electrical and plumbing; and acquiring attractive developable land, though the intensity of competition can vary and fluctuate between and within individual markets and submarkets. We compete for homebuyers, construction resources and desirable land against numerous homebuilders, ranging from regional and national firms to small local enterprises. As to homebuyers, we primarily compete with other homebuilders on the basis of selling price, community location and amenities, availability of financing options, home designs, reputation, home construction cycle time, and the design options and upgrades that can be included in a home. In some cases, this competition occurs within larger residential development projects containing separate sections designed, planned and developed by other homebuilders. We also compete for homebuyers against housing alternatives to new homes, including resale homes, apartments, single-family rentals and other rental housing. In markets experiencing heavy construction activity, there can be severe craft and skilled trade shortages that limit independent subcontractors' ability to supply construction services to us, which in turn tends to drive up our costs and/or extend our production schedules. Elevated construction activity has also contributed to measurable increases in the cost of certain building materials, such as lumber, drywall and concrete. Since 2013, we also have seen higher prices for desirable land amid heightened competition with homebuilders and other developers and investors, particularly in the land-constrained areas we are strategically targeting. We expect these upward cost trends to continue in 2016 if and as housing market activity grows and there is greater competition for these resources.

Seasonality. Our performance is affected by seasonal demand trends for housing. Traditionally, there has been more consumer demand for home purchases and we tend to generate more net orders in the spring and early summer months (corresponding to most of our second quarter and part of our third quarter) than at other times of the year. With our distinct homebuying approach and typical home construction cycle times, this "selling season" demand results in our delivering more homes and generating

higher revenues from late summer through the fall months (corresponding to part of our third quarter and all of our fourth quarter). On a relative basis, the winter and early spring months within our first quarter and part of our second quarter usually produce the fewest net orders, homes delivered and revenues, and the sequential difference from our fourth quarter to our first quarter can be significant.

Delivery Mix and Other Factors. In addition to the overall volume of homes we sell and deliver, our results in a given period are significantly affected by the geographic mix of markets and submarkets in which we operate; the number and characteristics of the communities we have open for sales in those markets and submarkets; and the products we sell from those communities during the period. While there are some similarities, there are differences within and between our served markets in terms of the quantity, size and nature of the communities we operate and the products we offer to consumers. These differences reflect, among other things, local homebuyer preferences; household demographics (e.g., large families or working professionals; income levels); geographic context (e.g., urban or suburban; availability of reasonably priced finished lots; development constraints; residential density); and the shifts that can occur in these factors over time. These structural factors in each of our served markets will affect the costs we incur and the time it takes to locate, acquire rights to and develop land, open communities for sales, and market and build homes; the size of our homes; our selling prices (including the contribution from homebuyers' purchases of design options and upgrades); the pace at which we sell and deliver homes and close out communities; and our housing gross profits and housing gross profit margins. Therefore, our results in any given period will fluctuate compared to other periods based on the proportion of homes delivered from areas with higher or lower selling prices and on the corresponding land and overhead costs incurred to generate those deliveries, as well as from our overall community count.

Financing

Our operations have historically been funded by internally generated cash flows, public equity and debt issuances, land option contracts and other similar contracts and land seller financing, and performance bonds and letters of credit. We also have the ability to borrow funds under our unsecured revolving credit facility with various banks ("Credit Facility"). Depending on market conditions and available opportunities, we may obtain project financing, or secure external financing with community or other inventory assets that we own or control. By "project financing," we mean loans that are specifically obtained for, or secured by, particular communities or other inventory assets. We may also arrange or engage in bank loan, project debt or other financial transactions and/or expand the capacity of the Credit Facility or our cash-collateralized letter of credit facilities with various financial institutions (the "LOC Facilities") or enter into additional such facilities.

Environmental Compliance Matters and Sustainability

As part of our due diligence process for land acquisitions, we often use third-party environmental consultants to investigate potential environmental risks, and we require disclosures, representations and warranties from land sellers regarding environmental risks. Despite these efforts, there can be no assurance that we will avoid material liabilities relating to the existence or removal of toxic wastes, site restoration, monitoring or other environmental matters affecting properties currently or previously owned or controlled by us. No estimate of any potential liabilities can be made although we may, from time to time, acquire property that requires us to incur environmental clean-up costs after conducting appropriate due diligence, including, but not limited to, using detailed investigations performed by environmental consultants. In such instances, we take steps prior to our acquisition of the land to gain reasonable assurance as to the precise scope of work required and the costs associated with removal, site restoration and/or monitoring. To the extent contamination or other environmental issues have occurred in the past, we will attempt to recover restoration costs from third parties, such as the generators of hazardous waste, land sellers or others in the prior chain of title and/or their insurers. Based on these practices, we anticipate that it is unlikely that environmental clean-up costs will have a material effect on our consolidated financial statements. We have not been notified by any governmental agency of any claim that any of the properties owned or formerly owned by us are identified by the U.S. Environmental Protection Agency (or similar state or local agency) as being a "Superfund" (or similar state or local) clean-up site requiring remediation, which could have a material effect on our future consolidated financial statements. Costs associated with the use of environmental consultants are not material to our consolidated financial statements.

We have made a dedicated effort to further differentiate ourselves from other homebuilders and resale homes through our ongoing commitment to become a leading national company in environmental sustainability. We continually seek out and utilize innovative technologies and systems to further improve the energy and water efficiency of our homes, as well as engage in campaigns and other educational efforts, sometimes together with other companies, organizations and groups, to increase consumer awareness of the importance and impact of sustainability in selecting a home and the products within a home. Under our commitment to sustainability, we, among other things:

• build energy- and water-efficient new homes;

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developed an Energy Performance Guide®, or EPG®, that informs our homebuyers of the relative energy efficiency and the related estimated monthly energy costs of each of our homes as designed, compared to typical new and existing homes; and

created and are adding more net-zero energy and zero freshwater design options, under a program called Double ZeroHouse™ 3.0, that are available in select markets.

More information about our sustainability commitment can be found in our annual sustainability reports, which we have published on our website since 2008. We intend to continue to research, evaluate and utilize new or improved products and construction and business practices consistent with our commitment and believe our sustainability initiatives can help put us in a better position, compared to resale homes and homebuilders with less-developed programs, to comply with evolving local, state and federal rules and regulations intended to protect natural resources and to address climate change and similar environmental concerns.

Access to Our Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, beneficial ownership reports on Forms 3, 4 and 5 and proxy statements, as well as all amendments to those reports are available free of charge through our investor relations website at <http://investor.kbhome.com>, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). We will also provide these reports in electronic or paper format free of charge upon request made to our investor relations department at investorrelations@kbhome.com or at our principal executive offices. We intend for our investor relations website to be the primary location where investors and the general public can obtain announcements regarding, and can learn more about, our financial and operational performance, business plans and prospects, our board of directors, our senior executive management team, and our corporate governance policies, including our articles of incorporation, by-laws, corporate governance principles, board committee charters, and ethics policy. We may from time to time choose to disclose or post important information about our business on or through our investor relations website, and/or through other electronic channels, including social media outlets, such as Twitter ([Twitter.com/KBHome](https://twitter.com/KBHome)), and other evolving communication technologies. The content available on or through our primary website at www.kbhome.com, our investor relations website, including our sustainability reports, or social media outlets and other evolving communication technologies is not incorporated by reference in this report or in any other filing we make with the SEC, and our references to such content are intended to be inactive textual or oral references only. Our SEC filings are also available to the public over the Internet at the SEC’s website at www.sec.gov. The public may also read and copy any document we file at the SEC’s public reference room located at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Item 1A. RISK FACTORS

The following important factors could adversely impact our business. These factors could cause our actual results to differ materially from the forward-looking and other statements that (a) we make in registration statements, periodic reports and other filings with the SEC and from time to time in our news releases, annual reports and other written reports or communications, (b) we post on or make available through our websites and/or through other electronic channels, and (c) our personnel and representatives make orally from time to time.

Soft or negative economic or housing market conditions generally or in our served markets may materially and adversely affect our business and consolidated financial statements.

Since 2012, the housing market has continued to improve compared to the several difficult years of the housing downturn from mid-2006 through 2011. The improvement has been driven primarily by steady demand for homes, fairly low inventories of homes available for sale and generally healthy economic and demographic factors. However, the performance of individual housing markets varied throughout 2015, with home sales activity and selling price appreciation robust in certain markets and tepid in others due to, among other things, rising housing prices and/or inventory levels.

We expect that such unevenness in housing market conditions will continue in 2016 and beyond, and that there will be fluctuations among and within individual housing markets. These fluctuations may be significant and unfavorable, and could be more pronounced and/or prolonged in our served markets. Our operations and consolidated financial

statements can be substantially affected by adverse changes in prevailing business conditions, including, among others:

• weak economic, income and employment growth;

• diminished population growth, household formations and other negative demographic changes;

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- high consumer debt levels, including elevated student loan balances;
- delinquencies, defaults and foreclosures on mortgage loans;
- increases in interest rates;
- volatility and uncertainty in domestic and international financial, capital and consumer lending markets;
- lack of availability of or prohibitive costs for mortgage loans;
- increased personal income tax rates and/or more restrictive personal income tax deduction provisions, including for the deduction of mortgage loan interest payments, real estate taxes and other homeownership-related expenses;
- limited homebuyer interest in our product designs and/or community locations; and
- lack of consumer interest in purchasing a home compared to other housing alternatives.

We can provide no assurance that these factors, which are outside of our control, will not occur, persist for an extended period and/or worsen, or that the generally favorable housing market conditions at present will continue for any length of time. Inclement weather, natural disasters (such as earthquakes, hurricanes, tornadoes, floods, droughts and fires), and other environmental conditions can delay the delivery of our homes and/or increase our costs. Civil unrest and acts of terrorism, and government responses to such acts, can also have a negative effect on our business. If, on an overall basis or in our served markets, the economic or housing environment becomes more challenging; home sales or selling prices do not continue to advance at the same pace as in recent years or decline; or any or all of the negative factors or events described above occur, persist and/or worsen, there would likely be a corresponding adverse effect on our business and our consolidated financial statements, including, but not limited to, the number of homes we deliver, our average selling prices, the amount of revenues we generate, our housing gross profit margins and our ability to operate profitably, and the effect may be material.

Continued or additional tightening of mortgage lending standards and/or interest rate increases could adversely affect the availability or affordability of mortgage loans for potential buyers of our homes and thereby reduce our net orders. Mortgage lenders have stopped offering certain mortgage loan products and significantly tightened their credit standards primarily due to the relatively high rates of delinquencies, defaults and foreclosures on mortgage loans and fluctuations in their market value and the market value of securities backed by such loans during the housing downturn, and regulatory rules and enforcement actions (including sanctions, penalties and fines). As a result, it is generally difficult for some potential borrowers to finance the purchase of a home, causing volatility in and elevating cancellation rates for us and other homebuilders, and reducing demand for homes, including our homes. If mortgage lending standards further tighten, or mortgage lenders further curtail their product offerings, there could be a material adverse effect on our business and our consolidated financial statements, as we depend on such lenders (including HCM) to provide mortgage loans that our buyers typically require to purchase our homes. Higher mortgage loan interest rates, which may result from the Federal Reserve deciding to increase the federal funds rate and/or investors' expectations as to the Federal Reserve's potential actions to influence interest rates, could also measurably reduce demand for our homes by increasing borrowers' financing costs, and thereby have a material adverse effect on our consolidated financial statements.

In addition, federal regulators and lawmakers have considered steps that may significantly reduce the ability or authority of the Federal Housing Administration ("FHA"), the Federal National Mortgage Association (also known as "Fannie Mae") and Federal Home Loan Mortgage Corporation (also known as "Freddie Mac") to purchase or insure mortgage loans under their respective programs. Further, given federal budget deficits, the U.S. Treasury may not be able to continue, or may be required by future legislation or regulation to cease, supporting the mortgage loan-related activities of Fannie Mae, Freddie Mac, the FHA and the Veterans Administration ("VA") at present levels. The availability and affordability of mortgage loans, including interest rates or the costs for such loans, could be significantly diminished by a scaling back, tightening or termination of the federal government's mortgage loan-related programs. Because Fannie Mae-, Freddie Mac-, FHA- and VA-backed mortgage loans have been a critical source of liquidity for the mortgage finance industry and an important factor in marketing and selling many of our homes, any limitations or restrictions on the availability of, or higher consumer costs for, such government-backed financing could reduce our net orders and adversely affect our business and consolidated financial statements, and the effect could be material. Given the above and other factors, we can provide no assurance as to mortgage lenders' (including HCM's) ability or willingness to provide mortgage loans and other mortgage banking services to our homebuyers in

future periods or as to their performance in doing so.

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The mortgage banking operations of HCM are heavily regulated and subject to rules and regulations promulgated by a number of governmental and quasi-governmental agencies. If Nationstar, which provides management oversight of HCM's operations, decides to end, or we decide to terminate, our relationship with respect to HCM or otherwise, or there is a finding that Nationstar or HCM materially violated any applicable rules or regulations and as a result is restricted from or unable to originate mortgage loans, our customers may experience significant mortgage loan funding issues, which could lower our net orders and revenues, and, in turn, have a material adverse impact on our business and our consolidated financial statements. In addition, while substantially all of the mortgage loans originated by HCM are sold within a short period of time in the secondary mortgage market on a servicing released, non-recourse basis, HCM remains potentially responsible for certain limited representations and warranties it makes in connection with such mortgage loan sales. Mortgage investors, including the FHA, Fannie Mae and Freddie Mac, could seek to have HCM buy back mortgage loans or compensate them for losses incurred on mortgage loans HCM has sold based on claims that it breached its limited representations or warranties. HCM has established reserves for potential losses. However, there can be no assurance that HCM will not have significant liabilities with respect to such claims in the future, which could exceed its reserves, or that the impact of such claims will not be material to HCM's financial condition or ability to operate, or cause us to recognize losses with respect to our equity interest in HCM, or cause our customers to seek mortgage loans from other lenders and/or experience mortgage loan funding issues that could delay our delivering homes to them and/or cause them to cancel their home purchase contracts with us. Third-party lenders may not complete mortgage loan originations for our homebuyers in a timely manner or at all, which can lead to cancellations and a lower backlog of orders, or to significant delays in our delivering homes and recognizing revenues from those homes.

Our buyers may obtain mortgage financing for their home purchases from any lender or other provider of their choice, including HCM. If, due to credit or consumer lending market conditions, regulatory requirements, or other factors or business decisions, these lenders refuse or are unable to provide mortgage loans to our buyers, the number of homes we deliver, our business and our consolidated financial statements may be materially and adversely affected. Based on the number of homes we delivered in 2015, approximately 61% of our buyers who obtained mortgage financing used HCM to finance the purchase of their home. Although we expect an increasing percentage of our homebuyers will choose to use HCM, many of our homebuyers will continue to seek mortgage loans from other lenders and be subject to those lenders' ability to perform. We can provide no assurance as to other lenders' ability or willingness to complete, in a timely fashion or at all, the mortgage loan originations they start for our homebuyers. Such inability or unwillingness may result in mortgage loan funding issues that slow deliveries of our homes and/or cause cancellations, which in each case would likely have a material adverse effect on our business and our consolidated financial statements. In addition, recent changes to mortgage loan disclosure requirements to consumers may potentially delay lenders' (including HCM's) completion of the mortgage loan funding process for borrowers and, therefore, extend the delivery of homes to our buyers beyond the time anticipated.

Our current strategies may not generate improved financial and operational performance, and the continued implementation of these and other strategies may not be successful.

We believe our current strategies and initiatives will enable us to continue to profitably grow our business in 2016. However, our strategic and operational actions, including, but not limited to, our plans to expand our community count, may prove to be unsuitable for some or all of our served markets. We can provide no guarantee that our strategies, initiatives or actions will be successful, that they will generate growth or earnings or returns at any level or within any time frame, or that we will achieve in 2016 or beyond positive operational or financial results or results in any particular metric or measure equal to or better than our 2015 performance, or perform in any period as well as other homebuilders. In addition, we can provide no assurance that our community locations and products (or any refining of our products) will successfully attract consumers, command selling prices, or generate orders, revenues and/or housing gross profit margins at the levels we have experienced in the past or anticipate in future periods, at levels sufficient for us to be profitable or at levels higher than other homebuilders. We also cannot provide any assurance that we will be able to maintain these strategies, initiatives or actions in 2016 and, due to unexpectedly favorable or unfavorable market conditions or other factors, we may determine that we need to adjust, refine or abandon all or portions of these strategies, initiatives or actions, although we cannot guarantee that any such changes

will be successful. The failure of any one or more of our present strategies, initiatives or actions, or the failure of any adjustments or alternative strategies, initiatives or actions that we may pursue or implement, to be successful would likely have an adverse effect on our ability to grow and increase the value and profitability of our business, to meet our debt service and other obligations necessary to operate our business in the ordinary course, and on our consolidated financial statements, as well as on our overall liquidity, and the effect in each case could be material.

The success of our present strategies, growth initiatives and our long-term performance depends on the availability of developable land that meets our investment return and marketing standards.

The availability of developable land, particularly finished and partially finished lots, that meets our investment return and marketing standards depends on a number of factors outside of our control, including, among other things, land availability in general, geographical/topographical constraints, land sellers' business relationships, competition for desirable property, legal or government agency or utility service company processes, our ability and the costs to obtain building permits and other regulatory approvals and prevailing conditions in the marketplace for land. Should suitable land become less available, the number of homes that we may be able to build and sell could be reduced. In addition, the cost of attractive land could continue to increase and adversely impact our housing gross profit margins, our consolidated financial statements and our ability to maintain ownership or control of a sufficient supply of land to meet our production goals. The availability of suitable land could also affect the success of our current strategies and growth initiatives. Further, if we decide to reduce our land acquisition activity in 2016 below our current plans due to a lack of available assets that meet our standards, our ability to increase our community count, to maintain or grow our revenues and housing gross profits and to maintain or increase our profitability in 2016 and beyond, would likely be constrained and could have a material adverse effect on our business and consolidated financial statements.

The value of the land and housing inventory we own or control may fall significantly.

The value of the land and housing inventory we currently own or control depends on market conditions, including estimates of future demand for, and the revenues that can be generated from, this inventory. The value of our inventory can vary considerably because there is often a significant amount of time between our acquiring control or taking ownership of land and the delivery of homes on that land, particularly undeveloped and/or unentitled land. Based on our periodic assessments of our inventory for recoverability, we have from time to time written down certain of our inventory to its estimated fair value. We have also recorded charges against our earnings in connection with activating or selling certain land held for future development and with abandoning our interests in certain land controlled under land option contracts and other similar contracts that no longer met our investment return or marketing standards. If, in 2016, the present economic or housing environment weakens, if particular markets or submarkets experience challenging or unfavorable changes in prevailing business conditions, or if we elect to revise our marketing strategy relating to certain land positions, we may need to record additional charges against our earnings for inventory impairments or land option contract abandonments, or both, or in connection with land sales to reflect changes in fair value of land or land interests in our inventory, including assets we have previously written down. Any such charges could have a material adverse effect on our consolidated financial statements, including our ability to maintain or increase our profitability.

Home selling prices and sales activity in particular markets in which we do business materially affect our consolidated financial statements because our business is concentrated in these markets.

Home sales activity and selling prices in some of our key served markets have varied from time to time for market-specific and other reasons, including adverse weather, high levels of foreclosures, short sales and sales of lender-owned homes, and lack of affordability or economic contraction due to, among other things, the departure or decline of key industries, higher-wage jobs and employers that could effectively price potential homebuyers out of purchasing homes, including our homes. If home sales activity or selling prices decline in one or more of our key served markets, including California, Florida, Nevada or Texas, our costs may not decline at all or at the same rate and, as a result, our consolidated financial statements may be materially and adversely affected. Adverse conditions in California would have a particularly material effect on our consolidated financial statements as our average selling price in the state is higher than our average selling prices in the states within our other homebuilding reporting segments, a large percentage of our housing revenues is generated from California, and a significant proportion of our investments in land and land development have been made, and in 2016 are expected to be made, in that state. In recent years, many state, regional and local governments in our served markets have struggled to balance their budgets due to a number of factors. As a result, there have been significant cuts to government departments, subsidies, programs and public employee staffing levels, while taxes and fees have been increased. Lawmakers' efforts at all governmental levels to address these budget deficit issues and/or efforts to increase governmental revenues, could, among other things, cause businesses and residents to leave, or discourage businesses or households

from coming to, affected served markets, thereby limiting economic growth and/or resulting in significant delays and/or higher costs in obtaining required inspections, permits or approvals with respect to the development of our communities located in such markets. These negative impacts could adversely affect our ability to generate orders and revenues and/or to maintain or increase our housing gross profit margins in such markets, and the impact could be material and adverse to our consolidated financial statements.

Negative environmental impacts from, and legal and regulatory requirements in response to, severe and prolonged drought conditions in Arizona, California and Nevada could adversely affect our business and results of operations in those regions and our consolidated financial statements.

Certain areas in which we operate, particularly parts of Arizona, California and Nevada, are experiencing extreme or exceptional drought conditions. In response to these conditions and concerns that they may continue for an extended period of time or worsen, government officials have taken, or have proposed taking, a number of steps to preserve potable water supplies. For instance, in 2015, California declared a state of emergency and mandated that local water agencies and other water suppliers achieve specific reductions in potable urban water use through at least February 28, 2016. The state also prohibited irrigation with potable water outside certain newly constructed homes and buildings with landscape areas larger than 2,500 square feet.

To address the state's mandate and their own available potable water supplies, local water agencies/suppliers could potentially restrict, delay the issuance of, or proscribe new water connection permits for homes or businesses; increase the costs for securing such permits, either directly or by requiring participation in impact mitigation programs; adopt higher efficiency requirements for water-using appliances or fixtures; limit or ban the use of water for construction activities; impose requirements as to the types of allowed plant material or irrigation for outdoor landscaping that are more strict than state standards and less desired by consumers; and/or impose fines and penalties for noncompliance with any such measures. These local water agencies/suppliers could also increase rates and charges to residential users for the water they use, potentially increasing the cost of homeownership. We can offer no assurance whether, where and the extent to which these or additional conservation measures might be imposed by local water agencies/suppliers in California or by other federal, state or local lawmakers or regulators in Arizona, California and Nevada. However, if potable water supplies become further constrained due to persistent drought conditions, tighter conservation requirements may be imposed that could limit, impair or delay our ability to acquire and develop land, and/or build and deliver homes (even if we have obtained water connection permits); increase our production costs; or cause the fair value of affected land or land interests in our inventory to decline, which could result in inventory impairment or land option contract abandonment charges, or both; or negatively affect the economies of, or diminish consumer interest in living in, water-constrained areas. These impacts, individually or collectively, could adversely affect our business and consolidated financial statements, and the effect could be material.

Supply shortages and other risks related to demand for construction resources could increase our costs and delay our deliveries.

Shortages or upward price fluctuations in lumber, drywall, concrete and other building materials, and construction services, whether due to independent subcontractor or outside supplier capacity constraints, heavy residential construction activity, competition with other homebuilders or construction firms, the occurrence of or rebuilding after natural disasters or other reasons, can also have an adverse effect on our business by increasing our production costs and/or extending our production schedules. We may not be able to raise our selling prices to cover such cost increases or delays because of market conditions, including competition for homebuyers from other homebuilders and resale homes. Sustained increases in our production costs due to higher construction resource prices and/or our limited ability to successfully contain these costs may, among other things, decrease our housing gross profit margins, while construction resource shortages due to competition or other factors may delay deliveries of our homes to buyers and our recognition of revenues. As a result, these negative items, individually or together, could have a material and adverse impact on our consolidated financial statements.

Inflation may adversely affect us by increasing costs that we may not be able to recover, particularly if our home selling prices decrease, and the impact on our performance and our consolidated financial statements could be material.

Inflation can have an adverse impact on our business and consolidated financial statements because increasing production costs could require us to increase our home selling prices in an effort to maintain satisfactory housing gross profit margins. However, we may not be able to increase our home selling prices to cover inflation in production costs due to market conditions, and we may need to hold or reduce our selling prices, or offer sales incentives or discounts, in order to compete for home sales. If determined necessary, our lowering of home selling prices and/or using sales incentives or discounts, in addition to impacting our housing gross profit margins, may also reduce the

value of our land inventory, including the assets we have purchased in recent years, and make it more difficult for us to fully recover the costs of our land and any related community development through our home selling prices or, if we choose, through land sales. In addition, depressed land values may cause us to abandon and forfeit deposits on land option contracts and other similar contracts if we cannot satisfactorily renegotiate the purchase price of the subject land. We may record charges against our earnings for inventory impairments if the value of our owned inventory, including land we decide to sell, is reduced, or for land option contract abandonments if we choose not to exercise land option contracts or other similar contracts, and these charges may be substantial. Inflation may also increase interest rates for mortgage loans and thereby reduce demand for our homes and lead to lower revenues, as well as increase the interest rates we may need to accept to obtain external financing for our business operations.

Reduced home sales may impair our ability to recoup development costs or force us to absorb additional costs. Depending on the stage of development a land parcel is in when acquired, we may incur expenditures for developing land into a community, such as entitling and finishing lots and installing roads, sewers, water systems and other utilities; taxes and other levies related to ownership of the land; constructing model homes; and promotional marketing and overhead expenses to prepare for the opening of the community for home sales. Moreover, local municipalities may impose various and sometimes unanticipated development-related requirements resulting in additional costs or delays. If the rate at which we sell and deliver homes slows or falls, or if our opening of communities for home sales is delayed due to adjustments in our marketing strategy, protracted governmental approval processes or utility service activations, or other reasons, we may incur additional costs, which would adversely affect our housing gross profit margins, and it will take a longer period of time for us to recover our costs. We may also decide to abandon certain land option contracts and other similar contracts, and sell certain land at a loss, and the costs of doing so and any related charges recorded against our earnings may be adverse and material to our consolidated financial statements.

An increase in our cancellation rates could negatively impact our business.

Our backlog at a given point in time reflects homes under a purchase contract that have not yet been delivered to a buyer. Our home purchase contracts with our customers require a relatively small deposit at the time of signing and, in some cases, when design studio options or upgrades are selected. The deposit(s) required vary among markets and communities. Generally, we have the right to retain deposits from customers that cancel their purchase contract. However, we generally permit our customers to cancel their obligations and obtain refunds of all or a portion of their deposits if they cannot obtain a mortgage loan within a certain period of time, and we may choose to provide full or partial refunds in other cases. As a result, if home prices decline, the availability of mortgage financing diminishes or interest rates increase, customers may cancel their existing home purchase contracts with us because they are unable to finalize a mortgage loan for the purchase. In addition, if new home competitors increase their use of sales incentives, lenders and others increase their efforts to sell resale homes through incentives or price cuts, our home construction cycle times are delayed, or there is weakness or a downturn in local or regional economies or the national economy and/or in consumer confidence, customers may cancel, or propose to cancel, their purchase contracts with us because they desire to move into a home earlier than we can deliver it, or in order to attempt to negotiate for a lower selling price or explore other options, or they are otherwise unable or unwilling to complete the purchase. Volatile cancellation rates resulting from these conditions, or otherwise, may reduce the rate at which we sell and deliver homes and could have a material adverse effect on our business and our consolidated financial statements.

Tax law changes could make home ownership more expensive or less attractive.

Under current tax law, significant expenses of owning a home, including mortgage loan interest costs and real estate taxes, generally are deductible expenses for the purpose of calculating an individual's or household's federal, and in some cases state, taxable income subject to various limitations. If the federal government or a state government changes its income tax laws by eliminating, limiting or substantially reducing these income tax benefits, the after-tax cost of owning a home could increase substantially. Any increases in personal income tax rates and/or tax deduction limits or restrictions enacted at the federal or state levels could adversely impact demand for and/or selling prices of new homes, including our homes, and the effect on our consolidated financial statements could be adverse and material.

We are subject to substantial legal and regulatory requirements regarding the development of land, the homebuilding process and the protection of the environment, which can cause us to suffer production delays and incur costs associated with compliance, and/or prohibit or restrict homebuilding activity in some regions or areas. Our business is also subject to a number of local, state and federal laws, statutes, ordinances, rules, policies and other legal and regulatory requirements. The impact of such requirements or our failure to comply with such requirements, individually or collectively, could be adverse and material to our consolidated financial statements.

Our homebuilding business is heavily regulated and subject to a significant amount of local, state and federal regulation concerning zoning, allowable housing density, natural and other resource protection, building designs, land/community development and home construction methods, worksite safety and similar matters, as well as governmental taxes, fees and levies on the acquisition and development of land. These regulations often provide broad

discretion to government authorities that oversee these matters, which can result in unanticipated delays, adjustments in the allowable scope, size or characteristics, and/or increases in the cost of a specified development project or a number of projects in particular markets. We may also experience delays due to a building permit moratorium or regulatory restrictions in any of the locations in which we operate, which can, among other things, affect the balance of land held for future development in our inventory. Further, there is no assurance that these governmental regulations, or other laws, statutes, ordinances, rules and policies applicable to our business, will not be interpreted or revised in ways that will require us to change our strategies or operations, incur significant compliance costs or

record charges against our earnings, and/or restrict the manner in which we conduct our activities, and any such actions or events, and associated costs and charges, could adversely and materially affect our consolidated financial statements.

In addition, we are subject to a variety of local, state and federal laws, statutes, ordinances, rules and regulations concerning the environment, including requirements to manage and/or mitigate storm water runoff, dust particles and other environmental impacts of our production activities at our communities. These laws, statutes, ordinances, rules and regulations, and/or evolving interpretations thereof, may cause production delays, may cause us to incur substantial compliance, litigation and other costs, and can prohibit or restrict homebuilding activity in certain regions or areas, any of which could also reduce the fair value of affected inventory and require us to record significant impairment charges against our earnings. Environmental laws may also impose liability for the costs of removal or remediation of hazardous or toxic substances whether or not the developer or owner of the property knew of, or was responsible for, the presence of those substances. The actual or potential presence of those substances on or nearby our properties may prevent us from selling our homes and we may also be liable, under applicable laws and regulations or lawsuits brought by private parties, for hazardous or toxic substances on land that we have sold in the past. Further, a significant portion of our business is conducted in California, one of the most highly regulated and litigious states in the country. Therefore, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than other homebuilders with a less significant California presence.

We have experienced, and may in the future experience, legal claims from government and private parties, regulatory investigations and/or proceedings, and significant unfavorable litigation, administrative and arbitral outcomes resulting in losses (including monetary damages awards or other direct or indirect payments to or for the benefit of government or private parties), penalties, fines, injunctions establishing restrictions or adjustments to our business practices, expenses and charges recorded against our earnings (as well as losses, penalties, fines, voluntary injunctions/consent decrees, expenses and charges associated with settlements of any such claims, investigations and proceedings) with respect to our operations in California and those in our other reporting segments. Any such losses, penalties, fines, injunctions, expenses and charges could be beyond our expectations and/or accruals at particular points in time and be material to our business and consolidated financial statements. Unfavorable litigation, administrative or arbitral outcomes may also generate negative publicity in various media outlets that could be detrimental to our reputation and adversely affect our efforts to sell homes.

The homebuilding industry and housing market are very competitive, and competitive conditions could adversely affect our business or our consolidated financial statements.

We face significant competition in several areas of our business from other homebuilders and participants in the overall housing industry, including landlords and other rental housing operators. These competitive conditions can result in:

- our delivering fewer homes;
- our selling homes at lower prices;
- our offering or increasing sales incentives, discounts or price reductions for our homes;
- our experiencing lower housing gross profit margins, particularly if we cannot raise our selling prices to cover increased land acquisition, land/community development, production or overhead costs or inflation;
- our selling fewer homes or experiencing a higher number of cancellations by buyers;
- impairments in the value of our inventory and other assets;
- difficulty in acquiring desirable land that meets our investment return or marketing standards, and in selling our interests in land that no longer meet such standards on favorable terms, or at all;
- difficulty in our obtaining construction resources at acceptable prices;
- delays in our production schedules; and/or
- difficulty in securing external financing, performance bonds or letters of credit for our business operations on favorable terms.

These competitive conditions may have a material adverse effect on our business and consolidated financial statements by decreasing our revenues, impairing our ability to successfully implement our current strategies, initiatives or actions, increasing our costs and/or diminishing growth in our local or regional homebuilding businesses.

During the housing downturn in particular, actions taken by our new home and housing alternative competitors reduced the effectiveness of our efforts to achieve stability or increases in home selling prices, to generate higher deliveries of homes, revenues and housing gross profit margins, and to maintain

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or increase our profitability. We cannot provide any assurance that such conditions and their negative impacts will not occur in 2016 or beyond.

Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant. In the ordinary course of our homebuilding business, we are subject to home warranty and construction defect claims. We record warranty and other liabilities for the homes we deliver based primarily on historical experience in our served markets and our judgment of the risks associated with the types of homes we build. As described in Note 15. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, we maintain, and require the majority of our independent subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers' compensation insurance. These insurance policies protect us against a portion of our risk of loss from claims related to our homebuilding activities, subject to certain self-insured retentions, deductibles and other coverage limits. We self-insure a portion of our overall risk through the use of a captive insurance subsidiary. We also maintain certain other insurance policies. In addition, if we discover improper construction practices or the installation of defective materials in our homes, we will pursue recoveries of the related repair and other costs we incur from potentially responsible parties and/or their or our insurers.

Because of the uncertainties inherent to these matters, our various insurance arrangements, recorded warranty and other liabilities and efforts to recover related repair and other costs may not be adequate to address all of our expenditures associated with home warranty and construction defect claims in the future, and any such inadequacies could have an adverse effect on our consolidated financial statements. Additionally, the coverage offered by and the availability of general liability insurance for construction defects are currently limited and costly, and, in our case, have relatively high self-insured retentions that limit coverage significantly. Coverage could be further restricted in future periods, increasing our risks and financial exposure to claims, and/or become more costly and to a material degree. Home warranty and construction defect issues may also generate negative publicity in various media outlets that could be detrimental to our reputation and adversely affect our efforts to sell homes.

We can provide no assurance that in 2016 we will not face additional home warranty and construction defect claims and/or incur additional related repair and other costs, or not need to record charges against our earnings to adjust our warranty liability, or experience negative publicity/reputational harm or be successful in obtaining any recoveries of related repair and other costs, and that any of these items — if they occur, or with respect to recoveries of related repair and other costs, fail to occur — could, individually or collectively, have a material and adverse impact on our business and consolidated financial statements.

Because of the seasonal nature of our business, our quarterly operating results fluctuate.

As discussed above in the "Competition, Seasonality, Delivery Mix and Other Factors" section in this report, we experience seasonal fluctuations in our quarterly operating results that can have a material impact on our consolidated financial statements. Historically, a significant percentage of our home purchase contracts are entered into in the spring and early summer months, and we deliver a corresponding significant percentage of our homes in the late summer and fall months. As a result, we have experienced uneven quarterly results, with generally fewer homes delivered and lower revenues during the first and second quarters of our fiscal year. Though we expect to experience the traditional seasonality impacts on our results as the present housing recovery progresses, we can provide no assurance as to the degree to which such historical seasonal patterns will occur in 2016 and beyond, if at all.

We may have difficulty in continuing to obtain additional financing and/or may be restricted in accessing external capital, and to the extent we can access external financing, it may increase our costs of capital or result in stockholder dilution.

Our homebuilding operations and our present strategies require significant amounts of cash and/or the availability of external financing. We have historically funded our operations with internally generated cash flows, public equity and debt issuances (including common stock, senior notes and convertible senior notes), land option contracts and other similar contracts and land seller financing, and performance bonds and letters of credit. In addition, we have entered into the Credit Facility and the LOC Facilities in order to support certain aspects of our operations in the ordinary course of our business, including land acquisitions, community development and other strategic growth initiatives. We anticipate that we will need to maintain the Credit Facility and the LOC Facilities in 2016, and, if necessary or desirable, we may seek to expand their capacities or enter into additional such facilities, or other similar facility

arrangements with the same or other financial institutions. We may also issue additional senior notes, convertible senior notes or equity. However, we can provide no assurance that we will be able to generate cash flows from our operations or access external financing in 2016 or beyond at favorable terms or at all, or that our stockholders' equity and ratio of debt to capital will remain at, or further improve from, their respective 2015 year-end levels. Market conditions in 2016 and beyond may significantly limit our ability to replace or refinance indebtedness, in part due to provisions within our outstanding senior notes that may restrict the amount and nature of debt we may incur in the future and the ratings of our senior notes by the three principal nationally recognized registered credit rating agencies, as discussed further below.

The terms of potential future issuances of indebtedness by us may be more restrictive than the terms governing our current indebtedness, and the issuance, interest and debt service obligations could be higher. A higher interest rate on or more restrictive terms governing our debt could materially and adversely affect our business and consolidated financial statements. In addition, the relatively low market value of our common stock and volatility in the securities markets could impede our access to the equity markets or increase the amount of dilution our stockholders would experience should we seek to raise capital or complete strategic transactions through the issuance of new equity or convertible securities.

While we believe we can meet our forecasted capital requirements from our cash resources, expected future cash flows from our operations, and the external financing sources that we anticipate will be available to us, we can provide no assurance that we will be able to do so, or do so without incurring substantially higher costs or significantly diluting existing stockholders' equity interests. If conditions in the financial and credit markets continue to be volatile or worsen, whether generally, or for homebuilders or us in particular, it could reduce our ability to implement our strategies, initiatives and actions and profitably grow our business. Current and future federal and state regulations limiting the investment activities of financial institutions could also impact our ability to access the capital markets, to obtain additional external financing and/or maintain or, if necessary or desirable, expand the capacities of the Credit Facility or the LOC Facilities or enter into additional such facilities, or other similar facilities, in each case on acceptable terms or at all. The adverse effects of these conditions could be material to our consolidated financial statements.

We have a substantial amount of indebtedness in relation to our tangible net worth and unrestricted cash balance, which may restrict our ability to meet our operational and strategic goals.

The amount of our debt overall and relative to our total stockholders' equity and unrestricted cash balance could have important consequences. For example, it could:

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, inventory-related investments, strategic transactions, debt service obligations or other business needs, including, but not limited to, supporting our strategic growth initiatives and operational actions;
- limit our ability to maintain compliance with the Credit Facility's financial covenants, or to renew or, if necessary or desirable, expand the capacity of the Credit Facility;
- limit our ability to renew or, if necessary or desirable, expand the capacity of any letter of credit facilities (including the LOC Facilities), or enter into additional facilities, or other similar facilities, and to obtain performance bonds in the ordinary course of our business;
- limit our ability to pay dividends on shares of our common stock;
- require us to dedicate a substantial portion of our cash flows from our operations to the collateralization or payment of our debt service obligations and reduce our ability to use our cash flows for other purposes, including investments in our business and acquisitions;
- impact our flexibility in planning for, or reacting to, changes in our business;
- limit our ability to implement our present strategies, particularly our community count expansion initiative, in part due to competition from other homebuilders, developers and investors with greater available liquidity or balance sheet strength;
- place us at a competitive disadvantage because we have more debt or debt-related restrictions than some of our competitors; and
- make us more vulnerable in the event of weakness or a downturn in our business or in general economic or housing market conditions.

Our ability to meet our debt service and other obligations necessary to operate our business in the ordinary course will depend on our future performance. As of the date of this report, our next scheduled maturity of senior notes is on September 15, 2017 with respect to \$265.0 million in aggregate principal amount of our 9.10% senior notes due 2017 ("9.10% Senior Notes due 2017").

Our business may not generate sufficient cash flows from our operations, and sufficient external financing at a reasonable cost may not be available to us, to meet our debt service obligations and other obligations necessary to operate our business in the ordinary course, comply with the Credit Facility's financial covenants, or support our letter

of credit facilities (including the LOC Facilities). Further, as described in Note 13. Notes Payable in the Notes to Consolidated Financial Statements in this report, if a change of control were to occur as defined in the instruments governing our senior notes, or if a fundamental change under the terms of our 1.375% convertible senior notes due 2019 (“1.375% Convertible Senior Notes due 2019”), which includes a change of control, occurs prior to their stated maturity date, we may be required to offer to purchase certain of our senior notes and/or all

of the convertible senior notes, plus accrued interest and unpaid interest, if any. In such circumstances, if we are unable to generate sufficient cash flows from our operations, we may, given our unrestricted cash balance, need to refinance and/or restructure with our lenders or other creditors all or a portion of our outstanding debt obligations on or before their maturity, which we may not be able to do on favorable terms or at all, or raise capital through equity or convertible security issuances that could significantly dilute existing stockholders' interests, and the impact of such circumstances on our liquidity and consolidated financial statements would be material and adverse.

Failure to comply with the covenants and other requirements imposed by the Credit Facility and the instruments governing our indebtedness could restrict future borrowing or cause any outstanding indebtedness to become immediately due and payable.

Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants relating to our consolidated tangible net worth, leverage, and interest coverage or liquidity. The Credit Facility is also governed by a borrowing base test and includes a limitation on investments in joint ventures and non-guarantor subsidiaries. Among other things, these covenants and other requirements can influence our operating decisions of whether to enter into, or the manner in which we can structure certain transactions, in order to maintain compliance. If we fail to comply with these covenants and other requirements, the participating financial institutions could terminate the Credit Facility, cause borrowings under the Credit Facility, if any, to become immediately due and payable and/or could demand that we compensate them for waiving instances of noncompliance. In addition, a default under the Credit Facility under certain circumstances or a default under any series of our senior notes or convertible senior notes could cause a default with respect to our other series of such notes and result in the acceleration of the maturity of all of our senior and/or convertible senior notes and our inability to borrow under the Credit Facility, as well as incurring penalties and additional fees, all of which would have a material adverse impact on our liquidity and on our consolidated financial statements. Moreover, we may need to curtail our investment activities and other uses of cash to maintain compliance with the covenants and other requirements under the Credit Facility.

The indenture governing our outstanding senior notes and convertible senior notes imposes restrictions on our business operations and activities. Though it does not contain any financial covenants, the indenture contains certain restrictive covenants that, among other things and subject to specified exceptions, limit our ability to incur secured indebtedness, to engage in sale-leaseback transactions involving property or assets above a specified value, and, in the case of six series of our outstanding senior notes and our convertible senior notes, to engage in mergers, consolidations, and sales of assets. Due to financial and credit market conditions, we may in the future need to include additional covenants, obligations or restrictions in our indenture or with respect to a specific issuance of securities or to our currently outstanding securities. If we fail to comply with any of these covenants, obligations or restrictions, the holders of our senior notes or convertible senior notes could cause such debt to become due and payable prior to maturity or could demand that we compensate them for waiving instances of noncompliance, and, if they are successful in doing so, the impact on our liquidity and consolidated financial statements would be material and adverse. In addition, a default under any series of our senior notes or convertible senior notes could cause a default with respect to our other series of such notes and result in the acceleration of the maturity of all such defaulted indebtedness and other debt obligations, as well as penalties and additional fees, which would have a material adverse impact on our liquidity and consolidated financial statements.

Our ability to obtain external financing could be adversely affected by a negative change in our credit rating by a third-party rating agency.

Our access to external financing sources on favorable terms is a key factor in our ability to fund our operations and to grow our business. As of the date of this report, our credit rating by Fitch Ratings is B+, with a stable outlook, our credit rating by Moody's Investor Services is B2, with a positive outlook, and our credit rating by Standard and Poor's Financial Services is B, with a stable outlook. Downgrades of our credit rating by any of these principal nationally recognized registered credit rating agencies may make it more difficult and costly for us to access the capital markets and external financing sources, and could have a material adverse effect on our liquidity and consolidated financial statements.

We may not realize our significant deferred income tax assets. In addition, our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code. At November 30, 2015, we had deferred tax assets, net of deferred tax liabilities, of \$820.0 million, against which we had a valuation allowance of \$37.8 million. While we have provided a valuation allowance against certain of our net deferred tax assets, the valuation allowance is subject to adjustment as facts and circumstances change. The accounting for deferred income taxes is based upon estimates of our future results. A housing downturn or other adverse circumstances that negatively affect our future taxable income could require us to record a larger valuation allowance against our net deferred tax assets as well as related charges against our earnings. Differences between estimated and actual results could have a material impact on our consolidated financial statements, and the impact may be adverse. Our ability to realize our net deferred tax assets is based on the extent to which we

generate future taxable income, and we cannot provide any assurance as to when and to what extent we will generate sufficient future taxable income to realize our net deferred tax assets, whether in whole or in any part.

Changes in tax laws could also affect our actual tax results, the valuation of our net deferred tax assets and our ability to realize our net deferred tax assets. Specifically, a decrease in enacted corporate income tax rates in our major jurisdictions, especially in the federal corporate income tax rate, would decrease the value of our net deferred tax assets and result in a corresponding charge to income tax expense, which could be material, as well as reduce our ability to use our net deferred tax assets.

In addition, notwithstanding the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014, the benefits of our net deferred tax assets, including our net operating losses (“NOLs”), built-in losses and tax credits, would be reduced or potentially eliminated if we experienced an “ownership change” under Internal Revenue Code Section 382 (“Section 382”). If an ownership change were to occur, Section 382 would impose an annual limit on the amount of NOLs we could use to reduce our taxable income. A number of complex rules apply in calculating this annual limit.

While the complexity of Section 382’s provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limit Section 382 may impose could result in a material amount of our NOLs expiring unused. This would significantly impair the value of our net deferred tax assets and, as a result, have a material negative impact on our consolidated financial statements.

In 2009, our stockholders approved an amendment to our restated certificate of incorporation that is designed to block transfers of our common stock that could result in an ownership change, and a rights agreement pursuant to which we have issued certain stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change. However, these measures cannot guarantee complete protection against an ownership change and it remains possible that one may occur.

Our cash flows, liquidity and consolidated financial statements could be materially and adversely affected if we are unable to obtain performance bonds and/or letters of credit.

In the course of developing our communities, we are often required to provide to various municipalities and other government agencies performance bonds and/or letters of credit to secure the completion of our projects and/or in support of obligations to build community improvements such as roads, sewers, water systems and other utilities, and to support similar development activities by certain of our unconsolidated joint ventures. We may also be required to provide performance bonds and/or letters of credit to secure our performance under various escrow agreements, financial guarantees and other arrangements. Our ability to obtain such bonds or letters of credit and the cost to do so depend on our credit rating, overall market capitalization, available capital, past operational and financial performance, management expertise and other factors, including prevailing surety market conditions, and the underwriting practices and resources of performance bond and/or letter of credit issuers. If we are unable to obtain performance bonds and/or letters of credit when required or the cost or operational restrictions or conditions imposed by issuers to obtain them increases significantly in 2016 or beyond, we may not be able to develop or we may be significantly delayed in developing a community or communities, we may be required to post cash collateral, decreasing our unrestricted cash balance, and/or we may incur significant additional expenses. As a result, our business and consolidated financial statements, cash flows and/or liquidity could be materially and adversely affected. Our ability to attract and retain talent is critical to the success of our business and a failure to do so may materially and adversely affect our performance.

Our officers and employees are an important resource, and we see attracting and retaining a dedicated and talented team to execute our KBnxt operational business model as crucial to our ability to achieve and maintain an advantage over other homebuilders. We face intense competition for qualified personnel, particularly at senior management levels, from other homebuilders, from other companies in the housing and real estate industries, and from companies in various other industries with respect to certain roles or functions. Moreover, the decline in the market value of our common stock has made it difficult for us to attract and retain talent. If we are unable to continue to retain and attract qualified employees, or if we need to significantly increase compensation and benefits to do so (including as a result

of complying with health care coverage requirements under the federal Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010), or, alternatively, if we are required or believe it is appropriate to reduce our overhead expenses through significant personnel reductions or adjustments to compensation and benefits, our performance, our ability to achieve our top strategic priorities and maintain a competitive advantage, and our consolidated financial statements could be materially and adversely affected.

Information technology failures and data security breaches could harm our business.

We use information technology, digital telecommunications and other computer resources to carry out important operational and promotional marketing activities and to maintain our business records. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify to varying degrees certain security and service level standards. Although we and our service providers employ what we believe are adequate security, disaster recovery and other preventative and corrective measures, our ability to conduct our business may be impaired if these resources, including our websites or e-mail system, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error or poor product or vendor/developer selection (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure, intentional or unintentional personnel actions (including the failure to follow our security protocols), or lost connectivity to our networked resources. A significant and extended disruption in the functioning of these resources, including our websites or e-mail system, could damage our reputation and cause us to lose customers, orders, deliveries of homes and revenues, result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information (including information about our buyers and business partners), impair the effectiveness of our internal control over financial reporting, and require us to incur significant expenses to address and remediate or otherwise resolve these kinds of issues. We may not be able to recover these expenses in whole or in any part from our service providers or responsible parties, and/or their or our insurers. The release of confidential information may also lead to litigation or other proceedings against us by affected individuals, business partners and/or regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against our earnings and cause us reputational harm, could have a material and adverse effect on our business and consolidated financial statements. Depending on its nature, a particular data security breach, penetration or compromise, or a series of breaches, penetrations or compromises, may result in the unauthorized use or loss of our assets or financial resources on a one-time or continuing basis, and such unauthorized use(s) or loss(es), which could be significant, may not be detected for some period of time. In addition, the costs of maintaining adequate protection against data security threats, based on considerations of their evolution, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could be material to our consolidated financial statements in a particular period or over various periods.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We lease our corporate headquarters in Los Angeles, California. Our homebuilding division offices (except for our San Antonio, Texas office) and our design studios are located in leased space in the markets where we conduct business. We own the premises for our San Antonio office.

We believe that such properties, including the equipment located therein, are suitable and adequate to meet the needs of our businesses.

Item 3. LEGAL PROCEEDINGS

Our legal proceedings are discussed in Note 16. Legal Matters in the Notes to Consolidated Financial Statements in this report.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table presents certain information regarding our executive officers as of December 31, 2015:

Name	Age	Present Position	Year Assumed Present Position	Years at KB Home	Other Positions and Other Business Experience within the Last Five Years (a)	From – To
Jeffrey T. Mezger	60	President and Chief Executive Officer (b)	2006	22		
Nicholas S. Franklin	47	Executive Vice President, Strategic Operations	2015	1	Executive Vice President, Next Generation Experience, Walt Disney Parks and Resorts Worldwide, Inc. (an international family entertainment and media enterprise)	2009-2014
Jeff J. Kaminski	54	Executive Vice President and Chief Financial Officer	2010	5		
Albert Z. Praw	67	Executive Vice President, Real Estate and Business Development	2011	19 (c)	Chief Executive Officer, Landstone Communities, LLC (a real estate development company)	2006-2011
Brian J. Woram	55	Executive Vice President and General Counsel	2010	5		
William R. Hollinger	57	Senior Vice President and Chief Accounting Officer	2007	28		
Thomas F. Norton	45	Senior Vice President, Human Resources	2009	7		

(a) All positions described were with us, unless otherwise indicated.

(b) Mr. Mezger has served as a director since 2006.

(c) We employed Mr. Praw from 1989-1992 and from 1994-2006. He was elected to his present position in October 2011.

There is no family relationship between any of our executive officers or between any of our executive officers and any of our directors.

PART II

Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

As of December 31, 2015, there were 635 holders of record of our common stock. Our common stock is traded on the New York Stock Exchange under the ticker symbol "KBH." The following table presents, for the periods indicated, the price ranges of our common stock, and cash dividends declared and paid per share:

	Year Ended November 30, 2015				Year Ended November 30, 2014			
	High	Low	Dividends Declared	Dividends Paid	High	Low	Dividends Declared	Dividends Paid
First Quarter	\$17.57	\$11.76	\$.0250	\$.0250	\$20.78	\$16.38	\$.0250	\$.0250
Second Quarter	16.37	13.21	.0250	.0250	20.72	15.40	.0250	.0250
Third Quarter	17.42	13.50	.0250	.0250	18.98	16.06	.0250	.0250

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Fourth Quarter 15.53 12.72 .0250 .0250 18.10 13.75 .0250 .0250

The declaration and payment of cash dividends on shares of our common stock, whether at current levels or at all, are at the discretion of our board of directors, and depend upon, among other things, our expected future earnings, cash flows from our operations, capital requirements, access to external financing, debt structure and adjustments thereto, covenants and other requirements under the Credit Facility or other of our debt obligations, operational and financial investment strategy and general financial condition, as well as general business conditions.

Information regarding the shares of our common stock that may be issued under our equity compensation plans is provided below in the “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” section in this report.

The following table summarizes our purchases of our own equity securities during the three months ended November 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
September 1-30	—	\$—	—	4,000,000
October 1-31	—	—	—	4,000,000
November 1-30	20,104	13.27	—	4,000,000
Total	20,104	\$13.27	—	

As of November 30, 2015, we were authorized to repurchase 4,000,000 shares of our common stock under a share repurchase program approved by our board of directors in December 2005. We did not repurchase any shares of our common stock under this program in the year ended November 30, 2015. The shares purchased during the three months ended November 30, 2015 were previously issued shares delivered to us by employees to satisfy withholding taxes on the vesting of restricted stock awards as well as shares forfeited by individuals upon their termination of employment. These transactions are not considered repurchases under the share repurchase program.

As discussed in Note 24. Subsequent Event in the Notes to Consolidated Financial Statements in this report, on January 12, 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. This authorization reaffirmed and incorporated the then-current balance of 4,000,000 shares that remained under the prior board-approved share repurchase program.

Stock Performance Graph

The following graph compares the five-year cumulative total return of KB Home common stock, the S&P 500 Index and the Dow Jones US Home Construction Index for the periods ended November 30:

Comparison of Five-Year Cumulative Total Return
Among KB Home, S&P 500 Index and
Dow Jones US Home Construction Index

	2010	2011	2012	2013	2014	2015
KB Home	\$100	\$67	\$132	\$162	\$164	\$132
S&P 500 Index	100	108	125	163	191	196
Dow Jones US Home Construction Index	100	108	190	198	238	270

The above graph is based on the KB Home common stock and index prices calculated as of the last trading day before December 1 of the year-end periods presented. The closing price of KB Home common stock on the New York Stock Exchange was \$14.09 per share on November 30, 2015 and \$17.57 per share on November 30, 2014. The performance of our common stock as presented above reflects past performance only and is not indicative of future performance. Total return assumes \$100 invested at market close on November 30, 2010 in KB Home common stock, the S&P 500 Index and the Dow Jones US Home Construction Index, including reinvestment of dividends.

Item 6. SELECTED FINANCIAL DATA

The data in this table should be read in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Financial Statements and Supplementary Data” sections in this report.

KB HOME

SELECTED FINANCIAL INFORMATION

(Dollars In Thousands, Except Per Share Amounts)

	Years Ended November 30,				
	2015	2014	2013	2012	2011
Statement of Operations Data:					
Revenues:					
Homebuilding	\$3,020,987	\$2,389,643	\$2,084,978	\$1,548,432	\$1,305,562
Financial services	11,043	11,306	12,152	11,683	10,304
Total	\$3,032,030	\$2,400,949	\$2,097,130	\$1,560,115	\$1,315,866
Operating income (loss):					
Homebuilding	\$138,621	\$115,969	\$92,084	\$(20,256)	\$(103,074)
Financial services	7,332	7,860	9,110	8,692	6,792
Total	\$145,953	\$123,829	\$101,194	\$(11,564)	\$(96,282)
Pretax income (loss)	\$127,043	\$94,949	\$38,363	\$(79,053)	\$(181,168)
Net income (loss) (a)	\$84,643	\$918,349	\$39,963	\$(58,953)	\$(178,768)
Earnings (loss) per share:					
Basic	\$.92	\$10.26	\$.48	\$(.76)	\$(2.32)
Diluted	\$.85	\$9.25	\$.46	\$(.76)	\$(2.32)
Cash dividends declared per common share	\$.1000	\$.1000	\$.1000	\$.1375	\$.2500
Balance Sheet Data:					
Assets:					
Homebuilding	\$5,001,343	\$4,747,064	\$3,183,595	\$2,557,243	\$2,480,369
Financial services	14,028	10,486	10,040	4,455	32,173
Total	\$5,015,371	\$4,757,550	\$3,193,635	\$2,561,698	\$2,512,542
Notes payable	\$2,625,536	\$2,576,525	\$2,150,498	\$1,722,815	\$1,583,571
Stockholders’ equity	\$1,690,834	\$1,595,910	\$536,086	\$376,806	\$442,657
Homebuilding Data:					
Net orders	9,253	7,567	7,125	6,703	6,632
Unit backlog	3,966	2,909	2,557	2,577	2,156
Homes delivered	8,196	7,215	7,145	6,282	5,812

(a) Net income for the year ended November 30, 2014 included the impact of an \$825.2 million deferred tax asset valuation allowance reversal in the 2014 fourth quarter.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Overview. Revenues are generated from our homebuilding and financial services operations. The following table presents a summary of our consolidated results of operations (dollars in thousands, except per share amounts):

	Years Ended November 30,			Variance			
	2015	2014	2013	2015 vs 2014		2014 vs 2013	
Revenues:							
Homebuilding	\$3,020,987	\$2,389,643	\$2,084,978	26	%	15	%
Financial services	11,043	11,306	12,152	(2	)	(7)
Total	\$3,032,030	\$2,400,949	\$2,097,130	26	%	14	%
Pretax income:							
Homebuilding	\$115,419	\$86,403	\$28,179	34	%	207	%
Financial services	11,624	8,546	10,184	36		(16)
Total pretax income	127,043	94,949	38,363	34		148	%
Income tax benefit (expense)	(42,400	) 823,400	1,600	(a)		(a)	
Net income	\$84,643	\$918,349	\$39,963	(91	)%	(a)	
Earnings per share:							
Basic	\$.92	\$10.26	\$.48	(91	)%	(a)	
Diluted	\$.85	\$9.25	\$.46	(91	)%	(a)	

(a) Percentage not meaningful.

In 2015, we produced strong operational and financial results largely through our focused execution on four primary strategic priorities — grow our community count; enhance the profitability of each home delivered; generate higher revenues; and improve our asset efficiency and return on invested capital. Our 2015 performance also reflected generally favorable conditions in most of our served markets, with healthy supply and demand dynamics fueled by steady employment and economic gains over the course of the year. Among our achievements, compared to 2014, we increased homes delivered by 14%, total revenues by 26%, and pretax income by 34%. We accomplished these results notwithstanding external headwinds in the fourth quarter, including inclement weather conditions and trade shortages in certain markets, that tempered home deliveries and revenues, and despite higher land, land development and construction costs during the year that, along with an increase in the amortization of previously capitalized interest, contributed to a 180 basis point year-over-year decrease in our full-year housing gross profit margin.

During the year, through our investments in land and land development, we made additional progress in expanding our community count and positioning our communities in attractive locations to sustain the upward momentum of our business in 2015 and beyond. Our average community count in 2015 rose 22% on a year-over-year basis, which helped drive measurable increases in our net orders, net order value and backlog levels. Our 2015 ending community count of 247 was 9% higher than our 2014 year-end number.

With our expanded year-end community count and our current plans for new investments in land and land development; the year-over-year increases in the number of homes in our backlog and corresponding backlog value at November 30, 2015, each of which reached their highest year-end levels since 2007; and our expectation of positive housing market conditions in the coming year, we believe we are well-positioned for further growth in 2016, including in homes delivered and revenues.

The following table provides a summary of the current-year and potential future productivity of our operating platform in terms of our net orders, net order value, cancellation rate, ending backlog, and community count for the years ended November 30, 2015 and 2014 (dollars in thousands):

	Years Ended November 30,	
	2015	2014
Net orders	9,253	7,567
Net order value (a)	\$3,255,170	\$2,579,951
Cancellation rate (b)	27	% 31
Ending backlog — homes	3,966	2,909
Ending backlog — value	\$1,281,478	\$914,025
Ending community count	247	227
Average community count	244	200

Net order value represents the potential future housing revenues associated with net orders generated during the (a) period as well as homebuyer spending on design studio options and upgrades for homes in backlog during the same period.

(b) The cancellation rates represent the total number of contracts for new homes canceled during a period divided by the total (gross) orders for new homes generated during the same period.

Net Orders. In 2015, net orders from our homebuilding operations increased 22% from 2014, largely due to the year-over-year growth in our average community count. The combination of higher net orders and a higher overall average selling price resulted in the value of our 2015 net orders increasing 26% from 2014. Our cancellation rate also improved on a year-over-year basis in 2015.

Backlog. The number of homes in our backlog at November 30, 2015 rose 36% from the previous year, largely due to the year-over-year increase in our net orders in 2015. The potential future housing revenues in our backlog at November 30, 2015 grew 40% from the prior year, reflecting the larger number of homes in our backlog and the higher average selling price of those homes. Substantially all of the homes in our backlog at November 30, 2015 are expected to be delivered during the year ending November 30, 2016.

Community Count. The year-over-year growth in our overall average and ending community counts was primarily due to the strong inventory pipeline we have strategically built over the past few years through substantial investment in land and land development and by increasing the proportion of those investments dedicated to land development. While we moderated our overall investment level in 2015 to \$967.2 million from \$1.47 billion in 2014, approximately 68% of our total investment in the current year related to land development, compared to approximately 46% in the previous year, reflecting our emphasis in 2015 on converting our owned land into new communities open for sales to promote growth in our net orders, backlog, homes delivered and revenues.

HOMEBUILDING

The following table presents a summary of certain financial and operational data for our homebuilding operations (dollars in thousands, except average selling price):

	Years Ended November 30,			
	2015	2014	2013	
Revenues:				
Housing	\$2,908,236	\$2,369,633	\$2,084,103	
Land	112,751	20,010	875	
Total	3,020,987	2,389,643	2,084,978	
Costs and expenses:				
Construction and land costs				
Housing	(2,433,683)	(1,940,100)	(1,736,320)	
Land	(105,685)	(45,551)	(766)	
Total	(2,539,368)	(1,985,651)	(1,737,086)	
Selling, general and administrative expenses	(342,998)	(288,023)	(255,808)	
Total	(2,882,366)	(2,273,674)	(1,992,894)	
Operating income	\$138,621	\$115,969	\$92,084	
Homes delivered	8,196	7,215	7,145	
Average selling price	\$354,800	\$328,400	\$291,700	
Housing gross profit margin as a percentage of housing revenues	16.3	% 18.1	% 16.7	%
Adjusted housing gross profit margin as a percentage of housing revenues	21.0	% 22.5	% 22.6	%
Selling, general and administrative expenses as a percentage of housing revenues	11.8	% 12.2	% 12.3	%
Operating income as a percentage of homebuilding revenues	4.6	% 4.9	% 4.4	%

The following tables present homes delivered, net orders, cancellation rates, net order value, average community count, and ending backlog (number of homes and value) by homebuilding reporting segment (dollars in thousands):

Segment	Years Ended November 30,						
	Homes Delivered		Net Orders		Cancellation Rates		
	2015	2014	2015	2014	2015	2014	
West Coast	2,258	1,913	2,403	2,086	21	% 21	%
Southwest	1,311	736	1,592	872	22	25	
Central	3,183	3,098	3,536	3,239	33	37	
Southeast	1,444	1,468	1,722	1,370	26	34	
Total	8,196	7,215	9,253	7,567	27	% 31	%

Segment	Years Ended November 30, Net Order Value			Average Community Count			
	2015	2014	Variance	2015	2014	Variance	
West Coast	\$1,378,644	\$1,217,590	13	% 53	43	23	%
Southwest	455,918	230,632	98	37	21	76	
Central	943,568	755,684	25	93	84	11	
Southeast	477,040	376,045	27	61	52	17	
Total	\$3,255,170	\$2,579,951	26	% 244	200	22	%

Segment	November 30, Backlog – Homes			Backlog – Value			
	2015	2014	Variance	2015	2014	Variance	
West Coast	738	593	24	% \$407,972	\$355,651	15	%
Southwest	605	324	87	167,425	82,140	104	
Central	1,842	1,489	24	494,836	334,007	48	
Southeast	781	503	55	211,245	142,227	49	
Total	3,966	2,909	36	% \$1,281,478	\$914,025	40	%

Revenues. Homebuilding revenues totaled \$3.02 billion in 2015, up 26% from 2014, which had increased 15% from 2013. The year-over-year increases in our homebuilding revenues in 2015 and 2014 reflected growth in our housing and land sale revenues in each of those years.

Housing revenues in 2015 grew 23% from the previous year, reflecting a 14% increase in the number of homes delivered and an 8% increase in the overall average selling price of those homes. In 2014, housing revenues rose 14% from 2013 due to a 1% increase in the number of homes delivered and a 13% increase in the overall average selling price. We delivered a total of 8,196 homes in 2015, up from 7,215 homes delivered in 2014. This increase primarily reflected the 14% higher backlog we had at the beginning of 2015 as compared to the previous year and the 22% increase in our net orders during the year. In 2014, the number of homes delivered rose from 7,145 in 2013 mainly as a result of 6% growth in our net orders during the year. The overall average selling price of homes delivered advanced to \$354,800 in 2015 from \$328,400 in 2014, which had increased from \$291,700 in 2013.

The overall average selling price of homes delivered increased on a year-over-year basis in both 2015 and 2014 as a result of our continued strategic focus on positioning our new home communities in attractive, land-constrained locations featuring higher-income homebuyers who prefer larger homes and prefer to include more lot and product premiums and design options and upgrades with the construction of their homes; higher median home selling prices; our actions to balance home selling prices and sales pace to optimize revenues and profits; and generally favorable market conditions.

Our land sale revenues totaled \$112.8 million in 2015, \$20.0 million in 2014 and \$.9 million in 2013. The substantial increase in land sale revenues in 2015 reflected activity in each of our four homebuilding reporting segments as part of an ongoing focus on improving our asset efficiency by executing on targeted opportunities to monetize certain land positions. The land sales in 2015 were mainly comprised of the sale of a large land parcel in northern California and sales of certain land previously held for future development. Generally, land sale revenues fluctuate with our decisions to maintain or decrease our land ownership position in certain markets based upon the volume of our holdings, our marketing strategy, the strength and number of developers and other land buyers in particular markets at given points in time, the availability of land at reasonable prices and prevailing market conditions.

Operating Income. Our homebuilding operating income increased 20% to \$138.6 million in 2015 compared to \$116.0 million in 2014, which had increased 26% from \$92.1 million in 2013. Our homebuilding operating income as a percentage of homebuilding revenues was 4.6% in 2015, 4.9% in 2014 and 4.4% in 2013. The year-over-year growth in our homebuilding operating income for 2015 reflected higher housing gross profits and improved land sale results that were partly offset by higher selling, general and administrative expenses. In 2014, the increase in our homebuilding operating income from the previous year was primarily due to higher housing gross profits that were

partially offset by higher selling, general and administrative expenses and land sale losses.

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In 2015, our housing gross profits increased by \$45.0 million, or 10%, from \$429.5 million in 2014 due to the higher volume of homes delivered, partly offset by a lower housing gross profit margin. Housing gross profits for 2015 included \$9.6 million of inventory impairment and land option contract abandonment charges. In 2014, our housing gross profits increased by \$81.7 million, or 24%, from \$347.8 million in the previous year due to the higher volume of homes delivered and a higher housing gross profit margin. Housing gross profits for 2014 included \$12.8 million of inventory impairment and land option contract abandonment charges. In 2013, housing gross profits included a net warranty charge of \$32.0 million for water intrusion-related repairs of homes at certain of our communities in central and southwest Florida, as discussed in Note 15. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, and \$3.6 million of inventory impairment and land option contract abandonment charges.

Our housing gross profit margin decreased 180 basis points to 16.3% in 2015 from 18.1% in the previous year, primarily due to higher land, land development and construction costs (approximately 210 basis points) and an increase in the amortization of previously capitalized interest (approximately 60 basis points). The impact of these items was partly offset by a decrease in inventory-related charges (approximately 30 basis points) and improved operating leverage as a result of our higher volume of homes delivered and revenues compared to 2014 (approximately 60 basis points). Our 2014 housing gross profit margin improved by 140 basis points as compared to 16.7% in 2013, reflecting decreases in warranty-related charges (approximately 150 basis points), land, land development and construction costs (approximately 50 basis points), and the amortization of previously capitalized interest (approximately 40 basis points). The impact of these items was partly offset by an increase in start-up field overhead costs associated with new community openings (approximately 40 basis points), higher inventory-related charges (approximately 40 basis points), and other items (approximately 20 basis points). Sales incentives did not have a significant impact on our year-over-year housing gross profit margin comparisons in 2015 or 2014.

Excluding the amortization of previously capitalized interest associated with housing operations of \$126.8 million, \$90.8 million and \$87.4 million in 2015, 2014 and 2013, respectively, and the above-mentioned inventory-related and warranty-related charges in the applicable periods, our adjusted housing gross profit margin decreased 150 basis points to 21.0% in 2015 from 22.5% in 2014, which had decreased slightly from 22.6% in 2013.

Our land sales generated profits of \$7.1 million in 2015, losses of \$25.5 million in 2014 and profits of \$.1 million in 2013. The land sale results in 2014 included inventory impairment charges of \$26.6 million related to then-planned land sales, all of which had closed as of November 30, 2015.

As discussed in Note 7. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report, we recognized total inventory impairment charges of \$8.0 million in 2015, \$37.6 million in 2014 and \$.4 million in 2013, and land option contract abandonment charges of \$1.6 million in 2015, \$1.8 million in 2014 and \$3.2 million in 2013.

Selling, general and administrative expenses totaled \$343.0 million in 2015, up from \$288.0 million in 2014, which had increased from \$255.8 million in 2013. The year-over-year increases in selling, general and administrative expenses in 2015 and 2014 mainly reflected higher variable expenses associated with the increases in both homes delivered and revenues. Also contributing to the year-over-year increase in 2015 were higher staffing levels and new community and related operating platform investments to support both our community count expansion strategy and anticipated growth in homes delivered, the acceleration of compensation expense associated with stock options due to certain recipients meeting retirement provisions, and legal settlements. In 2013, selling, general and administrative expenses were favorably impacted by the reversal of a previously established accrual of \$8.2 million due to a court decision. As a percentage of housing revenues, selling, general and administrative expenses were 11.8% in 2015, 12.2% in 2014 and 12.3% in 2013. The percentages improved on a year-over-year basis in both 2015 and 2014 primarily due to the increase in our housing revenues in each of those years and our ongoing focus on containing our overhead costs to the extent possible.

Interest Income. Interest income, which is generated from short-term investments, totaled \$.5 million in 2015, \$.4 million in 2014 and \$.8 million in 2013. Generally, increases and decreases in interest income are attributable to changes in the interest-bearing average balances of short-term investments and fluctuations in interest rates.

Interest Expense. Interest expense results principally from borrowings to finance land purchases, housing inventory and other operating and capital needs. Our interest expense, net of amounts capitalized, decreased to \$21.9 million in 2015 compared to \$30.8 million in 2014, which had decreased from \$62.7 million in 2013. The year-over-year decrease in each of the years ended November 30, 2015 and 2014 reflected an increase in interest incurred, stemming from our higher average debt level, that was more than offset by an increase in the amount of interest capitalized due to a higher amount of inventory qualifying for interest capitalization. Also contributing to the year-over-year decrease in 2014 was the inclusion of a \$10.4 million loss on the early extinguishment of debt in 2013 as a result of our retiring certain of our senior notes that were scheduled to mature in 2014 and 2015. The increase in the amount of inventory qualifying for capitalization during 2015 and 2014 was primarily due to our

substantial investments in land and land development during those years, as well as the activation of land previously held for future development.

Interest incurred rose 9% to \$186.9 million in 2015 from \$171.5 million in 2014, which rose 15% from \$149.1 million in 2013, due to our higher average debt outstanding in 2015 and 2014, respectively. We capitalized \$165.0 million, \$140.8 million and \$86.4 million of the interest incurred in 2015, 2014 and 2013, respectively. The percentage of interest capitalized was 88% in 2015, 82% in 2014 and 62% in 2013. The percentage of interest capitalized generally fluctuates based on the amount of our inventory qualifying for interest capitalization.

Interest amortized to construction and land costs totaled \$143.3 million in 2015, \$90.8 million in 2014 and \$87.4 million in 2013. The year-over-year increases in interest amortized in 2015 and 2014 reflected increases in the number of homes delivered and higher construction and land costs attributable to those homes. Additionally, interest amortized in 2015 included \$16.4 million of amortization of previously capitalized interest related to land sales that occurred during the year. Further information regarding our interest capitalized to inventories and interest amortized to construction and land costs is provided in Note 6. Inventories in the Notes to Consolidated Financial Statements in this report.

Equity in Income (Loss) of Unconsolidated Joint Ventures. Our equity in loss of unconsolidated joint ventures was \$1.8 million in 2015 and \$2.0 million in 2013, and our equity in income of unconsolidated joint ventures was \$.7 million in 2014. In 2014, our equity in income of unconsolidated joint ventures included a \$3.2 million gain on the sale of our interest in an unconsolidated joint venture in Maryland. Further information regarding our investments in unconsolidated joint ventures is provided in Note 9. Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

Non-GAAP Financial Measures

This report contains information about our adjusted housing gross profit margin and ratio of net debt to capital, both of which are not calculated in accordance with generally accepted accounting principles (“GAAP”). We believe these non-GAAP financial measures are relevant and useful to investors in understanding our operations and the leverage employed in our operations, and may be helpful in comparing us with other companies in the homebuilding industry to the extent they provide similar information. However, because the adjusted housing gross profit margin and the ratio of net debt to capital are not calculated in accordance with GAAP, these financial measures may not be completely comparable to other companies in the homebuilding industry and thus, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, these non-GAAP financial measures should be used to supplement their respective most directly comparable GAAP financial measures in order to provide a greater understanding of the factors and trends affecting our operations.

Adjusted Housing Gross Profit Margin. The following table reconciles our housing gross profit margin calculated in accordance with GAAP to the non-GAAP financial measure of our adjusted housing gross profit margin (dollars in thousands):

	Years Ended November 30,			
	2015	2014	2013	
Housing revenues	\$2,908,236	\$2,369,633	\$2,084,103	
Housing construction and land costs	(2,433,683)	(1,940,100)	(1,736,320)	
Housing gross profits	474,553	429,533	347,783	
Add: Amortization of previously capitalized interest (a)	126,817	90,804	87,414	
Inventory-related charges (b)	9,591	12,788	3,581	
Warranty-related charges	—	—	31,959	
Adjusted housing gross profits	\$610,961	\$533,125	\$470,737	
Housing gross profit margin as a percentage of housing revenues	16.3	% 18.1	% 16.7	%
Adjusted housing gross profit margin as a percentage of housing revenues	21.0	% 22.5	% 22.6	%

(a) Represents the amortization of previously capitalized interest associated with housing operations.

(b) Represents inventory impairment and land option contract abandonment charges associated with housing operations.

Adjusted housing gross profit margin is a non-GAAP financial measure, which we calculate by dividing housing revenues less housing construction and land costs excluding (1) amortization of previously capitalized interest associated with housing operations, (2) housing inventory impairment and land option contract abandonment charges and (3) warranty-related charges (as

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applicable) recorded during a given period, by housing revenues. The most directly comparable GAAP financial measure is housing gross profit margin. We believe adjusted housing gross profit margin is a relevant and useful financial measure to investors in evaluating our performance as it measures the gross profits we generated specifically on the homes delivered during a given period. This non-GAAP financial measure isolates the impact that the amortization of previously capitalized interest associated with housing operations, housing inventory impairment and land option contract abandonment charges, and warranty-related charges have on housing gross profit margins, and allows investors to make comparisons with our competitors that adjust housing gross profit margins in a similar manner. We also believe investors will find adjusted housing gross profit margin relevant and useful because it represents a profitability measure that may be compared to a prior period without regard to variability of amortization of previously capitalized interest associated with housing operations, housing inventory impairment and land option contract abandonment charges, and warranty-related charges. This financial measure assists us in making strategic decisions regarding community location and product mix, product pricing and construction pace.

Ratio of Net Debt to Capital. The following table reconciles our ratio of debt to capital calculated in accordance with GAAP to the non-GAAP financial measure of our ratio of net debt to capital (dollars in thousands):

	November 30,			
	2015	2014		
Notes payable	\$2,625,536	\$2,576,525		
Stockholders' equity	1,690,834	1,595,910		
Total capital	\$4,316,370	\$4,172,435		
Ratio of debt to capital	60.8	% 61.8		%
Notes payable	\$2,625,536	\$2,576,525		
Less: Cash and cash equivalents and restricted cash	(568,386)	(383,601)))
Net debt	2,057,150	2,192,924		
Stockholders' equity	1,690,834	1,595,910		
Total capital	\$3,747,984	\$3,788,834		
Ratio of net debt to capital	54.9	% 57.9		%

The ratio of net debt to capital is a non-GAAP financial measure, which we calculate by dividing notes payable, net of homebuilding cash and cash equivalents and restricted cash, by capital (notes payable, net of homebuilding cash and cash equivalents and restricted cash, plus stockholders' equity). The most directly comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to capital is a relevant and useful financial measure to investors in understanding the leverage employed in our operations.

HOMEBUILDING REPORTING SEGMENTS

West Coast. The following table presents financial information related to our West Coast homebuilding reporting segment for the years indicated (dollars in thousands, except average selling price):

	Years Ended November 30,			Variance		
	2015	2014	2013	2015 vs 2014	2014 vs 2013	
Revenues	\$1,402,264	\$1,089,857	\$1,020,218	29	% 7	%
Construction and land costs	(1,179,222)	(889,345)	(811,921)	(33)	(10))
Selling, general and administrative expenses	(84,875)	(69,774)	(62,357)	(22)	(12))
Operating income	138,167	130,738	145,940	6	(10))
Other expense, net	(10,221)	(14,413)	(27,676)	29	48)
Pretax income	\$127,946	\$116,325	\$118,264	10	% (2)) %
Homes delivered	2,258	1,913	2,179	18	% (12)) %
Average selling price	\$587,000	\$569,700	\$467,800	3	% 22	%
Housing gross profit margin	16.4 %	20.5 %	20.4 %	(410 )	)bps	10 bps

This segment's revenues in 2015 and 2013 were comprised of revenues from both housing operations and land sales. In 2014, this segment's revenues were generated entirely from housing operations. Housing revenues of \$1.33 billion in 2015 rose 22% from \$1.09 billion in 2014 due to increases in both the number of homes delivered and the average selling price of those homes. The year-over-year growth in the number of homes delivered in 2015 occurred mostly in our coastal submarkets and reflected a higher number of homes in backlog at the beginning of 2015 as compared to the year-earlier period. The average selling price for 2015 rose from the previous year due to the combination of a greater proportion of homes delivered from higher-priced communities located in coastal submarkets, a shift in product mix, and generally rising home prices. In 2014, housing revenues increased 7% from 2013 due to an increase in the average selling price that was partially offset by a decrease in the number of homes delivered. The year-over-year decrease in homes delivered was largely due to this segment having 39% fewer homes in backlog at the beginning of 2014 as compared to 2013, partly offset by the impact of a 9% increase in net orders in 2014. The average selling price for 2014 rose from 2013 due to the combination of a greater proportion of homes delivered from higher-priced communities located in coastal submarkets within this segment, particularly those in northern California, a shift in product mix to larger home sizes, an increase in design studio option and upgrade revenues per home, and generally rising home prices. This segment generated land sale revenues of \$76.8 million in 2015, primarily reflecting sales of a large parcel in northern California and a parcel located in an inland southern California submarket. There were no land sale revenues from this segment in 2014, and \$0.9 million of revenues from land sales in 2013.

In 2015, pretax income from this segment increased by \$11.6 million from 2014, reflecting improved land sale results and a decrease in other expense, net, partly offset by an increase in selling, general and administrative expenses and a decrease in housing gross profits. The housing gross profit margin declined to 16.4% in 2015 from 20.5% in 2014, mainly due to higher construction and land costs, a shift in product and geographic mix, including the close-out of certain higher margin communities in the latter part of 2014, and increased pricing pressures in some markets, partly offset by increased operating leverage as a result of the higher home delivery volume and corresponding revenues. Inventory impairment and land option contract abandonment charges impacting the segment's housing gross profit margin totaled \$1.0 million in 2015 and \$4.6 million in 2014. In 2015, land sales produced profits of \$6.2 million, compared to losses of \$23.2 million in 2014 that reflected an inventory impairment charge related to the then-planned sale of the inland southern California land parcel noted above, and as further described in Note 7. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report. Selling, general and administrative expenses for 2015 rose from 2014 primarily due to increased variable expenses associated with the increase in both the number of homes delivered and housing revenues, and higher staffing levels to support delivery growth. Other expense, net for 2015 declined from the previous year, reflecting lower interest expense as a result of an increase in the amount of interest capitalized.

In 2014, pretax income from this segment decreased by \$1.9 million from the prior year, mainly due to the above-mentioned \$23.2 million land impairment charge. The year-over-year decrease in pretax income also reflected an increase in selling, general and administrative expenses, that was partly offset by higher housing gross profits and a

decrease in other expense, net. The housing gross profit margin increased slightly in 2014 from 2013. The housing gross profit margin in 2014 was tempered by higher direct construction costs and an increased use of sales incentives and price reductions on completed homes in the fourth quarter as compared to the prior year. The 2013 housing gross profit margin reflected land option contract abandonment charges totaling \$3.2 million. Selling, general and administrative expenses for 2014 rose \$7.4 million from 2013 largely due to increased costs associated with the higher number of new community openings in 2014. Other expense, net for 2014 declined from the previous year due to lower interest expense as a result of an increase in the amount of interest capitalized.

Southwest. The following table presents financial information related to our Southwest homebuilding reporting segment for the years indicated (dollars in thousands, except average selling price):

	Years Ended November 30,			Variance		
	2015	2014	2013	2015 vs 2014	2014 vs 2013	
Revenues	\$398,242	\$199,504	\$175,252	100	% 14	%
Construction and land costs	(329,203)	(162,560)	(135,024)	(103)	(20)	
Selling, general and administrative expenses	(31,228)	(22,069)	(17,439)	(42)	(27)	
Operating income	37,811	14,875	22,789	154	(35)	
Other expense, net	(6,093)	(8,860)	(19,886)	31	55	
Pretax income	\$31,718	\$6,015	\$2,903	427	% 107	%
Homes delivered	1,311	736	738	78	% —	%
Average selling price	\$284,600	\$271,100	\$237,500	5	% 14	%
Housing gross profit margin	18.4	% 18.5	% 23.0	% (10)	bps (450)	bps

In 2015, this segment's revenues were comprised of revenues from both housing operations and land sales, while revenues in 2014 and 2013 were generated entirely from housing operations. Housing revenues of \$373.1 million in 2015 grew 87% from 2014, largely driven by increases in the number of homes delivered from both our Arizona and Nevada operations as we delivered homes from more communities in those markets. In addition, the average selling price of the homes delivered increased from the previous year, primarily due to a shift in the community and product mix of homes delivered. Housing revenues for 2014 rose 14% from 2013 due to a 14% increase in the average selling price, with the number of homes delivered essentially flat year over year. The average selling price for 2014 increased from the year-earlier period due to a shift in community and product mix of homes delivered to higher-priced communities and larger homes within our Arizona operations, and generally rising home prices. This segment's revenues for 2015 included revenues of \$25.2 million associated with land sales in Nevada.

In 2015, pretax income from this segment rose \$25.7 million from the previous year as the impact of an increase in housing gross profits and a decrease in other expense, net, was partly offset by an increase in selling, general and administrative expenses. Housing gross profits increased in 2015 primarily due to the higher volume of homes delivered as the housing gross profit margin was nearly even with 2014. In 2015, housing gross profits included \$3.3 million of inventory impairment charges, while housing gross profits in 2014 included \$6.4 million of such charges. Sales incentives as a percentage of housing revenues in 2015 were slightly lower on a year-over-year basis. The land sale activity in 2015 generated gross profits of \$.3 million. Selling, general and administrative expenses rose in 2015 from 2014, primarily due to the increase in both the number of homes delivered and housing revenues, and higher community opening-related expenses in connection with our operating platform expansion strategy. Other expense, net in 2015 decreased from the year-earlier quarter due to lower interest expense as a result of an increase in the amount of interest capitalized.

This segment's pretax income improved by \$3.1 million in 2014 compared to 2013 mainly due to a decrease in other expense, net that was partly offset by a decline in housing gross profits and an increase in selling, general and administrative expenses. This segment's housing gross profit margin decreased to 18.5% in 2014 from 23.0% in 2013, reflecting the inventory impairment charges in 2014, compared to no such charges in the previous year, as well as a change in the mix of homes delivered. Selling, general and administrative expenses increased from the previous year mainly due to a higher number of new community openings in 2014 as compared to 2013. Other expense, net decreased from the previous year due to lower interest expense as a result of an increase in the amount of interest capitalized.

Central. The following table presents financial information related to our Central homebuilding reporting segment for the years indicated (dollars in thousands, except average selling price):

	Years Ended November 30,			Variance			
	2015	2014	2013	2015 vs 2014	2014 vs 2013		
Revenues	\$809,738	\$698,429	\$565,120	16	%	24	%
Construction and land costs	(657,316)	(578,711)	(474,220)	(14	)	(22)
Selling, general and administrative expenses	(82,400)	(72,742)	(62,928)	(13	)	(16)
Operating income	70,022	46,976	27,972	49		68	
Other income (expense), net	937	238	(5,697)	294		(a)	
Pretax income	\$70,959	\$47,214	\$22,275	50	%	112	%
Homes delivered	3,183	3,098	2,841	3	%	9	%
Average selling price	\$252,200	\$223,800	\$198,900	13	%	13	%
Housing gross profit margin	19.0	% 17.2	% 16.1	% 180	bps	110	bps

(a) Percentage not meaningful.

This segment's revenues in 2015 and 2014 were comprised of revenues from both housing operations and land sales. In 2013, this segment's revenues were generated entirely from housing operations. Housing revenues in 2015 rose 16% to \$802.6 million from \$693.3 million in the previous year due to increases in both the number of homes delivered and the average selling price of those homes. The year-over-year growth in the number of homes delivered for 2015 primarily reflected an increase in our Colorado operations as a result of a higher number of communities delivering homes. The increase in the average selling price from 2014 was mainly due to a greater proportion of homes delivered from higher-priced communities and generally rising home prices. Housing revenues in 2014 rose 23% compared to 2013, reflecting increases in both the number of homes delivered and the average selling price of those homes. The increase in homes delivered principally reflected a 16% higher backlog level at the beginning of 2014 compared to the previous year and a 7% increase in net orders. The year-over-year growth in homes delivered in this segment for 2014 was attributable to both our Texas and Colorado operations. The average selling price for 2014 rose from the prior year primarily due to a greater proportion of homes delivered from higher-priced communities, a change in product mix to larger homes, and generally rising home prices. This segment's land sale revenues totaled \$7.1 million in 2015 and \$5.2 million in 2014.

The pretax income generated by this segment in 2015 improved by \$23.7 million from 2014, reflecting higher housing gross profits and an increase in other income, net, partly offset by higher selling, general and administrative expenses. The housing gross profit margin increased to 19.0% from 17.2% for 2014, mainly due to an increased proportion of homes delivered from higher margin communities, and improved operating leverage. Housing gross profits included \$.2 million of land option contract abandonment charges in 2015, compared to \$1.0 million of such charges included in 2014. Land sale activity in 2015 generated nominal profits. The year-over-year increase in selling, general and administrative expenses for 2015 was primarily due to higher variable expenses associated with the increase in housing revenues. Other income, net increased from 2014 due to lower interest expense as a result of an increase in the amount of interest capitalized.

In 2014, the pretax income from this segment improved by \$24.9 million from the previous year, reflecting higher housing gross profits and a change in other income, net that were partly offset by higher selling, general and administrative expenses. The housing gross profit margin increased to 17.2% in 2014 from 16.1% in 2013 due to an increased proportion of homes delivered from higher-margin communities, partly offset by higher direct construction costs. The housing gross profit margin expanded year over year despite the inclusion of land option contract abandonment charges in 2014. In 2014, this segment also produced gross profits of \$.2 million from land sales. The year-over-year increase in selling, general and administrative expenses in 2014 was primarily due to higher variable expenses associated with the increase in both the number of homes delivered and housing revenues. This segment generated other income, net in 2014, compared to other expense, net in 2013, mainly due to a decrease in interest expense that reflected an increase in the amount of interest capitalized.

Southeast. The following table presents financial information related to our Southeast homebuilding reporting segment for the years indicated (dollars in thousands, except average selling price):

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	Years Ended November 30,			Variance		
	2015	2014	2013	2015 vs 2014	2014 vs 2013	
Revenues	\$410,743	\$401,853	\$324,388	2	% 24	%
Construction and land costs	(367,668)	(351,634)	(312,733)	(5)	(12))
Selling, general and administrative expenses	(57,552)	(54,412)	(44,699)	(6)	(22))
Operating income (loss)	(14,477)	(4,193)	(33,044)	(245)	87	
Other expense, net	(8,281)	(6,965)	(12,948)	(19)	46	
Pretax loss	\$(22,758)	\$(11,158)	\$(45,992)	(104)	% 76	%
Homes delivered	1,444	1,468	1,387	(2)	% 6	%
Average selling price	\$281,900	\$263,600	\$233,900	7	% 13	%
Housing gross profit margin	10.4	% 13.6	% 3.6	% (320)	bps (a)	

(a) Percentage not meaningful.

This segment's revenues in 2015 and 2014 were comprised of revenues from both housing operations and land sales. In 2013, this segment's revenues were generated solely from housing operations. Housing revenues of \$407.1 million in 2015 grew 5% from \$387.0 million in 2014 due to an increase in the average selling price, as the number of homes delivered remained nearly flat with the year-earlier period. The year-over-year increase in the average selling price for 2015 was primarily due to a greater proportion of homes delivered from higher-priced communities, a change in product mix and generally rising home prices. In 2014, housing revenues grew 19% from the prior year, driven by increases in both the number of homes delivered and the average selling price of those homes. The increase in homes delivered reflected a 7% higher backlog at the beginning of 2014 compared to the previous year. Most of the year-over-year growth in homes delivered was generated from our Florida operations. The year-over-year increase in the average selling price in 2014 was primarily due to a greater proportion of homes delivered from higher-priced communities, a shift in product mix to larger home sizes, and generally rising home prices. This segment generated land sale revenues of \$3.6 million in 2015 and \$14.8 million in 2014.

The pretax loss from this segment in 2015 increased by \$11.6 million from 2014 as a result of a decrease in housing gross profits and increases in both selling, general and administrative expenses and other expense, net. These impacts were partly offset by a year-over-year improvement in land sale results. The housing gross profit margin declined to 10.4% in 2015, compared to 13.6% in 2014, primarily due to the combined impact of higher land and construction costs, lower margins on homes delivered from recently activated communities that were previously held for future development, \$5.1 million of inventory impairment and land option contract abandonment charges, and unfavorable warranty adjustments recognized in the current year. In addition, sales incentives as a percentage of housing revenues in 2015 were slightly higher on a year-over-year basis. In 2014, inventory impairment and land option contract abandonment charges impacting this segment's housing gross profit margin totaled \$.8 million. Land sale profits were \$.6 million in 2015, compared to land sale losses of \$2.6 million in 2014, which included an inventory impairment charge of \$3.4 million related to a then-planned land sale of our last remaining land parcel in Atlanta, Georgia, as further described in Note 7. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report. Selling, general and administrative expenses rose from 2014, primarily due to increased variable expenses associated with the increase in housing revenues, higher overhead costs to support new community openings, and an increase in the accrual for the estimated minimum probable loss with respect to a Florida legal inquiry that is further discussed in Note 15. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report. Other expense, net for 2015 reflected a decrease in interest expense that resulted from an increase in the amount of interest capitalized. Nonetheless, other expense, net for 2015 increased compared to the previous year due to the inclusion of a \$3.2 million gain on the sale of our interest in an unconsolidated joint venture in 2014.

The pretax results from this segment for 2014 improved by \$34.8 million from 2013, reflecting an increase in housing gross profits and a decrease in other expense, net that were partially offset by higher selling, general and

administrative expenses and the above-mentioned \$3.4 million inventory impairment charge. This segment's housing gross profit margin expanded to 13.6% in 2014 from 3.6% in 2013, largely due to a net warranty charge of \$32.0 million associated with water intrusion-related repairs at certain of our communities in central and southwest Florida in 2013 that is further discussed in Note 15. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report. The housing gross profit margin expanded year over year despite the inclusion of inventory-related charges in 2014. In 2013, inventory impairment charges impacting the segment's housing gross profit margin totaled \$.4 million. Other expense, net for 2014 decreased from 2013 due to lower interest expense

as a result of an increase in the amount of interest capitalized, and the gain on the sale of our interest in an unconsolidated joint venture in 2014.

FINANCIAL SERVICES REPORTING SEGMENT

The following table presents a summary of selected financial and operational data for our financial services reporting segment (dollars in thousands):

	Years Ended November 30,		
	2015	2014	2013
Revenues	\$11,043	\$11,306	\$12,152
Expenses	(3,711)	(3,446)	(3,042)
Equity in income of unconsolidated joint venture	4,292	686	1,074
Pretax income	\$11,624	\$8,546	\$10,184
Total originations (a):			
Loans	4,460	1,501	—
Principal	\$1,132,479	\$374,263	\$—
Percentage of homebuyers using HCM	61 %	64 %	— %
Average FICO score	718	716	—
Loans sold (a):			
Loans sold to Nationstar	4,168	1,035	—
Principal	\$1,055,551	\$252,583	\$—
Loans sold to other third parties	176	—	—
Principal	\$32,521	\$—	\$—
Mortgage loan origination mix (a):			
Conventional/non-conventional loans	45 %	52 %	— %
FHA loans	37	26	—
Other government loans	18	22	—
Loan type (a):			
Fixed	98 %	91 %	— %
ARM	2	9	—

(a) Loan originations and sales occurred within HCM, which began operations on July 21, 2014.

Revenues. Our financial services reporting segment generates revenues primarily from insurance commissions and title services. These operations also earned marketing services fees, pursuant to a marketing services agreement with a preferred lender, until July 21, 2014. The year-over-year decrease in our financial services revenues in 2015 reflected the absence of marketing services revenues, which was largely offset by an increase in insurance commissions and title services revenues. In 2014, the year-over-year decrease in our financial services revenues was mainly due to a decline in marketing services fees and insurance commissions, partly offset by an increase in title services revenues. In 2014 and 2013, marketing services fees totaled \$1.1 million and \$1.8 million, respectively, and represented the fair value of the services we provided in connection with the marketing services agreement.

Expenses. General and administrative expenses totaled \$3.7 million in 2015, \$3.4 million in 2014 and \$3.0 million in 2013.

Equity in Income of Unconsolidated Joint Ventures. The equity in income of unconsolidated joint ventures was \$4.3 million in 2015, \$.7 million in 2014 and \$1.1 million in 2013. The equity in income of unconsolidated joint ventures for 2015 and 2014 was primarily comprised of income from HCM. The amount for 2013 included a gain of \$1.1 million recognized in connection

with the wind down of the business operations of a former mortgage banking joint venture that ceased offering mortgage banking services in 2011.

Based on the number of homes delivered in 2015, approximately 61% of our homebuyers who obtained mortgage financing used HCM to finance the purchase of their home, compared to approximately 62% that used HCM or Nationstar in 2014 and 59% that used Nationstar in 2013. We expect to see increases in future periods if and as a greater percentage of our homebuyers obtain mortgage financing from HCM.

INCOME TAXES

We recognized income tax expense of \$42.4 million in 2015, and income tax benefits of \$823.4 million in 2014 and \$1.6 million in 2013. Our income tax expense for 2015 reflected the favorable net impact of \$5.6 million of federal energy tax credits we earned from building energy-efficient homes, resulting in an effective tax rate of 33.4%. The income tax benefit in 2014 was primarily due to the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014. In 2013, the income tax benefit reflected the resolution of a state tax audit, which resulted in a refund receivable of \$1.4 million, as well as the recognition of unrecognized tax benefits of \$1.0 million, partly offset by the state tax liability of \$.8 million. Due to the effects of our deferred tax asset valuation allowances and changes in our unrecognized tax benefits, our effective tax rates in 2014 and 2013 are not meaningful items as our income tax amounts are not directly correlated to the amount of our pretax income for those periods.

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 (“PATH”) was enacted into law. Among other things, PATH extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2016. Prior to this legislation, the tax credit expired on December 31, 2014. The extension of the tax credit for building new energy-efficient homes may benefit our effective tax rate for the year ended November 30, 2016.

We evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results; our expectation of future profitability; the duration of the applicable statutory carryforward periods; and conditions in the housing market and the broader economy. In our evaluation, we give more significant weight to evidence that is objective in nature as compared to subjective evidence. Also, more significant weight is given to evidence that directly relates to our then-current financial performance as compared to indirect or less current evidence. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets depends on applicable income tax rates.

At November 30, 2015 and 2014, we had deferred tax assets of \$820.0 million and \$866.4 million, respectively, that were partially offset by valuation allowances of \$37.8 million and \$41.2 million, respectively. The valuation allowances at November 30, 2015 and 2014 were primarily related to foreign tax credits and certain state NOLs that had not met the “more likely than not” realization standard as of those dates. We evaluated our deferred tax assets as of November 30, 2015 to determine whether any adjustment to our deferred tax asset valuation allowance was necessary. We determined that most of our deferred tax assets as of November 30, 2015 would be realized. We reduced our valuation allowance by \$3.4 million in 2015, to account primarily for the expiration of federal tax credits and state NOLs that were not utilized.

During the fourth quarter of 2014, consistent with the above process, we evaluated the need for a valuation allowance against our deferred tax assets and determined, based on all available positive and negative evidence, that it was more likely than not that most of our deferred tax asset would be realized. As a result, we recognized an \$824.2 million income tax benefit in the fourth quarter of 2014 that included the reversal of \$825.2 million of our deferred tax asset valuation allowance.

The principal positive evidence that led us to determine at November 30, 2014 that a significant portion of our deferred tax asset valuation allowance could be reversed included our emergence from a three-year cumulative pretax loss position in 2014 as well as the underlying momentum in our business and generally improved housing market and broader economic conditions that had enabled us to achieve and maintain a three-year cumulative pretax income position as of and after the 2014 third quarter; the significant pretax income we generated during 2014 and 2013,

including six consecutive quarters of pretax income as of November 30, 2014; improvement in key financial metrics in 2014 when compared to the previous year (including in our revenues; housing gross profits; selling, general and administrative expenses as a percentage of housing revenues; net orders and backlog); our expectation of future profitability; our strong financial position; significant evidence that conditions in the U.S. housing industry were more favorable than in recent years and our belief that such conditions would continue to be favorable over the long term; and our belief that we would be able to make operational adjustments to address any potential changes in market conditions to maintain long-term profitability and realize our deferred tax assets.

The most significant changes in our evaluation of the realizability of our deferred tax assets at November 30, 2014 compared to earlier periods were the development of significant positive evidence related to our year-over-year growth in pretax income, net orders and backlog levels during 2014; our expectation that we would realize all of our federal NOLs and absorb substantially all federal deductible temporary differences as they reverse in future years based on then-projected 2015 pretax income levels; our expectation of sustained and increasing profitability in future years; and the reduced significance of the negative evidence we considered before November 30, 2014 related to our pretax losses incurred in prior years, because we had generated six consecutive quarters of pretax income and cumulative pretax income for the past three years as of November 30, 2014. These significant changes in evidence at November 30, 2014 led us to determine that it was more likely than not that most of our deferred tax assets would be realized. We reversed the valuation allowance on all of our federal deferred tax assets, except for the portion related to foreign tax credits due to the utilization of federal NOLs to offset taxable income in the years through tax credit expiration. We estimated the amount of the valuation allowance needed for our state NOL carryforwards based on an analysis of the amount of our NOL carryforwards associated with each state in which we operate as compared to our expected level of taxable income under existing apportionment rules in each state and the carryforward periods allowed in each state's tax code.

We will continue to evaluate both the positive and negative evidence on a quarterly basis to determine the need for a valuation allowance with respect to our deferred tax assets. The accounting for deferred tax assets is based upon estimates of future results. Changes in positive and negative evidence, including differences between estimated and actual results, could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated financial statements. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

LIQUIDITY AND CAPITAL RESOURCES

Overview. We have funded our homebuilding and financial services activities over the last several years with:

- internally generated cash flows;
- public issuances of our common stock;
- public issuances of debt securities;
- land option contracts and other similar contracts and seller notes; and
- letters of credit and performance bonds.

We also have the ability to borrow funds under the Credit Facility. We manage our use of cash in the operation of our business to support the execution of our primary strategic goals. Over the past several years, we have primarily used cash for:

- land acquisition and land development;
- home construction;
- operating expenses;
- principal and interest payments on notes payable; and
- cash collateral.

Our investments in land and land development totaled approximately \$967.2 million in 2015, \$1.47 billion in 2014 and \$1.14 billion in 2013. The decrease in our inventory investments in 2015 reflected our strategic focus on generating cash from operations in 2015 after having built a strong inventory pipeline over the past few years. Approximately 68% of our total investments in 2015 related to land development, compared to approximately 46% in 2014 and approximately 38% in 2013. While we made strategic investments in land and land development in each of our homebuilding reporting segments in each of these years, most were made in our West Coast segment. Our investments in land and land development in the future will depend significantly on market conditions and available opportunities that meet our investment return and marketing standards, though we expect our investment in land and land development in 2016 will increase on an overall basis compared to 2015 to support growth in homes delivered in 2017 and beyond.

The following table presents the number of lots and carrying value of inventory we owned or controlled under land option contracts and other similar contracts by homebuilding reporting segment (dollars in thousands):

Segment	November 30, 2015		November 30, 2014		Variance	
	Lots	\$	Lots	\$	Lots	\$
West Coast	11,420	\$1,602,356	12,834	\$1,596,480	(1,414)	) \$5,876
Southwest	8,981	534,040	9,557	538,705	(576)	) (4,665)
Central	17,747	707,210	19,129	588,054	(1,382)	) 119,156
Southeast	9,251	470,141	10,678	495,148	(1,427)	) (25,007)
Total	47,399	\$3,313,747	52,198	\$3,218,387	(4,799)	) \$95,360

The number of lots owned or controlled under land option contracts and other similar contracts at November 30, 2015 decreased from November 30, 2014 largely due to homes delivered in 2015. The year-over-year increase in the carrying value of lots owned or controlled under land option and other similar contracts at November 30, 2015 reflected the investments we made in land and land development in 2015.

Overall, the number of lots we controlled under land option contracts and other similar contracts as a percentage of total lots was 20% at November 30, 2015 and 21% at November 30, 2014. Generally, this percentage fluctuates with our decisions to control (or abandon) lots under land option contracts and other similar contracts or to purchase (or sell owned) lots based on available opportunities and our investment return and marketing standards.

We ended our 2015 fiscal year with \$568.4 million of cash and cash equivalents and restricted cash, compared to \$383.6 million at November 30, 2014. Our balance of unrestricted cash and cash equivalents increased to \$559.0 million at November 30, 2015 from \$356.4 million at November 30, 2014. The majority of our cash and cash equivalents at November 30, 2015 and 2014 were invested in money market funds and interest-bearing bank deposit accounts.

Capital Resources. Our notes payable consisted of the following (in thousands):

	November 30,		Variance
	2015	2014	\$
Mortgages and land contracts due to land sellers and other loans	\$35,664	\$38,250	\$(2,586)
Senior notes	2,359,872	2,308,275	51,597
Convertible senior notes	230,000	230,000	—
Total	\$2,625,536	\$2,576,525	\$49,011

Our higher debt balance at November 30, 2015 compared to November 30, 2014 was mainly due to the issuance of \$250.0 million in aggregate principal amount of the 7.625% senior notes due 2023 (“7.625% Senior Notes due 2023”) in the first quarter of 2015. We used the net proceeds of \$245.4 million from this issuance to retire the remaining \$199.9 million in aggregate principal amount of our 6 1/4% senior notes due 2015 (“6 1/4% Senior Notes due 2015”) at their maturity on June 15, 2015. The remainder of the net proceeds was used for general corporate purposes, including working capital, land acquisition and land development. Our next scheduled debt maturity is in September 2017 with respect to \$265.0 million in aggregate principal amount of our 9.10% Senior Notes due 2017. Based on our current capital position, we believe that we will have adequate resources and sufficient access to the capital markets and external financing sources to satisfy this debt when it matures in 2017. Further information regarding our notes payable is provided in Note 13. Notes Payable in the Notes to Consolidated Financial Statements in this report.

Our financial leverage, as measured by the ratio of debt to capital, was 60.8% at November 30, 2015, compared to 61.8% at November 30, 2014. Our ratio of net debt to capital (a calculation that is described above under “Non-GAAP Financial Measures”) at November 30, 2015 was 54.9%, compared to 57.9% at November 30, 2014.

LOC Facilities. As of November 30, 2015 and 2014, we had \$9.1 million and \$26.7 million, respectively, of letters of credit outstanding under the LOC Facilities. The LOC Facilities require us to deposit and maintain cash with the issuing financial institutions as collateral for our letters of credit outstanding. The amount of cash maintained for our LOC Facilities totaled \$9.3 million at November 30, 2015 and \$27.2 million at November 30, 2014, and these amounts were included in restricted cash in our consolidated balance sheets as of those dates.

Unsecured Revolving Credit Facility. On August 7, 2015, we entered into an amendment to the Credit Facility that increased the commitment from \$200.0 million to \$275.0 million and extended its maturity from March 12, 2016 to August 7, 2019. The amount of our Credit Facility available for cash borrowings and the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum

available amount under the terms of the Credit Facility.

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As of November 30, 2015, we had no cash borrowings and \$24.3 million of letters of credit outstanding under the Credit Facility. Therefore, as of November 30, 2015, we had \$250.7 million available for cash borrowings under the Credit Facility, with up to \$113.2 million of that amount available for the issuance of letters of credit. The Credit Facility is further described in Note 13. Notes Payable in the Notes to Consolidated Financial Statements in this report.

Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants regarding our consolidated tangible net worth, consolidated leverage ratio (“Leverage Ratio”), and either a consolidated interest coverage ratio (“Interest Coverage Ratio”) or minimum liquidity level, each as defined therein. Our compliance with these financial covenants is measured by calculations and metrics that are specifically defined or described by the terms of the Credit Facility and can differ in certain respects from comparable GAAP or other commonly used terms. The financial covenant requirements are set forth below:

Consolidated Tangible Net Worth. We must maintain a minimum consolidated tangible net worth at the end of any fiscal quarter equal to the sum of (a) \$1.13 billion, plus (b) an amount equal to 50% of the aggregate of the cumulative consolidated net income for each fiscal quarter commencing after May 31, 2015 and ending as of the last day of such fiscal quarter (though there is no reduction if there is a consolidated net loss in any fiscal quarter), plus (c) an amount equal to 50% of the cumulative net proceeds we receive from the issuance of our capital stock after May 31, 2015. As of November 30, 2015, our applicable minimum consolidated tangible net worth requirement was \$1.16 billion.

Leverage Ratio. We must also maintain a Leverage Ratio of less than or equal to .700 for each fiscal quarter through and including the fourth quarter of 2016. This requirement adjusts to less than or equal to .650 for the first quarter of 2017 and each quarter thereafter for the term of the Credit Facility. The Leverage Ratio is calculated as the ratio of our consolidated total indebtedness to the sum of consolidated total indebtedness and consolidated tangible net worth, all as defined under the Credit Facility.

Interest Coverage Ratio or Liquidity. We are also required to maintain either (a) an Interest Coverage Ratio of greater than or equal to 1.40 for each fiscal quarter through and including the second quarter of 2016. This ratio adjusts to greater than or equal to 1.50 for the third quarter of 2016 and each quarter thereafter for the term of the Credit Facility; or (b) a minimum level of liquidity, but not both. The Interest Coverage Ratio is the ratio of our consolidated adjusted EBITDA to consolidated interest incurred, each as defined under the Credit Facility, in each case for the previous 12 months. Our minimum liquidity level is required to be greater than or equal to consolidated interest incurred, as defined under the Credit Facility, for the four most recently-ended fiscal quarters in the aggregate. As of November 30, 2015, our minimum liquidity requirement was \$184.9 million.

In addition, under the Credit Facility, our investments in joint ventures and non-guarantor subsidiaries (which are shown, respectively, in Note 9. Investments in Unconsolidated Joint Ventures and in Note 22. Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report) cannot exceed the sum of (a) \$117.4 million and (b) 20% of consolidated tangible net worth; and our borrowing base indebtedness, which is the aggregate principal amount of our outstanding indebtedness for borrowed money and non-collateralized financial letters of credit, cannot be greater than our borrowing base (a measure relating to our inventory and unrestricted cash assets).

The covenants and other requirements under our Credit Facility represent the most restrictive provisions that we are subject to with respect to our notes payable. The following table summarizes the financial covenants and other requirements under the Credit Facility, and our actual levels or ratios (as applicable) with respect to those covenants and other requirements, in each case as of November 30, 2015:

Financial Covenants and Other Requirements	Covenant Requirement	Actual	
Consolidated tangible net worth	> \$1.16 billion	\$1.69 billion	billion
Leverage Ratio	< .700	.608	
Interest Coverage Ratio (a)	> 1.400	1.681	
Minimum liquidity (a)	> \$184.9 million	\$559.0 million	million
Investments in joint ventures and non-guarantor subsidiaries	< \$455.6 million	\$110.9 million	million
Borrowing base in excess of borrowing base indebtedness (as defined)	n/a	\$413.2 million	million

Under the terms of the Credit Facility, we are required to meet either the Interest Coverage Ratio or a minimum (a) level of liquidity, but not both. As of November 30, 2015, we met both the Interest Coverage Ratio and the minimum liquidity requirements.

The indenture governing the senior notes does not contain any financial covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness, or engage in sale-leaseback transactions involving property or assets above a certain specified value. In addition, the senior notes (with the exception of the 7 1/4% senior notes due 2018 (“7 1/4% Senior Notes due 2018”)) contain certain limitations related to mergers, consolidations, and sales of assets.

Our obligations to pay principal, premium, if any, and interest under our senior notes and borrowings, if any, under the Credit Facility are guaranteed on a joint and several basis by certain of our subsidiaries (“Guarantor Subsidiaries”). The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. We may also cause other subsidiaries of ours to become Guarantor Subsidiaries if we believe it to be in our or the relevant subsidiary’s best interests. Condensed consolidating financial information for our subsidiaries considered to be Guarantor Subsidiaries is provided in Note 22. Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report.

As of November 30, 2015, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance. There are no agreements that restrict our payment of dividends other than to maintain compliance with the financial covenant requirements under the Credit Facility, which would restrict our payment of dividends if a default under the Credit Facility exists at the time of any such payment, or if any such payment would result in such a default.

Depending on available terms, we finance certain land acquisitions with purchase-money financing from land sellers or with other forms of financing from third parties. At November 30, 2015, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of \$35.7 million, secured primarily by the underlying property, which had an aggregate carrying value of \$136.1 million.

Consolidated Cash Flows. The following table presents a summary of net cash provided by (used in) our operating, investing and financing activities (in thousands):

	Years Ended November 30,		
	2015	2014	2013
Net cash provided by (used in):			
Operating activities	\$181,185	\$(630,691)	\$(443,486)
Investing activities	(11,303)	(44,782)	(16,750)
Financing activities	31,691	501,718	467,071
Net increase (decrease) in cash and cash equivalents	\$201,573	\$(173,755)	\$6,835

Operating Activities. Operating activities provided net cash of \$181.2 million in 2015 and used net cash of \$630.7 million in 2014 and \$443.5 million in 2013. Generally, our net operating cash flows fluctuate primarily based on changes in our inventories and our profitability for the year. Our net cash provided by operating activities in 2015 was mainly driven by net income and a decrease in inventories (excluding the noncash activities described below). In 2014, the year-over-year change in net operating cash flows was largely due to an increase in cash used for investments in land and land development during that year in support of our strategic growth initiatives, partly offset by an increase in net income.

Our net cash provided by operating activities in 2015 primarily reflected net income of \$84.6 million, a net decrease in inventories of \$34.9 million (excluding a \$106.8 million increase in consolidated inventories not owned, \$20.3 million of inventories acquired through seller financing, a \$12.7 million distribution of land from an unconsolidated joint venture, and \$9.6 million of inventory impairment and land option contract abandonment charges), and a net increase in accounts payable, accrued expenses and other liabilities of \$2.0 million. These sources of cash were partly offset by a net increase in receivables of \$20.5 million. In 2014, our net cash used by operating activities primarily reflected net cash of \$780.1 million used to increase our inventories through investments in land and land development, partly offset by pretax income of \$94.9 million. In 2013, our net cash used by operating activities was largely due to \$563.2 million of net cash used for investments in land and land development, partially offset by cash provided by a net change in accounts payable, accrued expenses and other liabilities of \$59.8 million, and pretax income of \$38.4

million.

Investing Activities. Investing activities used net cash of \$11.3 million in 2015, \$44.8 million in 2014 and \$16.8 million in 2013. The year-over-year decrease in cash used in investing activities in 2015 was primarily due to a decrease in contributions to unconsolidated joint ventures to \$20.6 million and a slight decrease in cash used for net purchases of property and equipment, which

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were partially offset by a return of investments in unconsolidated joint ventures of \$14.0 million. In 2014, the year-over-year increase in net cash used in investing activities was largely due to increased contributions of \$49.1 million to unconsolidated joint ventures, partly offset by proceeds of \$10.1 million from the sale of our investment in an unconsolidated joint venture in Maryland. In 2013, we used net cash primarily for \$14.4 million of contributions to HCM and two other unconsolidated joint ventures within our homebuilding operations.

Financing Activities. Financing activities provided net cash of \$31.7 million in 2015, \$501.7 million in 2014 and \$467.1 million in 2013. In 2015, the year-over-year change in cash provided by financing activities was largely due to the issuance of senior notes and common stock in 2014. In 2015, cash was mainly provided by proceeds of \$250.0 million received from the issuance of the 7.625% Senior Notes due 2023 and a decrease of \$17.9 million in our restricted cash balance. The cash provided was partly offset by cash used to retire the remaining \$199.9 million in aggregate principal amount of our 6 1/4% Senior Notes due 2015 at their maturity on June 15, 2015, payments on mortgages and land contracts due to land sellers and other loans of \$22.9 million, dividend payments on our common stock of \$9.2 million, and the payment of debt issuance costs of \$4.6 million associated with the issuance of the 7.625% Senior Notes due 2023 and the Credit Facility.

In 2014, the year-over-year increase in cash provided from financing activities primarily reflected \$400.0 million from the issuance of the 4.75% senior notes due 2019 (“4.75% Senior Notes due 2019”) and net proceeds of \$137.0 million from the underwritten public issuance of 7,986,111 shares of our common stock. In 2013, net cash provided by financing activities was mainly due to the concurrent underwritten public issuances of the 1.375% Convertible Senior Notes due 2019 and 6,325,000 shares of our common stock, which together generated total net proceeds of \$332.2 million, and the underwritten public issuance of our 7.00% senior notes due 2021 (“7.00% Senior Notes due 2021”), partly offset by the retirement of certain of our senior notes that were scheduled to mature in 2014 and 2015, and payments on mortgages and land contracts due to land sellers and other loans.

Our board of directors declared four quarterly cash dividends of \$.0250 per share of common stock in 2015, 2014 and 2013. Cash dividends declared and paid during each of the years ended November 30, 2015, 2014 and 2013 totaled \$.10 per share of common stock. The declaration and payment of future cash dividends on our common stock are at the discretion of our board of directors, and depend upon, among other things, our expected future earnings, cash flows, capital requirements, debt structure and any adjustments thereto, operational and financial investment strategy and general financial condition, as well as general business conditions.

Shelf Registration Statement. We have an automatically effective universal shelf registration statement (“2014 Shelf Registration”), which was filed on July 18, 2014, on file with the SEC. Issuances of debt and equity securities under our 2014 Shelf Registration require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. Our ability to issue equity and/or debt is subject to market conditions and other factors impacting our borrowing capacity.

Share Repurchase Program. As of November 30, 2015, we were authorized to repurchase 4,000,000 shares of our common stock under a board-approved share repurchase program. As discussed in Note 24. Subsequent Event in the Notes to Consolidated Financial Statements in this report, on January 12, 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. This authorization reaffirmed and incorporated the then-current balance of 4,000,000 shares that remained under the prior board-approved share repurchase program.

Unrelated to the common stock repurchase plan, as further discussed in Note 17. Stockholders’ Equity in the Notes to Consolidated Financial Statements in this report, in connection with an amendment of the Amended and Restated KB Home Non-Employee Directors Compensation Plan (“Director Plan”) in 2014, our board of directors authorized the repurchase of no more than 680,000 shares of our common stock solely as necessary for director elections with respect to settling outstanding stock appreciation rights awards granted under the Director Plan (“Director Plan SARs”). As of November 30, 2015, no Director Plan SARs had been settled. During 2013, we repurchased through open market transactions 478,294 shares of our common stock at an aggregate price of \$7.9 million pursuant to a board of directors authorization to repurchase no more than 482,000 shares of our common stock solely as necessary for director elections in respect of outstanding stock units under the Director Plan. We do not anticipate any additional repurchases of our common stock pursuant to this board of directors authorization.

In the present environment, we are managing our use of cash for investments to maintain and grow our business. We believe we have adequate capital resources and sufficient access to the credit and capital markets and external financing sources to satisfy our current and reasonably anticipated long-term requirements for funds to acquire assets and land, to use and/or develop acquired assets and land, to construct homes, to finance our financial services operations and to meet other needs in the ordinary course of our business. In addition to acquiring and/or developing land that meets our investment return and marketing standards, in 2016, we may use or redeploy our unrestricted cash resources or cash borrowings under the Credit Facility to support other business purposes that are aligned with our primary strategic growth goals. We may also arrange or engage in capital markets, bank loan, project debt or other financial transactions. These transactions may include repurchases from time to time of our outstanding common stock. They may also include repurchases from time to time of our outstanding senior notes or other debt through

redemptions, tender offers, exchange offers, private exchanges, open market or private purchases or other means, and may include potential new issuances of equity or senior or convertible senior notes or other debt through public offerings, private placements or other arrangements to raise or access additional capital to support our current land and land development investment targets, to complete strategic transactions and for other business purposes and/or to effect repurchases or redemptions of our outstanding senior notes or other debt. As necessary or desirable, we may adjust or amend the terms of and/or expand the capacity of the Credit Facility or the LOC Facilities, or enter into additional letter of credit facilities, or other similar facility arrangements, in each case with the same or other financial institutions, or allow any such facilities to mature or expire. Our ability to engage in such transactions, however, may be constrained by economic, capital, credit and/or financial market conditions, investor interest and/or our current leverage ratios, and we can provide no assurance of the success or costs of any such transactions.

OFF-BALANCE SHEET ARRANGEMENTS

Unconsolidated Joint Ventures. As discussed in Note 9. Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report, we have investments in unconsolidated joint ventures in various markets where our homebuilding operations are located. Our unconsolidated joint ventures had total combined assets of \$207.0 million at November 30, 2015 and \$182.2 million at November 30, 2014. Our investments in unconsolidated joint ventures totaled \$71.6 million at November 30, 2015 and \$79.4 million at November 30, 2014. As of November 30, 2015, one of our unconsolidated joint ventures had outstanding secured debt of \$39.1 million under a construction loan agreement. The unconsolidated joint venture's outstanding secured debt is non-recourse to us and is scheduled to mature in August 2018. While we and our partner in the unconsolidated joint venture provided certain guarantees and indemnities to the lender, we do not have a guaranty or any other obligation to repay or to support the value of the collateral underlying the unconsolidated joint venture's outstanding secured debt under the construction loan agreement. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the unconsolidated joint venture's outstanding secured debt under the construction loan agreement is material to our consolidated financial statements. None of our other unconsolidated joint ventures had outstanding debt at November 30, 2015. None of our unconsolidated joint ventures had outstanding debt at November 30, 2014. In addition, none of our joint ventures at November 30, 2015 or November 30, 2014 were determined to be VIEs. All of our joint ventures were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

Land Option Contracts and Other Similar Contracts. As discussed in Note 8. Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, in the ordinary course of our business, we enter into land option contracts and other similar contracts with third parties and unconsolidated entities to acquire rights to land for the construction of homes. At November 30, 2015, we had total cash deposits of \$54.5 million to purchase land having an aggregate purchase price of \$1.19 billion. At November 30, 2014, we had total deposits of \$33.2 million, comprised of \$33.1 million of cash deposits and \$.1 million of letters of credit, to purchase land having an aggregate purchase price of \$958.5 million. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance. Our decision to exercise a particular land option contract or other similar contract depends on the results of our due diligence reviews and ongoing market and project feasibility analysis that we conduct after entering into such a contract. In some cases, our decision to exercise a land option contract or other similar contract may be conditioned on the land seller obtaining necessary entitlements, such as zoning rights and environmental and development approvals, and/or physically developing the underlying land by a pre-determined date. We typically have the ability not to exercise our rights to the underlying land for any reason and forfeit our deposits without further penalty or obligation to the sellers. If we were to acquire all of the land we controlled under our land option contracts and other similar contracts at November 30, 2015, we estimate the remaining purchase price to be paid would be as follows: 2016 – \$611.7 million; 2017 – \$228.1 million; 2018 – \$79.2 million; 2019 – \$55.9 million; 2020 – \$49.6 million; and thereafter – \$108.7 million.

In addition to the cash deposits, our exposure to loss related to our land option contracts and other similar contracts consisted of pre-acquisition costs of \$65.6 million at November 30, 2015 and \$48.0 million at November 30, 2014. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

We determined that as of November 30, 2015 and November 30, 2014 we were not the primary beneficiary of any VIEs from which we have acquired rights to land under land option contracts and other similar contracts. We also evaluate our land option contracts and other similar contracts for financing arrangements, and, as a result of our evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in our consolidated balance sheets by \$110.0 million at November 30, 2015 and \$3.1 million at November 30, 2014.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents our future cash requirements under contractual obligations as of November 30, 2015 (in millions):

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