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# FORM 10-Q
(Quarterly Report)

Filed 04/05/17 for the Period Ending 02/28/17

| | |
|---|---|
| Address | 10990 WILSHIRE BLVD<br>LOS ANGELES, CA 90024 |
| Telephone | 3102314000 |
| CIK | 0000795266 |
| Symbol | KBH |
| SIC Code | 1531 - Operative Builders |
| Industry | Homebuilding |
| Sector | Consumer Cyclicals |
| Fiscal Year | 11/30 |

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended February 28, 2017 .**

**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 of incorporation) | (IRS employer identification number) |

**10990 Wilshire Boulevard**
**Los Angeles, California 90024**
**(310) 231-4000**
(Address and telephone number of principal executive offices)

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 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 | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of February 28, 2017 .

There were 85,273,440 shares of the registrant's common stock, par value $1.00 per share, outstanding on February 28, 2017 . The registrant's grantor stock ownership trust held an additional 9,153,296 shares of the registrant's common stock on that date.

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**FORM 10-Q**
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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**CONSOLIDATED STATEMENTS OF OPERATIONS**
(In Thousands, Except Per Share Amounts – Unaudited)

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| **Total revenues** | $ 818,596 | $ 678,371 |
| **Homebuilding:** | | |
| Revenues | $ 816,246 | $ 675,742 |
| Construction and land costs | (698,080) | (568,818) |
| Selling, general and administrative expenses | (92,889) | (87,932) |
| Operating income | 25,277 | 18,992 |
| Interest income | 198 | 152 |
| Interest expense | (6,307) | (3,697) |
| Equity in income (loss) of unconsolidated joint ventures | 731 | (603) |
| Homebuilding pretax income | 19,899 | 14,844 |
| **Financial services:** | | |
| Revenues | 2,350 | 2,629 |
| Expenses | (819) | (859) |
| Equity in income (loss) of unconsolidated joint ventures | 29 | (587) |
| Financial services pretax income | 1,560 | 1,183 |
| **Total pretax income** | 21,459 | 16,027 |
| Income tax expense | (7,200) | (2,900) |
| **Net income** | $ 14,259 | $ 13,127 |
| **Earnings per share:** | | |
| **Basic** | $ .17 | $ .15 |
| **Diluted** | $ .15 | $ .14 |
| **Weighted average shares outstanding:** | | |
| **Basic** | 85,122 | 89,239 |
| **Diluted** | 96,273 | 99,427 |
| **Cash dividends declared per common share** | $ .025 | $ .025 |

See accompanying notes.

**KB HOME**
**CONSOLIDATED BALANCE SHEETS**
(In Thousands – Unaudited)

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| **Assets** | | |
| **Homebuilding:** | | |
| Cash and cash equivalents | $ 351,880 | $ 592,086 |
| Receivables | 238,358 | 231,665 |
| Inventories | 3,423,344 | 3,403,228 |
| Investments in unconsolidated joint ventures | 64,916 | 64,016 |
| Deferred tax assets, net | 731,885 | 738,985 |
| Other assets | 96,679 | 91,145 |
| | 4,907,062 | 5,121,125 |
| **Financial services** | 15,518 | 10,499 |
| **Total assets** | $ 4,922,580 | $ 5,131,624 |
| | | |
| **Liabilities and stockholders' equity** | | |
| **Homebuilding:** | | |
| Accounts payable | $ 178,491 | $ 215,331 |
| Accrued expenses and other liabilities | 501,902 | 550,996 |
| Notes payable | 2,504,449 | 2,640,149 |
| | 3,184,842 | 3,406,476 |
| **Financial services** | 1,278 | 2,003 |
| **Stockholders' equity:** | | |
| Common stock | 116,299 | 116,224 |
| Paid-in capital | 697,656 | 696,938 |
| Retained earnings | 1,575,786 | 1,563,742 |
| Accumulated other comprehensive loss | (16,057) | (16,057) |
| Grantor stock ownership trust, at cost | (99,279) | (102,300) |
| Treasury stock, at cost | (537,945) | (535,402) |
| **Total stockholders' equity** | 1,736,460 | 1,723,145 |
| **Total liabilities and stockholders' equity** | $ 4,922,580 | $ 5,131,624 |

See accompanying notes.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In Thousands – Unaudited)

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| **Cash flows from operating activities:** | | |
| Net income | $ 14,259 | $ 13,127 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Equity in (income) loss of unconsolidated joint ventures | (760) | 1,190 |
| Amortization of discounts and issuance costs | 1,665 | 1,881 |
| Depreciation and amortization | 802 | 900 |
| Deferred income taxes | 7,100 | 2,800 |
| Loss on early extinguishment of debt | 5,685 | — |
| Stock-based compensation | 3,152 | 2,893 |
| Inventory impairments and land option contract abandonments | 4,008 | 1,966 |
| Changes in assets and liabilities: | | |
| Receivables | (6,788) | 3,999 |
| Inventories | (36,878) | (150,265) |
| Accounts payable, accrued expenses and other liabilities | (64,105) | (20,558) |
| Other, net | (5,182) | (1,246) |
| **Net cash used in operating activities** | (77,042) | (143,313) |
| **Cash flows from investing activities:** | | |
| Contributions to unconsolidated joint ventures | (8,750) | (291) |
| Return of investments in unconsolidated joint ventures | 1,107 | — |
| Purchases of property and equipment, net | (1,015) | (1,413) |
| **Net cash used in investing activities** | (8,658) | (1,704) |
| **Cash flows from financing activities:** | | |
| Change in restricted cash | — | 4,987 |
| Repayment of senior notes | (105,326) | — |
| Payments on mortgages and land contracts due to land sellers and other loans | (45,428) | (5,659) |
| Issuance of common stock under employee stock plans | 662 | — |
| Payments of cash dividends | (2,215) | (2,270) |
| Stock repurchases | (2,543) | (87,526) |
| **Net cash used in financing activities** | (154,850) | (90,468) |
| **Net decrease in cash and cash equivalents** | (240,550) | (235,485) |
| Cash and cash equivalents at beginning of period | 593,000 | 560,341 |
| Cash and cash equivalents at end of period | $ 352,450 | $ 324,856 |

See accompanying notes.

**KB HOME**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

*Basis of Presentation.* The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly our consolidated financial position as of February 28, 2017 , the results of our consolidated operations for the three months ended February 28, 2017 and February 29, 2016, and our consolidated cash flows for the three months ended February 28, 2017 and February 29, 2016. The results of our consolidated operations for the three months ended February 28, 2017 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in operating results and other factors. The consolidated balance sheet at November 30, 2016 has been taken from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2016 , which are contained in our Annual Report on Form 10-K for that period.

Unless the context indicates otherwise, the terms "we," "our," and "us" used in this report refer to KB Home, a Delaware corporation, and its subsidiaries.

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

*Cash and Cash Equivalents.* We consider all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. Our cash equivalents totaled $206.1 million at February 28, 2017 and $396.1 million at November 30, 2016 . The majority of our cash and cash equivalents was invested in interest-bearing bank deposit accounts.

*Comprehensive Income.* Our comprehensive income was $14.3 million for the three months ended February 28, 2017 and $13.1 million for the three months ended February 29, 2016 . Our comprehensive income for each of the three-month periods ended February 28, 2017 and February 29, 2016 was equal to our net income for the respective periods.

*Recent Accounting Pronouncements Not Yet Adopted* . In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which delayed the effective date of ASU 2014-09 by one year. In 2016, the FASB issued accounting standards updates that amended several aspects of ASU 2014-09. ASU 2014-09, as amended, is effective for us for annual and interim periods beginning December 1, 2018 (with early adoption permitted beginning in our 2018 fiscal year) and allows for full retrospective or modified retrospective methods of adoption. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements, as well as the adoption method we will use, and have been involved in industry specific discussions with the FASB on the treatment of certain items. We do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our homebuilding revenues.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. ASU 2016-02 will be effective for us beginning December 1, 2019 (with early adoption permitted) and mandates a modified retrospective transition method. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 will be effective for us beginning December 1, 2017 (with early adoption permitted). We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 will be effective for us beginning after December 1, 2018 (with early adoption permitted). We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for us beginning December 1, 2018 (with early adoption permitted) and will be applied using a retrospective transition method to each period presented. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

*Reclassifications.* Certain amounts in our consolidated financial statements for prior years have been reclassified to conform to the current period presentation.

2. Segment Information

We have identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment. As of February 28, 2017 , our homebuilding reporting segments conducted ongoing operations in the following states:

West Coast: California
Southwest: Arizona and Nevada
Central: Colorado and Texas
Southeast: Florida and North Carolina

Our homebuilding reporting segments are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to first-time, move-up and active adult homebuyers. Our homebuilding operations generate most of their revenues from the delivery of completed homes to homebuyers. They also earn revenues from the sale of land.

Our homebuilding reporting segments were identified based primarily on similarities in economic and geographic characteristics, product types, regulatory environments, methods used to sell and construct homes and land acquisition characteristics. Management evaluates segment performance primarily based on segment pretax results.

Our financial services reporting segment offers property and casualty insurance and, in certain instances, earthquake, flood and personal property insurance to our homebuyers in the same markets as our homebuilding reporting segments, and provides title services in the majority of our markets located within our Central and Southeast homebuilding reporting segments. This segment earns revenues primarily from insurance commissions and from the provision of title services. Until October 2016, we provided mortgage banking services, including residential mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through Home Community Mortgage, LLC (“HCM”), a joint venture of a subsidiary of ours and a subsidiary of Nationstar Mortgage LLC (“Nationstar”). Through these respective subsidiaries, we have a 49.9% ownership interest and Nationstar has a 50.1% ownership interest in HCM, with Nationstar providing management oversight of HCM’s operations. In the 2016 fourth quarter, we and Nationstar began the process to wind down HCM and transfer HCM’s operations and certain assets to Stearns Lending, LLC (“Stearns Lending”). Our homebuyers may select any lender of their choice to obtain mortgage financing for the purchase of their home.

In the 2016 fourth quarter, a subsidiary of ours and a subsidiary of Stearns Lending entered into an agreement to form KBHS Home Loans, LLC (“KBHS”), an unconsolidated mortgage banking joint venture that will offer mortgage banking services, including mortgage loan originations, to our homebuyers. We and Stearns Lending each have a 50.0% ownership interest in KBHS, with Stearns Lending providing management oversight of KBHS’s operations. KBHS, which did not have a significant

impact on our consolidated statement of operations for the three months ended February 28, 2017 , is expected to be operational in most of our served markets by the end of our 2017 second quarter, subject to obtaining all requisite regulatory approvals and clearances. Our financial services reporting segment is separately reported in our consolidated financial statements.

Corporate and other is a non-operating segment that develops and oversees the implementation of company-wide strategic initiatives and provides support to our reporting segments by centralizing certain administrative functions. Corporate management is responsible for, among other things, evaluating and selecting the geographic markets in which we operate, consistent with our overall business strategy; allocating capital resources to markets for land acquisition and development activities; making major personnel decisions related to employee compensation and benefits; and monitoring the financial and operational performance of our divisions. Corporate and other includes general and administrative expenses related to operating our corporate headquarters. A portion of the expenses incurred by Corporate and other is allocated to our homebuilding reporting segments.

Our segments follow the same accounting policies used for our consolidated financial statements. The results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented, nor are they indicative of the results to be expected in future periods.

The following tables present financial information relating to our homebuilding reporting segments (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Revenues: | | |
| West Coast | $ 355,832 | $ 283,846 |
| Southwest | 117,636 | 100,332 |
| Central | 242,256 | 202,161 |
| Southeast | 100,522 | 89,403 |
| Total | $ 816,246 | $ 675,742 |
| | | |
| Pretax income (loss): | | |
| West Coast | $ 22,853 | $ 22,116 |
| Southwest | 8,672 | 12,503 |
| Central | 19,678 | 10,579 |
| Southeast | (2,213) | (7,564) |
| Corporate and other | (29,091) | (22,790) |
| Total | $ 19,899 | $ 14,844 |
| | | |
| Inventory impairment charges: | | |
| West Coast | $ — | $ — |
| Southwest | 1,343 | — |
| Central | — | 787 |
| Southeast | 1,874 | 559 |
| Total | $ 3,217 | $ 1,346 |
| | | |
| Land option contract abandonments: | | |
| West Coast | $ 791 | $ 160 |
| Southwest | — | — |
| Central | — | 460 |
| Southeast | — | — |
| Total | $ 791 | $ 620 |

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Inventories: | | |
| Homes under construction | | |
| West Coast | $ 760,720 | $ 695,742 |
| Southwest | 137,732 | 130,886 |
| Central | 314,071 | 297,290 |
| Southeast | 119,863 | 122,020 |
| Subtotal | 1,332,386 | 1,245,938 |
| Land under development | | |
| West Coast | 754,126 | 820,088 |
| Southwest | 253,674 | 268,507 |
| Central | 473,646 | 456,508 |
| Southeast | 176,829 | 182,554 |
| Subtotal | 1,658,275 | 1,727,657 |
| Land held for future development or sale | | |
| West Coast | 206,063 | 210,910 |
| Southwest | 132,183 | 122,927 |
| Central | 15,342 | 15,439 |
| Southeast | 79,095 | 80,357 |
| Subtotal | 432,683 | 429,633 |
| Total | $ 3,423,344 | $ 3,403,228 |
| Assets: | | |
| West Coast | $ 1,850,374 | $ 1,847,279 |
| Southwest | 566,631 | 564,636 |
| Central | 926,252 | 909,497 |
| Southeast | 396,643 | 414,730 |
| Corporate and other | 1,167,162 | 1,384,983 |
| Total | $ 4,907,062 | $ 5,121,125 |

3. Financial Services

The following tables present financial information relating to our financial services reporting segment (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Revenues | | |
| Insurance commissions | $ 1,210 | $ 1,576 |
| Title services | 1,135 | 1,053 |
| Interest income | 5 | — |
| Total | 2,350 | 2,629 |

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Expenses | | |
| General and administrative | (819) | (859) |
| Operating income | 1,531 | 1,770 |
| Equity in income (loss) of unconsolidated joint ventures | 29 | (587) |
| Pretax income | $ 1,560 | $ 1,183 |

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 570 | $ 914 |
| Receivables | 1,859 | 1,764 |
| Investments in unconsolidated joint ventures (a) | 13,051 | 7,771 |
| Other assets | 38 | 50 |
| Total assets | $ 15,518 | $ 10,499 |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 1,278 | $ 2,003 |
| Total liabilities | $ 1,278 | $ 2,003 |

(a) Our investments in unconsolidated joint ventures as of February 28, 2017 included a $5.3 million capital contribution we made to KBHS in the 2017 first quarter.

4. Earnings Per Share

Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Numerator: | | |
| Net income | $ 14,259 | $ 13,127 |
| Less: Distributed earnings allocated to nonvested restricted stock | (15) | (10) |
| Less: Undistributed earnings allocated to nonvested restricted stock | (85) | (50) |
| Numerator for basic earnings per share | 14,159 | 13,067 |
| Effect of dilutive securities: | | |
| Interest expense and amortization of debt issuance costs associated with convertible senior notes, net of taxes | 663 | 667 |
| Add: Undistributed earnings allocated to nonvested restricted stock | 85 | 50 |
| Less: Undistributed earnings reallocated to nonvested restricted stock | (75) | (45) |
| Numerator for diluted earnings per share | $ 14,832 | $ 13,739 |

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Denominator: | | |
| Weighted average shares outstanding — basic | 85,122 | 89,239 |
| Effect of dilutive securities: | | |
| Share-based payments | 2,749 | 1,786 |
| Convertible senior notes | 8,402 | 8,402 |
| Weighted average shares outstanding — diluted | 96,273 | 99,427 |
| Basic earnings per share | $ .17 | $ .15 |
| Diluted earnings per share | $ .15 | $ .14 |

We compute earnings per share using the two-class method, which is an allocation of earnings between the holders of common stock and a company's participating security holders. Our outstanding nonvested shares of restricted stock contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. We had no other participating securities at February 28, 2017 or February 29, 2016 .

Outstanding stock options to purchase 5.1 million and 9.7 million shares of our common stock were excluded from the diluted earnings per share calculations for the three months ended February 28, 2017 and February 29, 2016 , respectively, because the effect of their inclusion would be antidilutive. Contingently issuable shares associated with outstanding performance-based restricted stock units (each, a "PSU") were not included in the basic earnings per share calculations for the periods presented, as the applicable vesting conditions had not been satisfied.

5. Receivables

Receivables consisted of the following (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Due from utility companies, improvement districts and municipalities | $ 106,923 | $ 102,780 |
| Recoveries related to self-insurance claims | 83,174 | 84,476 |
| Refundable deposits and bonds | 14,220 | 13,665 |
| Recoveries related to warranty and other claims | 13,907 | 14,609 |
| Other | 33,122 | 28,745 |
| Subtotal | 251,346 | 244,275 |
| Allowance for doubtful accounts | (12,988) | (12,610) |
| Total | $ 238,358 | $ 231,665 |

6. Inventories

Inventories consisted of the following (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Homes under construction | $ 1,332,386 | $ 1,245,938 |
| Land under development | 1,658,275 | 1,727,657 |
| Land held for future development or sale (a) | 432,683 | 429,633 |
| Total | $ 3,423,344 | $ 3,403,228 |

(a) Land held for sale totaled $71.7 million at February 28, 2017 and $63.4 million at November 30, 2016 .

Interest is capitalized to inventories while the related communities or land are being actively developed and until homes are completed or the land is available for immediate sale. Capitalized interest is amortized to construction and land costs as the related inventories are delivered to homebuyers or land buyers (as applicable). Interest and real estate taxes are not capitalized on land held for future development or sale.

Our interest costs were as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Capitalized interest at beginning of period | $ 306,723 | $ 288,442 |
| Interest incurred (a) | 50,079 | 46,251 |
| Interest expensed (a) | (6,307) | (3,697) |
| Interest amortized to construction and land costs (b) | (39,384) | (30,682) |
| Capitalized interest at end of period (c) | $ 311,111 | $ 300,314 |

(a) The amount for the three months ended February 28, 2017 included a charge of $5.7 million for the early extinguishment of debt.

(b) Interest amortized to construction and land costs for each of the three-month periods ended February 28, 2017 and February 29, 2016 included $.5 million related to land sales during the periods.

(c) Capitalized interest amounts presented in the table reflect the gross amount of capitalized interest, as inventory impairment charges recognized, if any, are not generally allocated to specific components of inventory.

7. Inventory Impairments and Land Option Contract Abandonments

Each community or land parcel in our owned inventory is assessed on a quarterly basis to determine if indicators of potential impairment exist. We record an inventory impairment charge on a community or land parcel that is active or held for future development when indicators of potential impairment exist and the carrying value of the real estate asset is greater than the undiscounted future net cash flows the asset is expected to generate. These real estate assets are written down to fair value, which is primarily determined based on the estimated future net cash flows discounted for inherent risk associated with each such asset, or other valuation techniques. We record an inventory impairment charge on land held for sale when the carrying value of a land parcel is greater than its fair value. These real estate assets are written down to fair value, less associated costs to sell. The estimated fair values of such assets are generally based on bona fide letters of intent from outside parties, executed sales contracts, broker quotes or similar information.

We evaluated 39 and 20 communities or land parcels for recoverability during the three months ended February 28, 2017 and February 29, 2016 , respectively. The carrying value of those communities or land parcels evaluated during the three months ended February 28, 2017 and February 29, 2016 was $366.4 million and $179.4 million , respectively. The communities or land parcels evaluated during the three months ended February 28, 2017 included certain communities or land parcels

previously held for future development that were reactivated during 2016 as part of our efforts to improve our asset efficiency under our returns-focused growth plan.

Based on the results of our evaluations, we recognized inventory impairment charges of $3.2 million for the three months ended February 28, 2017 that reflected our decisions to make changes in our operational strategies aimed at more quickly monetizing our investment in two communities by accelerating the overall pace for selling, building and delivering homes on land previously held for future development. For the three months ended February 29, 2016 , we recognized inventory impairment charges of $1.3 million . These charges reflected our decision to accelerate the overall timing for selling, building and delivering homes in a community that was previously held for future development, and the sales of our last remaining land parcels in the Rio Grande Valley area of Texas, which closed in the 2016 second quarter.

The following table summarizes ranges for significant quantitative unobservable inputs we utilized in our fair value measurements with respect to the impaired communities written down to fair value during the periods presented:

| | Three Months Ended | |
|---|---|---|
| Unobservable Input (a) | February 28, 2017 | February 29, 2016 |
| Average selling price | $299,800 - $307,900 | $310,000 |
| Deliveries per month | 3 - 4 | 1 |
| Discount rate | 17% | 17% |

(a) The ranges of inputs used in each period primarily reflect differences between the housing markets where each impacted community is located, rather than fluctuations in prevailing market conditions.

As of February 28, 2017 , the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $205.5 million , representing 27 communities and various other land parcels. As of November 30, 2016 , the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $215.3 million , representing 28 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed on a quarterly basis to determine whether it continues to meet our investment return standards. When a decision is made not to exercise certain land option contracts and other similar contracts due to market conditions and/or changes in our marketing strategy, we write off the related inventory costs, including non-refundable deposits and unrecoverable pre-acquisition costs. Based on the results of our assessments, we recognized land option contract abandonment charges of $.8 million corresponding to 386 lots for the three months ended February 28, 2017 and $.6 million corresponding to 180 lots for the three months ended February 29, 2016 .

Due to the judgment and assumptions applied in our inventory impairment and land option contract abandonment assessment processes, particularly as to land held for future development, it is possible that actual results could differ substantially from those estimated.

8. Variable Interest Entities

*Unconsolidated Joint Ventures.* We participate in joint ventures from time to time that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. Our investments in these joint ventures may create a variable interest in a variable interest entity (“VIE”), depending on the contractual terms of the arrangement. We analyze our joint ventures under the variable interest model to determine whether they are VIEs and, if so, whether we are the primary beneficiary. Based on our analyses, we determined that one of our joint ventures at February 28, 2017 and November 30, 2016 was a VIE, but we were not the primary beneficiary of this VIE. All of our joint ventures at February 28, 2017 and November 30, 2016 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.* 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. Under these contracts, we typically make a specified option payment or earnest money deposit in consideration for the right to purchase land in the future, usually at a predetermined price. We analyze each of our land option contracts and other similar contracts under the variable interest model to determine whether the land seller is a VIE and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, we are required to consolidate a VIE if we are the primary beneficiary. As a result of our analyses, we determined that as of February 28, 2017 and November 30, 2016 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 perform ongoing reassessments of whether we are the primary beneficiary of a VIE.

The following table presents a summary of our interests in land option contracts and other similar contracts (in thousands):

| | February 28, 2017 | | November 30, 2016 | |
|---|---|---|---|---|
| | Cash Deposits | Aggregate Purchase Price | Cash Deposits | Aggregate Purchase Price |
| Unconsolidated VIEs | $ 15,085 | $ 452,478 | $ 24,910 | $ 641,642 |
| Other land option contracts and other similar contracts | 23,068 | 431,644 | 17,919 | 431,954 |
| Total | $ 38,153 | $ 884,122 | $ 42,829 | $ 1,073,596 |

In addition to the cash deposits presented in the table above, our exposure to loss related to our land option contracts and other similar contracts with third parties and unconsolidated entities consisted of pre-acquisition costs of $35.6 million at February 28, 2017 and $56.0 million at November 30, 2016 . These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

For land option contracts and other similar contracts where the land seller entity is not required to be consolidated under the variable interest model, we consider whether such contracts should be accounted for as financing arrangements. Land option contracts and other similar contracts that may be considered financing arrangements include those we enter into with third-party land financiers or developers in conjunction with such third parties acquiring a specific land parcel(s) on our behalf, at our direction, and those with other landowners where we or our designee make improvements to the optioned land parcel(s) during the applicable option period. For these land option contracts and other similar contracts, we record the remaining purchase price of the associated land parcel(s) in inventories in our consolidated balance sheets with a corresponding financing obligation if we determine that we are effectively compelled to exercise the option to purchase the optioned land parcel(s). In making this determination with respect to a land option contract or other similar contract, we consider the non-refundable deposit(s) we have made and any non-reimbursable expenditures we have incurred for land improvement activities or other items up to the assessment date; additional costs associated with abandoning the contract; and our commitments, if any, to incur non-reimbursable costs associated with the contract. As a result of our evaluations of land option contracts and other similar contracts for financing arrangements, we recorded inventories in our consolidated balance sheets, with a corresponding increase to accrued expenses and other liabilities, of $28.0 million at February 28, 2017 and $50.5 million at November 30, 2016 .

9. Investments in Unconsolidated Joint Ventures

We have investments in unconsolidated joint ventures that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. We and our unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures, typically on a pro rata basis, according to our respective equity interests. The obligations to make capital contributions are governed by each such unconsolidated joint venture's respective operating agreement and related governing documents.

We typically have obtained rights to acquire portions of the land held by the unconsolidated joint ventures in which we currently participate. When an unconsolidated joint venture sells land to our homebuilding operations, we defer recognition of our share of such unconsolidated joint venture's earnings (losses) until a home sale is closed and title passes to a homebuyer, at which time we account for those earnings (losses) as a reduction (increase) to the cost of purchasing the land from the unconsolidated joint venture. We defer recognition of our share of such unconsolidated joint venture losses only to the extent profits are to be generated from the sale of the home to a homebuyer.

We share in the earnings (losses) of these unconsolidated joint ventures generally in accordance with our respective equity interests. In some instances, we recognize earnings (losses) related to our investment in an unconsolidated joint venture that differ from our equity interest in the unconsolidated joint venture. This typically arises from our deferral of the unconsolidated joint venture's earnings (losses) from land sales to us, or other items.

The following table presents combined condensed information from the statements of operations of our unconsolidated joint ventures (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Revenues | $ 19,722 | $ 3,338 |
| Construction and land costs | (17,895) | (7,495) |
| Other expense, net | (1,096) | (1,123) |
| Income (loss) | $ 731 | $ (5,280) |

The year-over-year increases in combined revenues and construction and land costs for three months ended February 28, 2017 primarily reflected increased land sale activity from unconsolidated joint ventures in California and Nevada.

The following table presents combined condensed balance sheet information for our unconsolidated joint ventures (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Assets | | |
| Cash | $ 28,083 | $ 31,928 |
| Receivables | 889 | 882 |
| Inventories | 152,689 | 165,385 |
| Other assets | 1,089 | 629 |
| Total assets | $ 182,750 | $ 198,824 |
| Liabilities and equity | | |
| Accounts payable and other liabilities | $ 19,446 | $ 19,880 |
| Notes payable (a) | 35,987 | 44,381 |
| Equity | 127,317 | 134,563 |
| Total liabilities and equity | $ 182,750 | $ 198,824 |

(a) One of our unconsolidated joint ventures has a construction loan agreement with a third-party lender to finance its land development activities that is secured by the underlying property and related project assets. Outstanding debt under the agreement is non-recourse to us and is scheduled to mature in August 2018. None of our other unconsolidated joint ventures had outstanding debt at February 28, 2017 or November 30, 2016 .

The following table presents additional information relating to our investments in unconsolidated joint ventures (dollars in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Number of investments in unconsolidated joint ventures | 7 | 7 |
| Investments in unconsolidated joint ventures | $ 64,916 | $ 64,016 |
| Number of unconsolidated joint venture lots controlled under land option contracts and other similar contracts | 428 | 471 |

We and our partner in the unconsolidated joint venture that has the construction loan agreement described above provided certain guarantees and indemnities to the lender, including a guaranty to complete the construction of improvements for the project; a guaranty against losses the lender suffers due to certain bad acts or failures to act by the unconsolidated joint venture or its partners; a guaranty of interest payments on the outstanding balance of the secured debt under the construction loan

agreement; and an indemnity of the lender from environmental issues. In each case, our actual responsibility under the foregoing guaranty and indemnity obligations is limited to our pro rata interest in the unconsolidated joint venture. 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. However, various financial and non-financial covenants apply with respect to the outstanding secured debt and the related guaranty and indemnity obligations, and a failure to comply with such covenants could result in a default and cause the lender to seek to enforce such guaranty and indemnity obligations, if and as may be applicable. As of February 28, 2017 , we were in compliance with the applicable terms of our relevant covenants with respect to 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 is material to our consolidated financial statements.

Of the unconsolidated joint venture lots controlled under land option and other similar contracts at February 28, 2017 , we are committed to purchase 110 lots from one of our unconsolidated joint ventures in quarterly takedowns over the next four years for an aggregate purchase price of approximately $48.4 million under agreements that we entered into with the unconsolidated joint venture in 2016.

10. Other Assets

Other assets consisted of the following (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Cash surrender value of insurance contracts | $ 72,547 | $ 70,829 |
| Property and equipment, net | 14,450 | 14,240 |
| Prepaid expenses | 8,610 | 4,894 |
| Other | 1,072 | 1,182 |
| Total | $ 96,679 | $ 91,145 |

11. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Self-insurance and other litigation liabilities | $ 174,082 | $ 170,988 |
| Employee compensation and related benefits | 97,971 | 130,352 |
| Accrued interest payable | 77,569 | 67,411 |
| Inventory-related obligations (a) | 57,751 | 82,682 |
| Warranty liability | 57,710 | 56,682 |
| Customer deposits | 16,694 | 18,175 |
| Real estate and business taxes | 10,547 | 14,370 |
| Other | 9,578 | 10,336 |
| Total | $ 501,902 | $ 550,996 |

(a) Represents liabilities for financing arrangements discussed in Note 8 – Variable Interest Entities, as well as liabilities for fixed or determinable amounts associated with tax increment financing entity ("TIFE") assessments. As homes are delivered, our obligation to pay the remaining TIFE assessments associated with each underlying lot is transferred to the homebuyer. As such, these assessment obligations will be paid by us only to the extent we do not deliver homes on applicable lots before the related TIFE obligations mature.

12. Income Taxes

*Income Tax Expense.* Our income tax expense and effective income tax rate were as follows (dollars in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Income tax expense (a) | $ 7,200 | $ 2,900 |
| Effective income tax rate (a) | 33.6% | 18.1% |

(a) Amounts reflect the favorable net impact of federal energy tax credits we earned from building energy-efficient homes. The net impact of these tax credits was $1.1 million and $3.3 million for the three months ended February 28, 2017 and February 29, 2016 , respectively.

The majority of the federal energy tax credits for the three-month periods ended February 28, 2017 and February 29, 2016 resulted from legislation enacted in 2015 that extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2016. There has been no new legislation enacted extending the business tax credit beyond December 31, 2016.

*Deferred Tax Asset Valuation Allowance.* 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. 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.

Our deferred tax assets of $756.7 million as of February 28, 2017 and $763.8 million as of November 30, 2016 were partly offset by a valuation allowance in each period of $24.8 million . The deferred tax asset valuation allowances as of February 28, 2017 and November 30, 2016 were primarily related to certain state net operating losses (“NOLs”) that had not met the “more likely than not” realization standard at those dates. Based on our evaluation of our deferred tax assets as of February 28, 2017 , we determined that most of our deferred tax assets would be realized. Therefore, we made no adjustments to our deferred tax valuation allowance during the three months ended February 28, 2017 .

We will continue to evaluate both the positive and negative evidence on a quarterly basis in determining 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 federal and state tax laws and corporate income tax rates could also affect actual tax results and the realization of deferred tax assets over time.

*Unrecognized Tax Benefits.* At both February 28, 2017 and November 30, 2016 , our gross unrecognized tax benefits (including interest and penalties) totaled $.1 million , all of which, if recognized, would affect our effective income tax rate. We anticipate that these gross unrecognized tax benefits will decrease by an amount ranging from zero to $.1 million during the 12 months from this reporting date. The fiscal years ending 2013 and later remain open to federal examinations, while fiscal years 2012 and later remain open to state examinations.

13. Notes Payable

Notes payable consisted of the following (in thousands):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Mortgages and land contracts due to land sellers and other loans | $ 29,313 | $ 66,927 |
| 9.10% Senior notes due September 15, 2017 | 164,538 | 263,932 |
| 7 1/4% Senior notes due June 15, 2018 | 299,701 | 299,647 |
| 4.75% Senior notes due May 15, 2019 | 397,617 | 397,364 |
| 8.00% Senior notes due March 15, 2020 | 345,156 | 344,811 |
| 7.00% Senior notes due December 15, 2021 | 446,080 | 445,911 |
| 7.50% Senior notes due September 15, 2022 | 346,886 | 346,774 |
| 7.625% Senior notes due May 15, 2023 | 247,482 | 247,404 |
| 1.375% Convertible senior notes due February 1, 2019 | 227,676 | 227,379 |
| Total | $ 2,504,449 | $ 2,640,149 |

Debt issuance costs and discounts deducted from the carrying amounts of the senior notes listed above totaled $19.9 million at February 28, 2017 and $21.8 million at November 30, 2016 .

*Unsecured Revolving Credit Facility.* We have a $275.0 million unsecured revolving credit facility with a syndicate of financial institutions (“Credit Facility”) that will mature on August 7, 2019 . The Credit F acility contains an uncommitted accordion feature under which the aggregate principal amount of available loans can be increased to a maximum of $450.0 million under certain conditions, including obtaining additional bank commitments. The Credit Facility also contains a sublimit of $137.5 million for the issuance of letters of credit, which may be utilized in combination with, or to replace, our cash-collateralized letter of credit facility with a financial institution (“LOC Facility”). Interest on amounts borrowed under the Credit Facility is payable quarterly in arrears at a rate based on either a Eurodollar or a base rate, plus a spread that depends on our consolidated leverage ratio (“Leverage Ratio”), as defined under the Credit Facility. The Credit Facility also requires the payment of a commitment fee ranging from .30% to .50% of the unused commitment, based on our Leverage Ratio. The terms of the Credit Facility require us, among other things, to maintain compliance with various covenants, including financial covenants relating to our consolidated tangible net worth, Leverage Ratio, and either a consolidated interest coverage ratio (“Interest Coverage Ratio”) or minimum level of liquidity, each as defined therein. The amount of the Credit Facility available for cash borrowings or 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. As of February 28, 2017 , we had no cash borrowings and $31.0 million of letters of credit outstanding under the Credit Facility. Therefore, as of February 28, 2017 , we had $244.0 million available for cash borrowings under the Credit Facility, with up to $106.5 million of that amount available for the issuance of letters of credit.

*LOC Facility.* We maintain the LOC Facility to obtain letters of credit from time to time in the ordinary course of operating our business. As of February 28, 2017 and November 30, 2016 , we had no letters of credit outstanding under the LOC Facility.

*Mortgages and Land Contracts Due to Land Sellers and Other Loans.* As of February 28, 2017 , inventories having a carrying value of $60.5 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

*Shelf Registration.* We have an automatically effective universal shelf registration statement that was filed with the SEC on July 18, 2014 (“2014 Shelf Registration”). 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.

*Senior Notes.* All of the senior notes outstanding at February 28, 2017 and November 30, 2016 represent senior unsecured obligations and rank equally in right of payment with all of our existing and future indebtedness. Interest on each of these senior notes is payable semi-annually. At any time prior to the close of business on the business day immediately preceding the maturity date, holders may convert all or any portion of the 1.375% convertible senior notes due 2019 (“ 1.375% Convertible Senior Notes due 2019”). These notes are initially convertible into shares of our common stock at a conversion rate of 36.5297 shares for each $1,000 principal amount of the notes, which represents an initial conversion price of approximately $27.37

per share. This initial conversion rate equates to 8,401,831 shares of our common stock and is subject to adjustment upon the occurrence of certain events, as described in the instruments governing these notes.

On December 14, 2016, we elected to exercise our optional redemption rights under the terms of the 9.100% senior notes due 2017 (" 9.10% Senior Notes due 2017"). On January 13, 2017, we redeemed $100.0 million in aggregate principal amount of the notes outstanding at the redemption price calculated in accordance with the "make-whole" provisions of the notes. We used internally generated cash to fund this redemption. We paid a total of $105.3 million to redeem the notes and recorded a charge of $5.7 million for the early extinguishment of debt. Upon this redemption, $165.0 million in aggregate principal amount of the notes remained outstanding.

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) contain certain limitations related to mergers, consolidations, and sales of assets.

As of February 28, 2017 , 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.

Principal payments on senior notes, mortgages and land contracts due to land sellers and other loans are due as follows: 2017 – $194.3 million ; 2018 – $300.0 million ; 2019 – $630.0 million ; 2020 – $350.0 million ; 2021 – $0 ; and thereafter – $1.05 billion .

## 14. Fair Value Disclosures

Fair value measurements of assets and liabilities are categorized based on the following hierarchy:

| | |
|---|---|
| Level 1 | Fair value determined based on quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data, by correlation or other means. |
| Level 3 | Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques. |

Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate that their carrying value is not recoverable. The following table presents the fair value hierarchy and our assets measured at fair value on a nonrecurring basis for the three months ended February 28, 2017 and the year ended November 30, 2016 (in thousands):

| Description | Fair Value Hierarchy | February 28, 2017 | November 30, 2016 |
|---|---|---|---|
| Inventories (a) | Level 2 | $ — | $ 3,657 |
| Inventories (a) | Level 3 | 6,089 | 37,329 |

(a) Amounts represent the aggregate fair value for real estate assets impacted by inventory impairment charges during the applicable period, as of the date the fair value measurements were made. The carrying value for these real estate assets may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

Inventories with a carrying value of $9.3 million were written down to their fair value of $6.1 million during the three months ended February 28, 2017 , resulting in inventory impairment charges of $3.2 million . Inventories with a carrying value of $89.1 million were written down to their fair value, less associated costs to sell (where applicable), of $39.5 million during the year ended November 30, 2016 , resulting in inventory impairment charges of $49.6 million .

The fair values for inventories that were determined using Level 2 inputs were based on bona fide letters of intent from outside parties or executed sales contracts. The fair values for inventories that were determined using Level 3 inputs were based on

the estimated future net cash flows discounted for inherent risk associated with each underlying asset, or, with respect to planned future land sales, were based on broker quotes.

The following table presents the fair value hierarchy, carrying values and estimated fair values of our financial instruments, except those for which the carrying values approximate fair values (in thousands):

| | | February 28, 2017 | | November 30, 2016 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Value (a) | Estimated Fair Value | Carrying Value (a) | Estimated Fair Value |
| Financial Liabilities: | | | | | |
| Senior notes | Level 2 | $ 2,247,460 | $ 2,432,112 | $ 2,345,843 | $ 2,494,844 |
| Convertible senior notes | Level 2 | 227,676 | 228,563 | 227,379 | 223,675 |

(a) The carrying values for the senior notes and convertible senior notes, as presented, include unamortized debt issuance costs. Debt issuance costs are not factored into the estimated fair values of these notes.

The fair values of our senior notes and convertible senior notes are generally estimated based on quoted market prices for these instruments. The carrying values reported for cash and cash equivalents, and mortgages and land contracts due to land sellers and other loans approximate fair values.

15. Commitments and Contingencies

Commitments and contingencies include typical obligations of homebuilders for the completion of contracts and those incurred in the ordinary course of business.

*Warranty* . We provide a limited warranty on all of our homes. The specific terms and conditions of our limited warranty program vary depending upon the markets in which we do business. We generally provide a structural warranty of 10 years , a warranty on electrical, heating, cooling, plumbing and certain other building systems each varying from two to five years based on geographic market and state law, and a warranty of one year for other components of the home. Our limited warranty program is ordinarily how we respond to and account for homeowners' requests to local division offices seeking repairs of certain conditions or defects, including claims where we could have liability under applicable state statutes or tort law for a defective condition in or damages to a home. Our warranty liability covers our costs of repairs associated with homeowner claims made under our limited warranty program. These claims are generally made directly by a homeowner and involve their individual home.

We estimate the costs that may be incurred under each limited warranty and record a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our accrued warranty liability, which is included in accrued expenses and other liabilities in our consolidated balance sheets, and adjust the amount as necessary based on our assessment. Our assessment includes the review of our actual warranty costs incurred to identify trends and changes in our warranty claims experience, and considers our home construction quality and customer service initiatives and outside events. While we believe the warranty liability currently reflected in our consolidated balance sheets to be adequate, unanticipated changes or developments in the legal environment, local weather, land or environmental conditions, quality of materials or methods used in the construction of homes or customer service practices and/or our warranty claims experience could have a significant impact on our actual warranty costs in future periods and such amounts could differ significantly from our current estimates.

The changes in our warranty liability were as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Balance at beginning of period | $ 56,682 | $ 49,085 |
| Warranties issued | 7,140 | 5,252 |
| Payments | (6,112) | (4,021) |
| Adjustments | — | 259 |
| Balance at end of period | $ 57,710 | $ 50,575 |

*Guarantees.* In the normal course of our business, we issue certain representations, warranties and guarantees related to our home sales and land sales. Based on historical experience, we do not believe any potential liability with respect to these representations, warranties or guarantees would be material to our consolidated financial statements.

*Self-Insurance.* 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 also maintain certain other insurance policies. In Arizona, California, Colorado and Nevada, our subcontractors' general liability insurance primarily takes the form of a wrap-up policy under a program where eligible independent subcontractors are enrolled as insureds on each community. Enrolled subcontractors contribute toward the cost of the insurance and agree to pay a contractual amount in the future if there is a claim related to their work. To the extent provided under the wrap-up program, we absorb the enrolled subcontractors' general liability associated with the work performed on our homes within the applicable community as part of our overall general liability insurance and our self-insurance.

We self-insure a portion of our overall risk through the use of a captive insurance subsidiary, which provides coverage for our exposure to construction defect, bodily injury and property damage claims and related litigation or regulatory actions, up to certain limits. Our self-insurance liability generally covers our costs of settlements and/or repairs, if any, as well as our costs to defend and resolve the following types of claims:

- Construction defect : Construction defect claims, which represent the largest component of our self-insurance liability, typically originate through a legal or regulatory process rather than directly by a homeowner and involve the alleged occurrence of a condition affecting two or more homes within the same community, or they involve a common area or homeowners' association property within a community. These claims typically involve higher costs to resolve than individual homeowner warranty claims, and the rate of claims is highly variable.
- Bodily injury : Bodily injury claims typically involve individuals (other than our employees) who claim they were injured while on our property or as a result of our operations.
- Property damage : Property damage claims generally involve claims by third parties for alleged damage to real or personal property as a result of our operations. Such claims may occasionally include those made against us by owners of property located near our communities.

Our self-insurance liability at each reporting date represents the estimated costs of reported claims, claims incurred but not yet reported, and claim adjustment expenses. The amount of our self-insurance liability is based on an analysis performed by a third-party actuary that uses our historical claim and expense data, as well as industry data to estimate these overall costs. Key assumptions used in developing these estimates include claim frequencies, severities and resolution patterns, which can occur over an extended period of time. These estimates are subject to variability due to the length of time between the delivery of a home to a homebuyer and when a construction defect claim is made, and the ultimate resolution of such claim; uncertainties regarding such claims relative to our markets and the types of product we build; and legal or regulatory actions and/or interpretations, among other factors. Due to the degree of judgment involved and the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated. In addition, changes in the frequency and severity of reported claims and the estimates to resolve claims can impact the trends and assumptions used in the actuarial analysis, which could be material to our consolidated financial statements. Though state regulations vary, construction defect claims are reported and resolved over a long period of time, which can extend for 10 years or more. As a result, the majority of the estimated self-insurance liability based on the actuarial analysis relates to claims incurred but not yet reported. Therefore, adjustments related to individual existing claims generally do not significantly impact the overall estimated liability.

Adjustments to our liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs.

Our self-insurance liability is presented on a gross basis without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimated probable self-insurance recoveries of $83.2 million and $84.5 million are included in receivables in our consolidated balance sheets at February 28, 2017 and November 30, 2016 , respectively. These self-insurance recoveries are principally based on actuarially determined amounts and depend on various factors, including, among other things, the above-described claim cost estimates, our insurance policy coverage limits for the applicable policy year(s), historical third-party recovery rates, insurance industry practices, the regulatory environment, and legal precedent, and are subject to a high degree of variability from period to period. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated.

The changes in our self-insurance liability were as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Balance at beginning of period | $ 158,584 | $ 173,011 |
| Self-insurance expense (a) | 4,640 | 4,016 |
| Payments | (2,040) | (3,406) |
| Reclassification of estimated probable recoveries (b) | (1,302) | (604) |
| Balance at end of period | $ 159,882 | $ 173,017 |

(a) These expenses are included in selling, general and administrative expenses and are largely offset by contributions from subcontractors participating in the wrap-up policy.

(b) Amount for each period represents the changes in the estimated probable insurance and other recoveries that were reclassified to receivables to present our self-insurance liability on a gross basis.

For most of our claims, there is no interaction between our warranty liability and self-insurance liability. Typically, if a matter is identified at its outset as either a warranty or self-insurance claim, it remains as such through its resolution. However, there can be instances of interaction between the liabilities, such as where individual homeowners in a community separately request warranty repairs to their homes to address a similar condition or issue and subsequently join together to initiate, or potentially initiate, a legal process with respect to that condition or issue and/or the repair work we have undertaken. In these instances, the claims and related repair work generally are initially covered by our warranty liability, and the costs associated with resolving the legal matter (including any additional repair work) are covered by our self-insurance liability.

The payments we make in connection with claims and related repair work, whether covered within our warranty liability and/or our self-insurance liability, may be recovered from our insurers to the extent such payments exceed the self-insured retentions or deductibles under our general liability insurance policies. Also, in certain instances, in the course of resolving a claim, we pay amounts in advance of and/or on behalf of a subcontractor(s) or their insurer(s) and believe we will be reimbursed for such payments. Estimates of all such amounts, if any, are recorded as receivables in our consolidated balance sheets when any such recovery is considered probable. Such receivables associated with our warranty and other claims totaled $13.9 million at February 28, 2017 and $14.6 million at November 30, 2016 . We believe collection of these receivables is probable based on our history of collections for similar claims.

*Performance Bonds and Letters of Credit* . 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. At February 28, 2017 , we had $551.1 million of performance bonds and $31.0 million of letters of credit outstanding. At November 30, 2016 , we had $535.7 million of performance bonds and $31.0 million of letters of credit outstanding. If any such performance bonds or letters of credit are called, we would be obligated to reimburse the issuer of the performance bond or letter of credit. We do not believe that a material amount of any currently outstanding performance bonds or letters of credit will be called. Performance bonds do not have stated expiration dates. Rather, we are released from the performance bonds as the underlying performance obligations are completed. The expiration dates of some letters of credit issued in connection with community improvements coincide with the expected

completion dates of the related projects or obligations. Most letters of credit, however, are issued with an initial term of one year and are typically extended on a year-to-year basis until the related performance obligations are completed.

*Land Option Contracts and Other Similar Contracts* . In the ordinary course of our business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. At February 28, 2017 , we had total cash deposits of $38.2 million to purchase land having an aggregate purchase price of $884.1 million . Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

16. Legal Matters

*Nevada Development Contract Litigation.* KB HOME Nevada Inc., a wholly owned subsidiary of ours ("KB Nevada"), is a defendant in a case in the Eighth Judicial District Court in Clark County, Nevada entitled *Las Vegas Development Associates, LLC, Essex Real Estate Partners, LLC, et al. v. KB HOME Nevada Inc.* In 2007, Las Vegas Development Associates, LLC ("LVDA") agreed to purchase from KB Nevada approximately 83 acres of land located near Las Vegas, Nevada. LVDA subsequently assigned its rights to Essex Real Estate Partners, LLC ("Essex"). KB Nevada and Essex entered into a development agreement relating to certain major infrastructure improvements. LVDA's and Essex's complaint, initially filed in 2008, alleged that KB Nevada breached the development agreement, and also alleged that KB Nevada fraudulently induced them to enter into the purchase and development agreements. LVDA's and Essex's lenders subsequently filed related actions that were consolidated into the LVDA/Essex matter. The consolidated plaintiffs sought rescission of the agreements or, in the alternative, compensatory damages of $55 million plus unspecified punitive damages and other damages, and interest charges in excess of $41 million ("Claimed Damages"). KB Nevada denied the allegations, and believed it had meritorious defenses to the consolidated plaintiffs' claims. On March 15, 2013, the district court entered orders denying the consolidated plaintiffs' motions for summary judgment and granting the majority of KB Nevada's motions for summary judgment, eliminating, among other of the consolidated plaintiffs' claims, those for fraud, negligent misrepresentation, and punitive damages. After the district court's decisions, the only remaining claims against KB Nevada were for contract damages and rescission. In August 2013, the district court granted motions that further narrowed the scope of the Claimed Damages. The lender plaintiffs filed an appeal from the district court's summary judgment decisions with the Nevada Supreme Court and that court heard oral argument on June 6, 2016. On September 22, 2016, the Nevada Supreme Court rejected the lender plaintiffs' appeal and upheld the district court's summary judgment decisions against the lender plaintiffs in favor of KB Nevada. Effective March 3, 2017, KB Nevada, LVDA, Essex, the administrative agent for the LVDA/Essex lenders and a guarantor for the underlying LVDA/Essex loan reached a settlement. Under the settlement, the above-described litigation has been dismissed with prejudice, with mutual releases by the parties of all claims related to the matter. As part of the settlement, KB Nevada agreed to purchase the land, if certain conditions are satisfied, on or before February 15, 2020 (subject to a potential extension of up to six months). If the conditions are not satisfied and KB Nevada does not purchase the land, it will make a specified cash payment pursuant to the settlement agreement that is not material to our consolidated financial statements. This settlement did not have an impact on our consolidated financial statements for the 2017 first quarter.

*San Diego Water Board Notice of Violation* . In August 2015, the California Regional Water Quality Control Board, San Diego Region ("RWQCB") issued to us and another homebuilder a Notice of Violation ("NOV") alleging violations of the California Water Code and waste discharge prohibitions of the water quality control plan for the San Diego Region (Basin Plan). According to the NOV, the alleged violations involved the unpermitted discharge of fill material into the waters of the United States and California during the grading of a required secondary access road for a community located in San Diego County, California, which was performed pursuant to a County-issued grading permit. In its NOV, the RWQCB requested to meet with us to discuss the alleged violations as part of its process to determine whether to bring any enforcement action, and we have met with the RWQCB in an effort to resolve the matters alleged in the NOV. An administrative hearing before the RWQCB originally scheduled for August 10, 2016 has been continued and a new hearing date has not yet been set. While the ultimate outcome is uncertain, we believe that any penalties and related corrective measures the RWQCB may impose under the NOV could exceed $100,000 (the threshold for the required disclosure of this type of environmental proceeding) but they are not expected to be material to our consolidated financial statements.

*Other Matters.* In addition to the specific proceedings described above, we are involved in other litigation and regulatory proceedings incidental to our business that are in various procedural stages. We believe that the accruals we have recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of February 28, 2017 , it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized in our consolidated financial statements. We evaluate our accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjust them to reflect (a) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments; (b) the advice and analyses of counsel; and (c) the assumptions and judgment of management. Similar factors and considerations are used in establishing new accruals for proceedings as to which losses have become probable and reasonably estimable at

the time an evaluation is made. Based on our experience, we believe that the amounts that may be claimed or alleged against us in these proceedings are not a meaningful indicator of our potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses we may incur, however, is inherently uncertain and could differ significantly from the estimate reflected in a related accrual, if made. Therefore, it is possible that the ultimate outcome of any proceeding, if in excess of a related accrual or if an accrual had not been made, could be material to our consolidated financial statements.

17. Stockholders' Equity

A summary of changes in stockholders' equity is presented below (in thousands):

| | Three Months Ended February 28, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | | | | | | | | | |
| | Common Stock | Grantor Stock Ownership Trust | Treasury Stock | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Grantor Stock Ownership Trust | Treasury Stock | Total Stockholders' Equity |
| Balance at November 30, 2016 | 116,224 | (9,432) | (21,720) | $ 116,224 | $ 696,938 | $ 1,563,742 | $ (16,057) | $ (102,300) | $ (535,402) | $ 1,723,145 |
| Net income | — | — | — | — | — | 14,259 | — | — | — | 14,259 |
| Dividends on common stock | — | — | — | — | — | (2,215) | — | — | — | (2,215) |
| Employee stock options/other | 75 | — | — | 75 | 587 | — | — | — | — | 662 |
| Stock awards | — | 279 | — | — | (3,021) | — | — | 3,021 | — | — |
| Stock-based compensation | — | — | — | — | 3,152 | — | — | — | — | 3,152 |
| Stock repurchases | — | — | (152) | — | — | — | — | — | (2,543) | (2,543) |
| Balance at February 28, 2017 | 116,299 | (9,153) | (21,872) | $ 116,299 | $ 697,656 | $ 1,575,786 | $ (16,057) | $ (99,279) | $ (537,945) | $ 1,736,460 |

We maintain an account with our transfer agent to reserve the maximum number of shares of our common stock potentially deliverable upon conversion to holders of the 1.375% Convertible Senior Notes due 2019 based on the terms of their governing instruments. Accordingly, the common stock reserve account had a balance of 12,602,735 shares at February 28, 2017 . The maximum number of shares would potentially be deliverable to holders only in certain limited circumstances as set forth in the governing instruments.

On February 15, 2017, the management development and compensation committee of our board of directors approved the payout of PSUs that were granted to certain employees on October 10, 2013. The 278,460 shares of our common stock that were granted under the terms of PSUs that vested in 2017 included an aggregate of 125,460 additional shares above the target amount awarded to the eligible recipients based on our achieving certain levels of average return on equity performance and revenue growth performance relative to a peer group of high-production public homebuilding companies over the three-year period from December 1, 2013 through November 30, 2016.

As of February 28, 2017 , we were authorized to repurchase 1,627,000 shares of our common stock under a board approved share repurchase program. We did not repurchase any of our common stock under this program in the three months ended February 28, 2017 .

During the three months ended February 28, 2017 , we repurchased 152,569 , or $2.5 million , of 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 were not considered repurchases under the above-described board of directors authorization.

During each of the three-month periods ended February 28, 2017 and February 29, 2016 , our board of directors declared, and we paid, a quarterly cash dividend of $.025 per share of common stock.

18. Stock-Based Compensation

*Stock Options.* We estimate the grant-date fair value of stock options using the Black-Scholes option-pricing model. The following table summarizes stock option transactions for the three months ended February 28, 2017 :

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at beginning of period | 12,731,545 | $ 18.95 |
| Granted | — | — |
| Exercised | (74,854) | 8.85 |
| Cancelled | (124,090) | 19.46 |
| Options outstanding at end of period | 12,532,601 | $ 19.01 |
| Options exercisable at end of period | 10,307,866 | $ 19.78 |

As of February 28, 2017 , the weighted average remaining contractual life of stock options outstanding and stock options exercisable was 4.3 years and 3.3 years , respectively. There was $3.5 million of total unrecognized compensation expense related to unvested stock option awards as of February 28, 2017 that is expected to be recognized over a weighted average period of 1.5 years . For the three months ended February 28, 2017 and February 29, 2016 , stock-based compensation expense associated with stock options totaled $.8 million and $.9 million , respectively. The aggregate intrinsic values of stock options outstanding and stock options exercisable were $38.4 million and $33.3 million , respectively, at February 28, 2017 . (The intrinsic value of a stock option is the amount by which the market value of a share of the underlying common stock exceeds the exercise price of the stock option.)

*Other Stock-Based Awards.* From time to time, we grant restricted stock and PSUs to various employees as a compensation benefit. We recognized total compensation expense of $2.3 million for the three months ended February 28, 2017 and $1.9 million for the three months ended February 29, 2016 related to restricted stock and PSUs.

19. Supplemental Disclosure to Consolidated Statements of Cash Flows

The following are supplemental disclosures to the consolidated statements of cash flows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Summary of cash and cash equivalents at end of period: | | |
| Homebuilding | $ 351,880 | $ 323,076 |
| Financial services | 570 | 1,780 |
| Total | $ 352,450 | $ 324,856 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid, net of amounts capitalized | $ (9,536) | $ (12,955) |
| Income taxes paid | 836 | 458 |
| Supplemental disclosures of noncash activities: | | |
| Reclassification of warranty recoveries to receivables | $ — | $ 1,758 |
| Decrease in consolidated inventories not owned | (22,554) | (28,511) |
| Increase in inventories due to distributions of land and land development from an unconsolidated joint venture | 1,986 | 2,674 |
| Inventories acquired through seller financing | 7,814 | 32,435 |

20. Supplemental Guarantor Information

Our obligations to pay principal, premium, if any, and interest on the 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. Pursuant to the terms of the indenture governing the senior notes and the terms of the Credit Facility, if any of the Guarantor Subsidiaries ceases to be a "significant subsidiary" as defined by Rule 1-02 of Regulation S-X (as in effect on June 1, 1996) using a 5% rather than a 10% threshold (provided that the assets of our non-guarantor subsidiaries do not in the aggregate exceed 10% of an adjusted measure of our consolidated total assets), it will be automatically and unconditionally released and discharged from its guaranty of the senior notes and the Credit Facility so long as all guarantees by such Guarantor Subsidiary of any other of our or our subsidiaries' indebtedness are terminated at or prior to the time of such release. We have determined that separate, full financial statements of the Guarantor Subsidiaries would not be material to investors and, accordingly, supplemental financial information for the Guarantor Subsidiaries is presented.

The supplemental financial information for all periods presented below reflects the relevant subsidiaries that were Guarantor Subsidiaries as of February 28, 2017 .

Condensed Consolidating Statements of Operations (in thousands)

| | Three Months Ended February 28, 2017 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Revenues | $ — | $ 729,927 | $ 88,669 | $ — | $ 818,596 |
| Homebuilding: | | | | | |
| Revenues | $ — | $ 729,927 | $ 86,319 | $ — | $ 816,246 |
| Construction and land costs | — | (618,452) | (79,628) | — | (698,080) |
| Selling, general and administrative expenses | (22,267) | (62,898) | (7,724) | — | (92,889) |
| Operating income (loss) | (22,267) | 48,577 | (1,033) | — | 25,277 |
| Interest income | 197 | 1 | — | — | 198 |
| Interest expense | (48,349) | (568) | (1,162) | 43,772 | (6,307) |
| Intercompany interest | 73,493 | (26,603) | (3,118) | (43,772) | — |
| Equity in income of unconsolidated joint ventures | — | 731 | — | — | 731 |
| Homebuilding pretax income (loss) | 3,074 | 22,138 | (5,313) | — | 19,899 |
| Financial services pretax income | — | — | 1,560 | — | 1,560 |
| Total pretax income (loss) | 3,074 | 22,138 | (3,753) | — | 21,459 |
| Income tax benefit (expense) | 1,300 | (8,800) | 300 | — | (7,200) |
| Equity in net income of subsidiaries | 9,885 | — | — | (9,885) | — |
| Net income (loss) | $ 14,259 | $ 13,338 | $ (3,453) | $ (9,885) | $ 14,259 |

| | Three Months Ended February 29, 2016 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Revenues | $ — | $ 601,343 | $ 77,028 | $ — | $ 678,371 |
| Homebuilding: | | | | | |
| Revenues | $ — | $ 601,343 | $ 74,399 | $ — | $ 675,742 |
| Construction and land costs | — | (500,964) | (67,854) | — | (568,818) |
| Selling, general and administrative expenses | (24,340) | (53,464) | (10,128) | — | (87,932) |
| Operating income (loss) | (24,340) | 46,915 | (3,583) | — | 18,992 |
| Interest income | 134 | 18 | — | — | 152 |
| Interest expense | (44,370) | (820) | (1,061) | 42,554 | (3,697) |
| Intercompany interest | 74,043 | (27,508) | (3,981) | (42,554) | — |
| Equity in loss of unconsolidated joint ventures | — | (603) | — | — | (603) |
| Homebuilding pretax income (loss) | 5,467 | 18,002 | (8,625) | — | 14,844 |
| Financial services pretax income | — | — | 1,183 | — | 1,183 |
| Total pretax income (loss) | 5,467 | 18,002 | (7,442) | — | 16,027 |
| Income tax benefit (expense) | 700 | (3,900) | 300 | — | (2,900) |
| Equity in net income of subsidiaries | 6,960 | — | — | (6,960) | — |
| Net income (loss) | $ 13,127 | $ 14,102 | $ (7,142) | $ (6,960) | $ 13,127 |

Condensed Consolidating Balance Sheets (in thousands)

| | February 28, 2017 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Assets | | | | | |
| Homebuilding: | | | | | |
| Cash and cash equivalents | $ 257,656 | $ 83,677 | $ 10,547 | $ — | $ 351,880 |
| Receivables | 4,833 | 143,517 | 90,008 | — | 238,358 |
| Inventories | — | 3,072,225 | 351,119 | — | 3,423,344 |
| Investments in unconsolidated joint ventures | — | 62,417 | 2,499 | — | 64,916 |
| Deferred tax assets, net | 277,977 | 309,378 | 144,530 | — | 731,885 |
| Other assets | 85,433 | 8,728 | 2,518 | — | 96,679 |
| | 625,899 | 3,679,942 | 601,221 | — | 4,907,062 |
| Financial services | — | — | 15,518 | — | 15,518 |
| Intercompany receivables | 3,654,435 | — | 93,065 | (3,747,500) | — |
| Investments in subsidiaries | 55,813 | — | — | (55,813) | — |
| Total assets | $ 4,336,147 | $ 3,679,942 | $ 709,804 | $ (3,803,313) | $ 4,922,580 |
| Liabilities and stockholders' equity | | | | | |
| Homebuilding: | | | | | |
| Accounts payable, accrued expenses and other liabilities | $ 134,143 | $ 327,181 | $ 219,069 | $ — | $ 680,393 |
| Notes payable | 2,450,026 | 28,393 | 26,030 | — | 2,504,449 |
| | 2,584,169 | 355,574 | 245,099 | — | 3,184,842 |
| Financial services | — | — | 1,278 | — | 1,278 |
| Intercompany payables | 15,518 | 3,302,230 | 429,752 | (3,747,500) | — |
| Stockholders' equity | 1,736,460 | 22,138 | 33,675 | (55,813) | 1,736,460 |
| Total liabilities and stockholders' equity | $ 4,336,147 | $ 3,679,942 | $ 709,804 | $ (3,803,313) | $ 4,922,580 |

| | November 30, 2016 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Assets | | | | | |
| Homebuilding: | | | | | |
| Cash and cash equivalents | $ 463,100 | $ 100,439 | $ 28,547 | $ — | $ 592,086 |
| Receivables | 4,807 | 135,915 | 90,943 | — | 231,665 |
| Inventories | — | 3,048,132 | 355,096 | — | 3,403,228 |
| Investments in unconsolidated joint ventures | — | 61,517 | 2,499 | — | 64,016 |
| Deferred tax assets, net | 276,737 | 318,077 | 144,171 | — | 738,985 |
| Other assets | 79,526 | 9,177 | 2,442 | — | 91,145 |
| | 824,170 | 3,673,257 | 623,698 | — | 5,121,125 |
| Financial services | — | — | 10,499 | — | 10,499 |
| Intercompany receivables | 3,559,012 | — | 97,062 | (3,656,074) | — |
| Investments in subsidiaries | 35,965 | — | — | (35,965) | — |
| Total assets | $ 4,419,147 | $ 3,673,257 | $ 731,259 | $ (3,692,039) | $ 5,131,624 |
| Liabilities and stockholders' equity | | | | | |
| Homebuilding: | | | | | |
| Accounts payable, accrued expenses and other liabilities | $ 131,530 | $ 397,605 | $ 237,192 | $ — | $ 766,327 |
| Notes payable | 2,548,112 | 66,927 | 25,110 | — | 2,640,149 |
| | 2,679,642 | 464,532 | 262,302 | — | 3,406,476 |
| Financial services | — | — | 2,003 | — | 2,003 |
| Intercompany payables | 16,360 | 3,208,725 | 430,989 | (3,656,074) | — |
| Stockholders' equity | 1,723,145 | — | 35,965 | (35,965) | 1,723,145 |
| Total liabilities and stockholders' equity | $ 4,419,147 | $ 3,673,257 | $ 731,259 | $ (3,692,039) | $ 5,131,624 |

Condensed Consolidating Statements of Cash Flows (in thousands)

| | Three Months Ended February 28, 2017 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Net cash provided by (used in) operating activities | $ 11,773 | $ (71,130) | $ (17,685) | $ — | $ (77,042) |
| Cash flows from investing activities: | | | | | |
| Contributions to unconsolidated joint ventures | — | (3,500) | (5,250) | — | (8,750) |
| Return of investments in unconsolidated joint ventures | — | 1,107 | — | — | 1,107 |
| Purchases of property and equipment, net | (892) | (113) | (10) | — | (1,015) |
| Intercompany | (106,903) | — | — | 106,903 | — |
| Net cash used in investing activities | (107,795) | (2,506) | (5,260) | 106,903 | (8,658) |
| Cash flows from financing activities: | | | | | |
| Repayment of senior notes | (105,326) | — | — | — | (105,326) |
| Payments on mortgages and land contracts due to land sellers and other loans | — | (45,428) | — | — | (45,428) |
| Issuance of common stock under employee stock plans | 662 | — | — | — | 662 |
| Payments of cash dividends | (2,215) | — | — | — | (2,215) |
| Stock repurchases | (2,543) | — | — | — | (2,543) |
| Intercompany | — | 102,302 | 4,601 | (106,903) | — |
| Net cash provided by (used in) financing activities | (109,422) | 56,874 | 4,601 | (106,903) | (154,850) |
| Net decrease in cash and cash equivalents | (205,444) | (16,762) | (18,344) | — | (240,550) |
| Cash and cash equivalents at beginning of period | 463,100 | 100,439 | 29,461 | — | 593,000 |
| Cash and cash equivalents at end of period | $ 257,656 | $ 83,677 | $ 11,117 | $ — | $ 352,450 |

| | Three Months Ended February 29, 2016 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Net cash provided by (used in) operating activities | $ 13,908 | $ (137,158) | $ (20,063) | $ — | $ (143,313) |
| Cash flows from investing activities: | | | | | |
| Contributions to unconsolidated joint ventures | — | (291) | — | — | (291) |
| Purchases of property and equipment, net | (1,129) | (265) | (19) | — | (1,413) |
| Intercompany | (115,459) | — | — | 115,459 | — |
| Net cash used in investing activities | (116,588) | (556) | (19) | 115,459 | (1,704) |
| Cash flows from financing activities: | | | | | |
| Change in restricted cash | 4,987 | — | — | — | 4,987 |
| Payments on mortgages and land contracts due to land sellers and other loans | — | (5,659) | — | — | (5,659) |
| Payments of cash dividends | (2,270) | — | — | — | (2,270) |
| Stock repurchases | (87,526) | — | — | — | (87,526) |
| Intercompany | — | 104,452 | 11,007 | (115,459) | — |
| Net cash provided by (used in) financing activities | (84,809) | 98,793 | 11,007 | (115,459) | (90,468) |
| Net decrease in cash and cash equivalents | (187,489) | (38,921) | (9,075) | — | (235,485) |
| Cash and cash equivalents at beginning of period | 444,850 | 96,741 | 18,750 | — | 560,341 |
| Cash and cash equivalents at end of period | $ 257,361 | $ 57,820 | $ 9,675 | $ — | $ 324,856 |

**Item 2. 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):

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2017 | February 29, 2016 | Variance |
| Revenues: | | | |
| Homebuilding | $ 816,246 | $ 675,742 | 21 % |
| Financial services | 2,350 | 2,629 | (11) |
| Total revenues | $ 818,596 | $ 678,371 | 21 % |
| Pretax income: | | | |
| Homebuilding | $ 19,899 | $ 14,844 | 34 % |
| Financial services | 1,560 | 1,183 | 32 |
| Total pretax income | 21,459 | 16,027 | 34 |
| Income tax expense | (7,200) | (2,900) | (148) |
| Net income | $ 14,259 | $ 13,127 | 9 % |
| Basic earnings per share | $ .17 | $ .15 | 13 % |
| Diluted earnings per share | $ .15 | $ .14 | 7 % |

Housing market conditions remained favorable in most of our served markets during the three months ended February 28, 2017 , with generally positive economic, employment and household income trends fueling steady demand amid constrained supply. With the continued healthy business environment and our effective execution on our returns-focused growth plan, we expanded our deliveries, revenues and pretax income in the 2017 first quarter compared to the prior-year quarter and achieved a record low first quarter selling, general and administrative expense ratio. Within our homebuilding operations, housing revenues for the quarter grew 21% year over year to $810.9 million , as the number of homes we delivered increased 14% to 2,224 and the overall average selling price of those homes rose 6% to $364,600 . Our housing gross profits for the quarter increased 10% from the year-earlier quarter due to the higher volume of homes delivered, partly offset by a 140 basis point decrease in our housing gross profit margin to 14.6% . The year-over-year decline in our housing gross profit margin reflected higher construction and land costs, a shift in the mix of homes delivered, higher inventory impairment and land option contract abandonment charges, and an increase in the amortization of previously capitalized interest, which were partly offset by improved operating leverage on fixed costs as a result of our higher volume of homes delivered and corresponding higher housing revenues. Inventory-related charges totaled $4.0 million for the three months ended February 28, 2017 , compared to $2.0 million for the year-earlier period. Our selling, general and administrative expense ratio improved 160 basis points to 11.5% of housing revenues, reflecting enhanced operating leverage from delivering more homes and generating corresponding higher housing revenues in the current period. Homebuilding operating income for the 2017 first quarter increased 33% to $25.3 million .

Our interest expense for the 2017 first quarter included a charge of $5.7 million for the early extinguishment of debt associated with our optional redemption of $100.0 million in aggregate principal amount of the 9.10% Senior Notes due 2017. The redemption, which was was completed on January 13, 2017 using internally generated cash, represented a step toward reducing our debt in line with our returns-focused growth plan. Pretax income for the current quarter increased 34% year over year to $21.5 million . Excluding the charges related to inventory and the early extinguishment of debt, pretax income grew 73% to $31.2 million .

For the three months ended February 28, 2017 , we posted net income of $14.3 million , up 9% from the corresponding period of 2016, and diluted earnings per share of $.15 , up 7% year over year.

During the three months ended February 28, 2017 , we invested $302.1 million in land and land development to drive community openings in 2017 and beyond in order to increase our scale within our existing geographic footprint, as outlined in our core business strategy, KB2020. In the corresponding period of 2016, such investments totaled $385.7 million . Approximately 44% of our total investment in the 2017 first quarter related to land acquisition, compared to approximately 60% in the year-earlier period.

The following table presents information concerning our net orders, cancellation rate, ending backlog and community count for the three-month periods ended February 28, 2017 and February 29, 2016 (dollars in thousands):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Net orders | 2,580 | 2,272 |
| Net order value (a) | $ 1,085,422 | $ 824,674 |
| Cancellation rate (b) | 23% | 27% |
| Ending backlog — homes | 4,776 | 4,285 |
| Ending backlog — value | $ 1,793,564 | $ 1,433,507 |
| Ending community count | 240 | 241 |
| Average community count | 238 | 244 |

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

(b) The cancellation rate represents 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.* For the three months ended February 28, 2017 , net orders from our homebuilding operations grew 14% from the year-earlier period, despite a 2% decrease in our average community count. The combination of higher net orders and a higher overall average selling price resulted in the value of our 2017 first quarter net orders increasing 32% from the year-earlier quarter. We had particularly strong growth in our West Coast homebuilding reporting segment, where net order value increased 73% , reflecting a 49% growth in net orders and a 16% increase in the average selling price of those orders. Our cancellation rate for the three months ended February 28, 2017 improved from the corresponding prior-year period.

*Backlog* . The number of homes in our backlog at February 28, 2017 rose 11% from February 29, 2016 , primarily reflecting the 11% higher backlog level we had at the beginning of the 2017 first quarter as compared to the year-earlier quarter and the year-over-year increase in our first quarter net orders. The potential future housing revenues in our backlog at February 28, 2017 grew 25% from February 29, 2016 due to the larger number of homes in our backlog and the higher average selling price of those homes. The average selling price of our homes in backlog increased 12% . The growth in our backlog value reflected substantial year-over-year increases in three of our four homebuilding reporting segments, ranging from 9% in our Central homebuilding reporting segment to 63% in our West Coast homebuilding reporting segment.

*Community Count.* We use the term “community count” to refer to the number of communities with at least five homes/lots left to sell at the end of a reporting period. Our average community count for the 2017 first quarter decreased slightly on a year-over-year basis, as a 14% increase in our West Coast homebuilding reporting segment partly offset a 27% decline in our Southeast homebuilding reporting segment stemming from fewer community openings over the past year and the wind down of our Metro Washington, D.C. operations in 2016. The ending community count remained relatively flat compared to the year-earlier period.

**HOMEBUILDING**

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

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Revenues: | | |
| Housing | $ 810,947 | $ 672,646 |
| Land | 5,299 | 3,096 |
| Total | 816,246 | 675,742 |
| Costs and expenses: | | |
| Construction and land costs | | |
| Housing | (692,787) | (564,828) |
| Land | (5,293) | (3,990) |
| Total | (698,080) | (568,818) |
| Selling, general and administrative expenses | (92,889) | (87,932) |
| Total | (790,969) | (656,750) |
| Operating income | $ 25,277 | $ 18,992 |
| Homes delivered | 2,224 | 1,953 |
| Average selling price | $ 364,600 | $ 344,400 |
| Housing gross profit margin as a percentage of housing revenues | 14.6% | 16.0% |
| Adjusted housing gross profit margin as a percentage of housing revenues | 19.9% | 20.7% |
| Selling, general and administrative expenses as a percentage of housing revenues | 11.5% | 13.1% |
| Operating income as a percentage of homebuilding revenues | 3.1% | 2.8% |

For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast. As of February 28, 2017 , our homebuilding reporting segments consisted of ongoing operations located in the following states: West Coast — California; Southwest — Arizona and Nevada; Central — Colorado and Texas; and Southeast — Florida and North Carolina. The following tables present homes delivered, net orders, cancellation rates as a percentage of gross orders, net order value, average community count and ending backlog (number of homes and value) by homebuilding reporting segment (dollars in thousands):

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Homes Delivered | | Net Orders | | Cancellation Rates | |
| Segment | February 28, 2017 | February 29, 2016 | February 28, 2017 | February 29, 2016 | February 28, 2017 | February 29, 2016 |
| West Coast | 606 | 508 | 826 | 555 | 13% | 24 % |
| Southwest | 407 | 350 | 456 | 359 | 20 | 24 |
| Central | 861 | 765 | 960 | 901 | 29 | 31 |
| Southeast | 350 | 330 | 338 | 457 | 30 | 25 |
| Total | 2,224 | 1,953 | 2,580 | 2,272 | 23% | 27 % |

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Net Order Value | | | Average Community Count | | |
| Segment | February 28, 2017 | February 29, 2016 | Variance | February 28, 2017 | February 29, 2016 | Variance |
| West Coast | $ 583,503 | $ 337,611 | 73 % | 64 | 56 | 14 % |
| Southwest | 131,731 | 107,288 | 23 | 40 | 39 | 3 |
| Central | 274,883 | 253,215 | 9 | 91 | 90 | 1 |
| Southeast | 95,305 | 126,560 | (25) | 43 | 59 | (27) |
| Total | $ 1,085,422 | $ 824,674 | 32 % | 238 | 244 | (2)% |

| | Backlog – Homes | | | Backlog – Value | | |
|---|---|---|---|---|---|---|
| Segment | February 28, 2017 | February 29, 2016 | Variance | February 28, 2017 | February 29, 2016 | Variance |
| West Coast | 1,133 | 785 | 44 % | $ 754,511 | $ 461,738 | 63 % |
| Southwest | 853 | 614 | 39 | 241,917 | 174,381 | 39 |
| Central | 2,078 | 1,978 | 5 | 596,813 | 548,985 | 9 |
| Southeast | 712 | 908 | (22) | 200,323 | 248,403 | (19) |
| Total | 4,776 | 4,285 | 11 % | $ 1,793,564 | $ 1,433,507 | 25 % |

*Revenues* . Homebuilding revenues for the three months ended February 28, 2017 rose 21% from the year-earlier period to $816.2 million , primarily due to an increase in housing revenues.

Housing revenues increased 21% year over year to $810.9 million for the quarter ended February 28, 2017 due to increases in both the number of homes we delivered and the overall average selling price of those homes. We delivered 2,224 homes in the 2017 first quarter, up 14% from the 2016 first quarter, largely due to the 11% higher backlog level we had at the beginning of the current quarter. The overall average selling price of homes delivered rose 6% year over year to $364,600 for the three months ended February 28, 2017 , reflecting a shift in product mix and generally rising home prices.

Land sale revenues totaled $5.3 million for the three months ended February 28, 2017 and $3.1 million for the three months ended February 29, 2016 . 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 opportunities to sell land at acceptable prices and prevailing market conditions. In the 2016 fourth quarter, we announced our decision to monetize certain non-strategic land parcels through land sales as part of our returns-focused growth plan. As a result, we expect our land sale revenues for 2017 to increase on a year-over-year basis from 2016. These land sales are expected to generate cash that we can redeploy for investments in land that are expected to generate a higher return and grow our business.

*Operating Income* . Our homebuilding operating income increased 33% to $25.3 million for the three months ended February 28, 2017 . The year-over-year improvement primarily reflected an increase in housing gross profits that was partly offset by an increase in selling, general and administrative expenses. Homebuilding operating income for the 2017 first quarter included $4.0 million of inventory impairment and land option contract abandonment charges, compared to $2.0 million of such charges in the corresponding quarter of 2016. As a percentage of homebuilding revenues, our homebuilding operating income increased 30 basis points year over year to 3.1% for the three months ended February 28, 2017 .

Housing gross profits increased to $118.2 million for the three months ended February 28, 2017 from $107.8 million for the year-earlier period. Our housing gross profits for the first quarters of 2017 and 2016 included inventory impairment and land option contract abandonment charges of $4.0 million and $1.2 million , respectively.

Our housing gross profit margin for the 2017 first quarter declined 140 basis points year over year to 14.6% , primarily due to higher construction and land costs (approximately 100 basis points), higher inventory impairment and land option contract abandonment charges (approximately 30 basis points), and an increase in the amortization of previously capitalized interest (approximately 30 basis points), partly offset by improved operating leverage on fixed costs as a result of our higher volume of homes delivered and corresponding higher housing revenues (approximately 20 basis points). Sales incentives did not impact our year-over-year housing gross profit margin comparison for the three months ended February 28, 2017 .

Excluding the amortization of previously capitalized interest associated with housing operations of $38.9 million and $30.2 million in the three-month periods ended February 28, 2017 and February 29, 2016 , respectively, and the above-mentioned inventory-related charges in the applicable periods, our adjusted housing gross profit margin declined 80 basis points from the year-earlier quarter to 19.9% . The calculation of adjusted housing gross profit margin, which we believe provides a clearer measure of the performance of our business, is described below under "Non-GAAP Financial Measures."

Selling, general and administrative expenses for the 2017 first quarter rose to $92.9 million from $87.9 million for the year-earlier quarter, mainly due to higher variable expenses associated with the year-over-year increases in homes delivered and corresponding revenues. As a percentage of housing revenues, selling, general and administrative expenses improved 160 basis points from the prior-year period to 11.5% for the three months ended February 28, 2017 , largely due to improved operating leverage on fixed costs from the increased volume of homes delivered and corresponding higher housing revenues and our ongoing efforts to contain our overhead costs to the extent possible.

Land sale profits were nominal for the three months ended February 28, 2017 , compared to a land sale loss of $.9 million in the year-earlier quarter. The land sale loss in the 2016 first quarter included inventory impairment charges of approximately $.8 million related to sales of our last remaining land parcels in the Rio Grande Valley area of Texas, which closed in the 2016 second quarter.

The estimated remaining life of each community or land parcel in our inventory depends on various factors, such as the total number of lots remaining; the expected timeline to acquire and entitle land and develop lots to build homes; the anticipated future net order and cancellation rates; and the expected timeline to build and deliver homes sold. While it is difficult to determine a precise timeframe for any particular inventory asset, based on current market conditions and expected delivery timelines, we estimate our inventory assets' remaining operating lives to range generally from one year to in excess of 10 years and expect to realize, on an overall basis, the majority of our inventories as of February 28, 2017 within five years. The following table presents our inventories as of February 28, 2017 based on our current estimated timeframe for delivery of the last home within an applicable community or land parcel (in millions):

| | 0-2 years | 3-5 years | 6-10 years | Greater than 10 years | Total |
|---|---|---|---|---|---|
| Inventories | $ 2,032.1 | $ 1,047.6 | $ 260.1 | $ 83.5 | $ 3,423.3 |

The inventories in the 0-2 years and 3-5 years categories were located in all of our homebuilding reporting segments, though mostly in our West Coast and Central segments, and collectively represented 90% of our total inventories at February 28, 2017 . These categories collectively represented 91% of our total inventories as of November 30, 2016. Inventories in the 6-10 years category were also located in all of our homebuilding reporting segments, while inventories in the greater than 10 years category were primarily located in our West Coast and Southwest homebuilding reporting segments. The inventories in the 6-10 years and greater than 10 years categories were mainly comprised of land held for future development.

Due to the judgment and assumptions applied in our inventory impairment and land option contract abandonment assessment processes, and in our estimations of the remaining operating lives of our inventory assets and the realization of our inventories, particularly as to land held for future development, it is possible that actual results could differ substantially from those estimated.

Deterioration in the supply and demand factors in the overall housing market or in an individual market or submarket, or changes to our operational or selling strategy at certain communities may lead to additional inventory impairment charges, future charges associated with land sales or the abandonment of land option contracts or other similar contracts related to certain assets. Due to the nature or location of the projects, land held for future development that we activate as part of our strategic growth initiatives or to accelerate sales and/or our return on investment, or that we otherwise monetize to help increase our asset efficiency, may have a somewhat greater likelihood of being impaired than other of our active inventory.

We believe that the carrying value of our inventories as of February 28, 2017 is recoverable. Our considerations in making this determination include the factors and trends incorporated into our inventory impairment analyses, and as applicable, the prevailing regulatory environment, competition from other homebuilders, inventory levels and sales activity of resale homes, and the local economic conditions where an asset is located. In addition, we consider the financial and operational status and expectations of our inventories as well as specific attributes or circumstances of each community or land parcel in our inventory that could be indicators of potential impairments. However, if conditions in the overall housing market or in a specific market or submarket worsen in the future beyond our current expectations, if future changes in our marketing strategy significantly affect any key assumptions used in our projections of future cash flows, or if there are material changes in any of the other items we consider in assessing recoverability, we may recognize charges in future periods for inventory impairments or land option contract abandonments, or both, related to our current inventory assets. Any such charges could be material to our consolidated financial statements.

*Interest Income* . Interest income, which is generated from short-term investments, totaled $.2 million for each of the three-month periods ended February 28, 2017 and February 29, 2016 . 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 our borrowings to finance land acquisitions, land development, home construction and other operating and capital needs. Our interest expense, net of amounts capitalized, was $6.3 million for the three months ended February 28, 2017 , compared to $3.7 million for the three months ended February 29, 2016 . Interest expense for the 2017 first quarter included the above-mentioned charge of $5.7 million for the early extinguishment of debt.

During the three months ended February 28, 2017 and February 29, 2016 , the average amount of our inventory qualifying for interest capitalization was lower than our average debt level and, therefore, a portion of the interest we incurred was reflected as interest expense.

Interest incurred increased to $50.1 million for the three months ended February 28, 2017 from $46.3 million for the year-earlier period, due to the above-mentioned charge for the early extinguishment of debt, partly offset by the impact of a lower average debt level in the current period. We capitalized $43.8 million and $42.6 million of the interest incurred in the three months ended February 28, 2017 and February 29, 2016 , respectively. The percentage of interest capitalized, excluding the charge for the early extinguishment of debt in the current quarter, was 99% and 92% for the three months ended February 28, 2017 and February 29, 2016 , respectively. The percentage of interest capitalized generally fluctuates based on the amount of our inventory qualifying for interest capitalization and the amount of debt outstanding.

Interest amortized to construction and land costs associated with housing operations increased to $38.9 million for the three months ended February 28, 2017 from $30.2 million for the year-earlier period, reflecting increases in both the number of homes delivered and the overall construction and land costs attributable to those homes. As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations was 4.8% and 4.5% for the three months ended February 28, 2017 and February 29, 2016 , respectively. Additionally, interest amortized to construction and land costs in the first quarter of both 2017 and 2016 included $.5 million of amortization of previously capitalized interest related to land sales that occurred during those periods.

*Equity in Income (Loss) of Unconsolidated Joint Ventures* . Our equity in income of unconsolidated joint ventures totaled $.7 million for the three months ended February 28, 2017 , compared to equity in loss of unconsolidated joint ventures of $.6 million for the three months ended February 29, 2016 . 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 our ratio of net debt to capital, neither of which are calculated in accordance with 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):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Housing revenues | $ 810,947 | $ 672,646 |
| Housing construction and land costs | (692,787) | (564,828) |
| Housing gross profits | 118,160 | 107,818 |
| Add: Amortization of previously capitalized interest (a) | 38,873 | 30,206 |
| Inventory-related charges (b) | 4,008 | 1,179 |
| Adjusted housing gross profits | $ 161,041 | $ 139,203 |
| Housing gross profit margin as a percentage of housing revenues | 14.6% | 16.0% |
| Adjusted housing gross profit margin as a percentage of housing revenues | 19.9% | 20.7% |

(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 and (2) housing inventory impairment and land option contract abandonment charges (as 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, and housing inventory impairment and land option contract abandonment 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, and housing inventory impairment and land option contract abandonment 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):

| | February 28, 2017 | November 30, 2016 |
|---|---|---|
| Notes payable | $ 2,504,449 | $ 2,640,149 |
| Stockholders' equity | 1,736,460 | 1,723,145 |
| Total capital | $ 4,240,909 | $ 4,363,294 |
| Ratio of debt to capital | 59.1% | 60.5% |
| Notes payable | $ 2,504,449 | $ 2,640,149 |
| Less: Cash and cash equivalents | (351,880) | (592,086) |
| Net debt | 2,152,569 | 2,048,063 |
| Stockholders' equity | 1,736,460 | 1,723,145 |
| Total capital | $ 3,889,029 | $ 3,771,208 |
| Ratio of net debt to capital | 55.3% | 54.3% |

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, by capital (notes payable, net of homebuilding cash and cash equivalents, 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 degree of leverage employed in our operations.

**HOMEBUILDING REPORTING SEGMENTS**

Below is a discussion of the financial results of each of our homebuilding reporting segments. Further information regarding these segments, including their pretax income (loss), is included in Note 2 – Segment Information in the Notes to Consolidated Financial Statements in this report. The difference between each homebuilding reporting segment's operating income (loss) and pretax income (loss) is generally due to the equity in income (loss) of unconsolidated joint ventures and/or interest income and expense.

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

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2017 | February 29, 2016 | Variance |
| Revenues | $ 355,832 | $ 283,846 | 25 % |
| Construction and land costs | (307,622) | (238,797) | (29) |
| Selling, general and administrative expenses | (24,460) | (21,241) | (15) |
| Operating income | $ 23,750 | $ 23,808 | — % |
| | | | |
| Homes delivered | 606 | 508 | 19 % |
| Average selling price | $ 587,200 | $ 558,800 | 5 % |
| Housing gross profit margin | 13.5% | 15.9% | (240)bps |

This segment's revenues for the three months ended February 28, 2017 and February 29, 2016 were generated solely from housing operations. Housing revenues for the 2017 first quarter grew 25% from the year-earlier quarter 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 primarily reflected this segment having 24% more homes in backlog at the beginning of 2017 as compared to the year-earlier period. The average selling price for the 2017 first quarter rose from the year-earlier quarter due to a shift in product mix and generally rising home prices.

Operating income for the three months ended February 28, 2017 was relatively flat with the year-earlier period, reflecting higher selling, general and administrative expenses that were mostly offset by higher housing gross profits. Housing gross profits increased as a result of the higher volume of homes delivered, partly offset by a decrease in the housing gross profit margin. The year-over-year decline in the housing gross profit margin was mainly due to higher construction and land costs, a shift in product mix of homes delivered and the impact of favorable warranty adjustments in the 2016 first quarter. These impacts were partly offset by improved operating leverage from the increased volume of homes delivered and corresponding higher housing revenues. Land option contract abandonment charges impacting the 2017 first quarter housing gross profit margin totaled $.8 million , compared to $.2 million in the year-earlier quarter. Selling, general and administrative expenses for the three months ended February 28, 2017 increased from the year-earlier period, primarily due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues.

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

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2017 | February 29, 2016 | Variance |
| Revenues | $ 117,636 | $ 100,332 | 17 % |
| Construction and land costs | (99,738) | (81,305) | (23) |
| Selling, general and administrative expenses | (10,454) | (5,710) | (83) |
| Operating income | $ 7,444 | $ 13,317 | (44) % |
| | | | |
| Homes delivered | 407 | 350 | 16 % |
| Average selling price | $ 289,000 | $ 286,700 | 1 % |
| Housing gross profit margin | 15.2% | 19.0% | (380)bps |

In the three months ended February 28, 2017 and February 29, 2016 , this segment's revenues were generated solely from housing operations. Housing revenues for the 2017 first quarter increased 17% from the year-earlier quarter mainly due to growth in the number of homes delivered from our Nevada operations, as the average selling price of homes delivered from this segment remained essentially flat year over year. The year-over-year growth in the number of homes delivered primarily reflected this segment having 33% more homes in backlog at the beginning of 2017 as compared to the year-earlier period.

Operating income for the three months ended February 28, 2017 decreased from the corresponding period of 2016, mainly due to lower housing gross profits and higher selling, general and administrative expenses. Housing gross profits decreased as a result of a year-over-year decline in the housing gross profit margin, partly offset by an increase in the number of homes delivered. The year-over-year decrease in the housing gross profit margin reflected higher construction and land costs, a shift in product mix of homes delivered and inventory impairment charges of $1.3 million in the current quarter, partly offset by improved leverage on fixed costs from the increased volume of homes delivered. In addition, the 2016 first quarter included favorable warranty adjustments and no inventory-related charges. Selling, general and administrative expenses rose on a year-over-year basis due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues in the 2017 first quarter, and the inclusion of a favorable legal settlement in the 2016 first quarter.

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

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2017 | February 29, 2016 | Variance |
| Revenues | $ 242,256 | $ 202,161 | 20 % |
| Construction and land costs | (198,467) | (167,155) | (19) |
| Selling, general and administrative expenses | (23,957) | (24,102) | 1 |
| Operating income | $ 19,832 | $ 10,904 | 82 % |
| | | | |
| Homes delivered | 861 | 765 | 13 % |
| Average selling price | $ 275,500 | $ 260,200 | 6 % |
| Housing gross profit margin | 18.5% | 18.0% | 50bps |

This segment's revenues for the three months ended February 28, 2017 and February 29, 2016 were generated from both housing operations and land sales. Housing revenues for the 2017 first quarter increased 19% to $237.2 million from $199.1 million for the year-earlier quarter, reflecting 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 the 2017 first quarter reflected increases from both our Texas and Colorado operations. The average selling price for the three months ended February 28, 2017 rose from the corresponding period of 2016, primarily due to a greater proportion of homes delivered from higher-priced communities, a shift in product mix and generally rising home prices. Land sale revenues for the three months ended February 28, 2017 and February 29, 2016 totaled $5.0 million and $3.1 million , respectively.

Operating income for the three months ended February 28, 2017 increased $8.9 million from the year-earlier period, mainly due to growth in housing gross profits and the absence of land sales losses in the current quarter. Housing gross profits expanded as a result of the increased volume of homes delivered and a higher housing gross profit margin. The housing gross profit margin increased from the year-earlier quarter, largely due to improved operating leverage and lower overall construction and land costs. In addition, the 2016 first quarter included unfavorable warranty adjustments and $.5 million of land option contract abandonments. Land sales generated break-even results in the three months ended February 28, 2017 , compared to a loss of $.9 million for the three months ended February 29, 2016 . The land sale loss in the year-earlier period included an inventory impairment charge of approximately $.8 million related to sales of our last remaining land parcels in the Rio Grande Valley area of Texas. Selling, general and administrative expenses for the 2017 first quarter were essentially flat compared to the corresponding period of 2016, mainly due to lower overhead costs as a result of our cost containment efforts that were mostly offset by higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues. In addition, the 2016 first quarter included an increase to a legal accrual.

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

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2017 | February 29, 2016 | Variance |
| Revenues | $ 100,522 | $ 89,403 | 12 % |
| Construction and land costs | (90,977) | (79,896) | (14) |
| Selling, general and administrative expenses | (11,691) | (15,620) | 25 |
| Operating loss | $ (2,146) | $ (6,113) | 65 % |
| | | | |
| Homes delivered | 350 | 330 | 6 % |
| Average selling price | $ 286,400 | $ 270,900 | 6 % |
| Housing gross profit margin | 9.5% | 10.6% | (110)bps |

This segment's revenues for the the three months ended February 28, 2017 were generated from both housing operations and land sales. In the three months ended February 29, 2016 , this segment's revenues were generated solely from housing operations. Housing revenues for the three months ended February 28, 2017 increased 12% from the year-earlier period to $100.2 million , due to increases in both the number of homes delivered and the average selling price of those homes. The growth in the number of homes delivered compared to the corresponding year-earlier period was attributable to our Florida operations. The average selling price for the three months ended February 28, 2017 rose from the corresponding period of 2016, primarily due to a greater proportion of homes delivered from higher-priced communities, a shift in product mix and generally rising home prices. Land sale revenues for the three months ended February 28, 2017 totaled $.3 million .

For the three months ended February 28, 2017 , this segment's operating loss improved from the year-earlier period mainly due to a decrease in selling, general and administrative expenses. Housing gross profits were relatively flat compared to the year-earlier period, reflecting an increase in the number of homes delivered, mostly offset by a decrease in the housing gross profit margin. This segment's housing gross profit margin decreased on a year-over-year basis, primarily due to higher overall construction and land costs, and an increase in inventory impairment charges, partly offset by improved operating leverage from the increased volume of homes delivered and corresponding higher housing revenues. In the 2017 first quarter, we recognized $1.9 million of inventory impairment charges, compared to $.6 million in the prior-year quarter. Sales incentives as a percentage of housing revenues in the 2017 first quarter increased slightly from the year-earlier quarter. Selling, general and administrative expenses decreased in the 2017 first quarter from the year-earlier period, primarily due to lower overhead costs as a result of our cost containment efforts, partly offset by higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues. The 2016 first quarter also included a legal settlement of $2.5 million.

**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):

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Revenues | $ 2,350 | $ 2,629 |
| Expenses | (819) | (859) |
| Equity in income (loss) of unconsolidated joint ventures | 29 | (587) |
| Pretax income | $ 1,560 | $ 1,183 |

*Revenues* . Financial services revenues for the three months ended February 28, 2017 decreased slightly to $2.4 million from $2.6 million for the year-earlier period, reflecting a decline in insurance commissions that was partly offset by an increase in title services revenues.

*Expenses* . General and administrative expenses totaled $.8 million and $.9 million for the three-month periods ended February 28, 2017 and February 29, 2016 , respectively.

*Equity in Income (Loss) of Unconsolidated Joint Ventures* . The equity in income of unconsolidated joint ventures was nominal for the three months ended February 28, 2017 , compared to the equity in loss of unconsolidated joint ventures of $.6 million for the three months ended February 29, 2016 . This year-over-year change was largely due to the wind down of HCM in the latter part of 2016. The equity in loss of unconsolidated joint ventures for the three months ended February 29, 2016 was solely related to HCM's operations. As part of the wind down of HCM's operations, which is discussed in Note 2 – Segment Information in the Notes to Consolidated Financial Statements in this report, HCM stopped originating loans in October 2016 and had no significant impact on our consolidated statements of operations for the 2017 first quarter.

In connection with the wind-down process, our equity in loss of unconsolidated joint ventures in the fourth quarter of 2016 reflected an increase in HCM's reserves for potential future losses on certain loans it originated. While we believe we will not need to record any additional charges in connection with the wind down of HCM, it is reasonably possible that we may incur further losses with respect to our equity interest in future periods as the wind down of HCM is completed. Although we are currently unable to estimate the amount or range of such losses, if any, we believe they would not have a material impact on our consolidated financial statements.

In the 2016 fourth quarter, a subsidiary of ours and a subsidiary of Stearns Lending entered into an agreement to form KBHS, an unconsolidated mortgage banking joint venture that will offer mortgage banking services, including mortgage loan originations, to our homebuyers. We and Stearns Lending each have a 50.0% ownership interest in KBHS, with Stearns Lending providing management oversight of KBHS's operations. KBHS, which did not have a significant impact on our consolidated statement of operations for the three months ended February 28, 2017 , is expected to be operational in most of our served markets by the end of our 2017 second quarter, subject to obtaining all requisite regulatory approvals and clearances.

**INCOME TAXES**

Our income tax expense totaled $7.2 million for the three months ended February 28, 2017 and $2.9 million for the year-earlier period. Our effective income tax rates for the three months ended February 28, 2017 and February 29, 2016 were 33.6% and 18.1% , respectively. Our income tax expense and effective income tax rate for each of the three-month periods ended February 28, 2017 and February 29, 2016 reflected the favorable impact of $1.1 million and $3.3 million , respectively, of federal energy tax credits we earned from building energy-efficient homes. The majority of these federal energy tax credits resulted from legislation enacted in 2015 that extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2016. There has been no new legislation enacted extending the business tax credit beyond December 31, 2016.

At February 28, 2017 and November 30, 2016 , we had deferred tax assets of $756.7 million and $763.8 million , respectively, that were partly offset by a valuation allowance of $24.8 million at each date. The deferred tax asset valuation allowances as of February 28, 2017 and November 30, 2016 were primarily related to certain state NOLs that had not met the "more likely than not" realization standard at those dates.

Further information regarding our income taxes is provided in Note 12 – Income Taxes in the Notes to Consolidated Financial Statements in this report.

## 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 $302.1 million for the three months ended February 28, 2017 , compared to $385.7 million for the corresponding period of 2016. Approximately 44% of our total investments in the three months ended February 28, 2017 related to land acquisition, compared to approximately 60% in the year-earlier period. While we made strategic investments in land and land development in each of our homebuilding reporting segments during the first three months of 2017 and 2016, approximately 55% and 68% , respectively, of these investments were made in our West Coast homebuilding reporting 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 standards to support home delivery and revenue growth in 2018 and beyond.

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

| | February 28, 2017 | | November 30, 2016 | | Variance | |
|---|---|---|---|---|---|---|
| Segment | Lots | $ | Lots | $ | Lots | $ |
| West Coast | 10,562 | $ 1,720,909 | 10,904 | $ 1,726,740 | (342) | $ (5,831) |
| Southwest | 8,521 | 523,589 | 8,338 | 522,320 | 183 | 1,269 |
| Central | 18,059 | 803,059 | 18,272 | 769,237 | (213) | 33,822 |
| Southeast | 7,329 | 375,787 | 7,311 | 384,931 | 18 | (9,144) |
| Total | 44,471 | $ 3,423,344 | 44,825 | $ 3,403,228 | (354) | $ 20,116 |

The carrying value of the lots owned or controlled under land option contracts and other similar contracts at February 28, 2017 increased from November 30, 2016 primarily due to the investments in land and land development we made during the three months ended February 28, 2017 and an increase in the number of homes under construction, reflecting our higher backlog level. Overall, the number of lots we controlled under land option contracts and other similar contracts as a percentage of total lots was 20% at February 28, 2017 and 21% at November 30, 2016 . 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 standards.

We ended our 2017 first quarter with $351.9 million of cash and cash equivalents, compared to $592.1 million at November 30, 2016 . The majority of our cash and cash equivalents at February 28, 2017 and November 30, 2016 was invested in interest-bearing bank deposit accounts.

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

| | February 28, 2017 | November 30, 2016 | Variance |
|---|---|---|---|
| Mortgages and land contracts due to land sellers and other loans | $ 29,313 | $ 66,927 | $ (37,614) |
| Senior notes | 2,247,460 | 2,345,843 | (98,383) |
| Convertible senior notes | 227,676 | 227,379 | 297 |
| Total | $ 2,504,449 | $ 2,640,149 | $ (135,700) |

On December 14, 2016, as a step toward reducing our debt in line with our returns-focused growth plan, we elected to exercise our optional redemption rights under the terms of the 9.10% Senior Notes due 2017. On January 13, 2017, we redeemed $100.0 million in aggregate principal amount of the notes outstanding at the redemption price calculated in accordance with the "make-whole" provisions of the notes. We used internally generated cash to fund this redemption. We paid a total of $105.3 million to redeem the notes and recorded a charge of $5.7 million for the early extinguishment of debt. Upon this redemption, $165.0 million in aggregate principal amount of the notes remained outstanding.

Our financial leverage, as measured by the ratio of debt to capital, was 59.1% at February 28, 2017 , compared to 60.5% at November 30, 2016 . Our ratio of net debt to capital (a calculation that is described above under "Non-GAAP Financial Measures") at February 28, 2017 was 55.3% , compared to 54.3% at November 30, 2016 .

LOC Facility . We had no letters of credit outstanding under the LOC Facility at February 28, 2017 or November 30, 2016 .

Unsecured Revolving Credit Facility . We have a $275.0 million Credit Facility that will mature on August 7, 2019. The amount of the 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. As of February 28, 2017 , we had no cash borrowings and $31.0 million of letters of credit outstanding under the Credit Facility. Therefore, as of February 28, 2017 , we had $244.0 million available for cash borrowings under the Credit Facility, with up to $106.5 million of that amount available for the issuance of additional letters of credit. The Credit Facility is further described in Note 13 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

There have been no changes to the terms of the Credit Facility during the three months ended February 28, 2017 from those disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2016 .

The covenants and other requirements under the Credit Facility represent the most restrictive covenants 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 February 28, 2017 :

| Financial Covenants and Other Requirements | Covenant Requirement | | Actual |
|---|---|---|---|
| Consolidated tangible net worth | ≥ | $1.22 billion | $1.74 billion |
| Leverage Ratio | ≤ | .650 | .591 |
| Interest Coverage Ratio (a) | ≥ | 1.500 | 2.178 |
| Minimum liquidity (a) | ≥ | $181.4 million | $351.9 million |
| Investments in joint ventures and non-guarantor subsidiaries | ≤ | $464.7 million | $98.6 million |
| Borrowing base in excess of borrowing base indebtedness (as defined) | | n/a | $435.8 million |

(a) Under the terms of the Credit Facility, we are required to meet either the Interest Coverage Ratio or a minimum level of liquidity, but not both. As of February 28, 2017 , 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) contain certain limitations related to mergers, consolidations, and sales of assets.

Our obligations to pay principal, premium, if any, and interest under the senior notes and borrowings, if any, under the Credit Facility are guaranteed on a joint and several basis by the 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 20 – Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report.

As of February 28, 2017 , we were in compliance with the applicable terms of all our covenants 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 February 28, 2017 , we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of $29.3 million , secured primarily by the underlying property, which had an aggregate carrying value of $60.5 million .

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

| | Three Months Ended | |
|---|---|---|
| | February 28, 2017 | February 29, 2016 |
| Net cash used in: | | |
| Operating activities | $ (77,042) | $ (143,313) |
| Investing activities | (8,658) | (1,704) |
| Financing activities | (154,850) | (90,468) |
| Net decrease in cash and cash equivalents | $ (240,550) | $ (235,485) |

Operating Activities . Operating activities used net cash of $77.0 million in the three months ended February 28, 2017 and $143.3 million in the three months ended February 29, 2016 . Generally, our net operating cash flows fluctuate primarily based on changes in our inventories and our profitability.

Our net cash used in operating activities for the three months ended February 28, 2017 largely reflected a net decrease in accounts payable, accrued expenses and other liabilities of $64.1 million , net cash of $36.9 million used for investments in inventories, and a net increase in receivables of $6.8 million , partly offset by net income of $14.3 million . In the three months ended February 29, 2016 , our net cash used in operating activities mainly reflected investments in inventories of $150.3 million , and a net decrease in accounts payable, accrued expenses and other liabilities of $20.6 million , partly offset by net income of $13.1 million and a net decrease in receivables of $4.0 million .

Investing Activities . Investing activities used net cash of $8.7 million in the three months ended February 28, 2017 and $1.7 million in the year-earlier period. In the three months ended February 28, 2017 , our uses of cash included $8.8 million for contributions to unconsolidated joint ventures and $1.0 million for net purchases of property and equipment. These uses of cash were partially offset by a $1.1 million return of investments in unconsolidated joint ventures. In the three months ended February 29, 2016 , cash of $1.4 million was used for net purchases of property and equipment and $.3 million was used for contributions to unconsolidated joint ventures.

Financing Activities . Financing activities used net cash of $154.9 million in the three months ended February 28, 2017 and $90.5 million in the three months ended February 29, 2016 . In the three months ended February 28, 2017 , cash was used for our optional early redemption of $100.0 million in aggregate principal amount of the 9.10% Senior Notes due 2017, payments on mortgages and land contracts due to land sellers and other loans of $45.4 million , repurchases of previously issued shares of our common stock 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 at a total cost of $2.5 million , and dividend payments on our common stock of $2.2 million . The cash used in financing activities for the three months ended February 28, 2017 was partly offset by $.7 million of issuances of common stock under employee stock plans. In the three months ended February 29, 2016 , cash was used for repurchases of shares of our common stock at a total cost of $87.5 million , payments on mortgages and land contracts due to land

sellers and other loans of $5.7 million , and dividend payments on our common stock of $2.3 million . The cash used was partly offset by a decrease of $5.0 million in our restricted cash balance.

During the three months ended February 28, 2017 and February 29, 2016 , our board of directors declared, and we paid, a quarterly cash dividend of $.025 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.

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 standards, in the remainder of 2017, we may use or redeploy our 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, as well as 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 additional redemptions of our outstanding senior notes or other debt. The amounts involved in these transactions, if any, may be material. As necessary or desirable, we may adjust or amend the terms of and/or expand the capacity of the Credit Facility or the LOC Facility, 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, Contractual Obligations and Commercial Commitments

*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 $182.8 million at February 28, 2017 and $198.8 million at November 30, 2016 . Our investments in unconsolidated joint ventures totaled $64.9 million at February 28, 2017 and $64.0 million at November 30, 2016 . As of February 28, 2017 and November 30, 2016 , one of our unconsolidated joint ventures had outstanding secured debt of $36.0 million and $44.4 million , respectively, 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. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the unconsolidated joint venture's outstanding secured debt is material to our consolidated financial statements. None of our other unconsolidated joint ventures had outstanding debt at February 28, 2017 or November 30, 2016 . As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, we determined that one of our joint ventures at February 28, 2017 and November 30, 2016 was a VIE, but we were not the primary beneficiary of this VIE. All of our joint ventures were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

Of the 428 unconsolidated joint venture lots controlled under land option and other similar contracts at February 28, 2017 , we are committed to purchase 110 lots from one of our unconsolidated joint ventures in quarterly takedowns over the next four years for an aggregate purchase price of approximately $48.4 million under agreements that we entered into with the joint venture in 2016.

*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 February 28, 2017 , we had total cash deposits of $38.2 million to purchase land having an aggregate purchase price of $884.1 million . At November 30, 2016 , we had total deposits of $42.8 million to purchase land having an aggregate purchase price of $1.07 billion . 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 February 28, 2017 , we estimate the remaining purchase price to be paid would be as follows: 2017 – $416.3 million ; 2018 – $159.2 million ; 2019 – $113.8 million ; 2020 – $40.2 million ; 2021 – $35.9 million ; and thereafter – $80.5 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 $35.6 million at February 28, 2017 and $56.0 million at November 30, 2016 . These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

We determined that as of February 28, 2017 and November 30, 2016 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 evaluated 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 $28.0 million at February 28, 2017 and $50.5 million at November 30, 2016 , as further discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report.

*Contractual Obligations.* Due to our optional early redemption of $100.0 million in aggregate principal amount of the 9.10% Senior Notes due 2017, which is further described in Note 13 – Notes Payable in the Notes to Consolidated Financial Statements in this report, our contractual obligations as of February 28, 2017 have changed materially from those reported in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2016. The following table sets forth our future cash requirements related to the contractual obligations of our long-term debt and interest as of February 28, 2017 (in millions):

| | Total | 2017 | 2018-2019 | 2020-2021 | Thereafter |
|---|---|---|---|---|---|
| Contractual obligations: | | | | | |
| Long-term debt | $ 2,524.3 | $ 194.3 | $ 930.0 | $ 350.0 | $ 1,050.0 |
| Interest | 631.6 | 136.8 | 256.6 | 167.6 | 70.6 |
| Total | $ 3,155.9 | $ 331.1 | $ 1,186.6 | $ 517.6 | $ 1,120.6 |

There have been no other significant changes in our contractual obligations from those reported in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2016 .

## Critical Accounting Policies

The preparation of our consolidated financial statements requires the use of judgment in the application of accounting policies and estimates of uncertain matters. There have been no significant changes to our critical accounting policies and estimates during the three months ended February 28, 2017 from those disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2016 .

## Recent Accounting Pronouncements

Recent accounting pronouncements are discussed in Note 1 – Basis of Presentation and Significant Accounting Policies in the Notes to Consolidated Financial Statements in this report.

## Outlook

Based on the year-over-year increase in our backlog value at February 28, 2017 and our net order expectations for the remainder of the year, we believe we are well-positioned to achieve our primary operational and financial objectives for 2017 as we continue to execute on our returns-focused growth plan. Our present outlook is as follows:

*2017 Second Quarter* :

- We expect to generate housing revenues in the range of $880 million to $940 million, compared to $807 million in the year-earlier quarter, reflecting both the conversion of our higher backlog at February 28, 2017 into homes delivered and an anticipated overall average selling price of those homes in the range of $387,000 to $392,000.

- We expect our housing gross profit margin will improve by approximately 50 basis points from the 2017 first quarter to approximately 15.6%, assuming no inventory impairment or land option contract abandonment charges. We believe our selling, general and administrative expenses as a percentage of housing revenues will be about 11.2%, improving on a sequential and year-over-year basis due to our anticipated improved operating leverage from a higher volume of homes delivered and corresponding higher housing revenues, and our ongoing cost containment efforts.

- We are projecting an effective income tax rate of approximately 39% for the quarter, based on our present forecasts for pretax income and an anticipated decrease in federal energy tax credits for the period as compared to the 2016 second quarter.

- We expect our average community count for the second quarter will be essentially flat as compared to the same quarter of 2016.

*2017 Full-Year* :

- We expect our housing revenues to be in the range of $4.0 billion to $4.3 billion, an increase from $3.6 billion in 2016, and anticipate our overall average selling price to be in the range of $385,000 to $395,000, representing an increase of 6% to 9% as compared to $363,800 in 2016.

- We expect our operating income margin to range from 5.8% to 6.4%, assuming no inventory-related charges, as compared to 5.7% in 2016.

- We expect our housing gross profit margin to range from 16.1% to 16.5%, assuming no inventory-related charges, as compared to 16.6% in 2016.

- We expect our selling, general and administrative expenses as a percentage of housing revenues to be in the range of 10.0% to 10.4%, as compared to 10.9% in 2016.

- We expect our effective income tax rate to be in the range of 38.5%.

- We expect our average community count to be essentially flat relative to 2016.

Our future performance and the strategies we implement (and adjust or refine as necessary or appropriate) in the 2017 second quarter and beyond will depend significantly on prevailing economic and capital, credit and financial market conditions and on a fairly stable and constructive political and regulatory environment (particularly in regards to housing and mortgage loan financing policies), among other factors.

## Forward-Looking Statements

Investors are cautioned that certain statements contained in this report, as well as some statements by us in periodic press releases and other public disclosures and some oral statements by us to securities analysts, stockholders and others during presentations, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “hope,” and similar expressions constitute forward-looking statements. In addition, any statements that we may make or provide concerning future financial or operating performance (including without limitation future revenues, community count, homes delivered, net orders, selling prices, sales pace per new community, expenses, expense ratios, housing gross profits, housing gross profit margins, earnings or earnings per share, or growth or growth rates), future market conditions, future interest rates, and other economic conditions, ongoing business strategies or prospects, future dividends and changes in dividend levels, the value of our backlog (including amounts that we expect to realize upon delivery of homes included in our backlog and the timing of those deliveries), the value of our net orders, potential future asset acquisitions and the impact of completed acquisitions, future share issuances or repurchases, future debt issuances, repurchases or redemptions and other possible future actions are also forward-looking statements as defined by the Act. Forward-looking statements are based on our current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about our operations, economic and market factors, and the homebuilding industry, among other things. These statements are not guarantees of future performance, and we have no specific policy or intention to update these statements. In addition, forward-looking and other statements in this report and in other public or oral disclosures that express or contain opinions, views or assumptions about market or economic conditions; the success, performance, effectiveness and/or relative positioning of our strategies, initiatives or operational activities; and other matters, may be based in whole or in part on general observations of our management, limited or anecdotal evidence and/or business or industry experience without in-depth or any particular empirical investigation, inquiry or analysis.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The most important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, the following:

- general economic, employment and business conditions;
- population growth, household formations and demographic trends;
- conditions in the capital, credit and financial markets;
- our ability to access external financing sources and raise capital through the issuance of common stock, debt or other securities, and/or project financing, on favorable terms;
- material and trade costs and availability;
- changes in interest rates;
- our debt level, including our ratio of debt to capital, and our ability to adjust our debt level and maturity schedule;
- our compliance with the terms of the Credit Facility;
- volatility in the market price of our common stock;
- weak or declining consumer confidence, either generally or specifically with respect to purchasing homes;
- competition from other sellers of new and resale homes;
- weather events, significant natural disasters and other climate and environmental factors, including the prolonged drought and related water-constrained conditions in the southwest United States and California;
- government actions, policies, programs and regulations directed at or affecting the housing market (including the Dodd-Frank Act, tax benefits associated with purchasing and owning a home, and the standards, fees and size limits applicable to the purchase or insuring of mortgage loans by government-sponsored enterprises and government agencies), the homebuilding industry, or construction activities;
- changes in existing tax laws or enacted corporate income tax rates;
- the availability and cost of land in desirable areas;
- our warranty claims experience with respect to homes previously delivered and actual warranty costs incurred;
- costs and/or charges arising from regulatory compliance requirements or from legal, arbitral or regulatory proceedings, investigations, claims or settlements, including unfavorable outcomes in any such matters resulting in actual or potential monetary damage awards, penalties, fines or other direct or indirect payments, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices that are beyond our current expectations and/or accruals;
- our ability to use/realize the net deferred tax assets we have generated;
- our ability to successfully implement our current and planned strategies and initiatives related to our product, geographic and market positioning, gaining share and scale in our served markets;
- our operational and investment concentration in markets in California;
- consumer interest in our new home communities and products, particularly from first-time homebuyers and higher-income consumers;
- our ability to generate orders and convert our backlog of orders to home deliveries and revenues, particularly in key markets in California;
- our ability to successfully implement our returns-focused growth roadmap/strategy and achieve the associated revenue, margin, profitability, cash flow, community reactivation, land sales, business growth, asset efficiency, return on invested capital, return on equity, net debt-to-capital ratio and other financial and operational targets and objectives;
- the ability of our homebuyers to obtain residential mortgage loans and mortgage banking services;

- the performance of mortgage lenders to our homebuyers;
- completing the wind down of HCM as planned;
- Stearns Lending's management of HCM's assets and operations;
- whether we can operate a joint venture with Stearns Lending, and the performance of any such mortgage banking joint venture once operational;
- information technology failures and data security breaches; and
- other events outside of our control.

Please see our Annual Report on Form 10-K for the fiscal year ended November 30, 2016 and other filings with the SEC for a further discussion of these and other risks and uncertainties applicable to our business.

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

We enter into debt obligations primarily to support general corporate purposes, including the operations of our subsidiaries. We are subject to interest rate risk on our senior notes. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to changes in interest rates.

The following table presents principal cash flows by scheduled maturity, weighted average effective interest rates and the estimated fair value of our long-term fixed rate debt obligations as of February 28, 2017 (dollars in thousands):

| Fiscal Year of Expected Maturity | Fixed Rate Debt | Weighted Average Effective Interest Rate |
|---|---|---|
| 2017 | $ 165,000 | 9.6% |
| 2018 | 300,000 | 7.3 |
| 2019 | 630,000 | 3.9 |
| 2020 | 350,000 | 8.5 |
| 2021 | — | — |
| Thereafter | 1,050,000 | 7.5 |
| Total | $ 2,495,000 | 6.9% |
| Fair value at February 28, 2017 | $ 2,660,675 | |

For additional information regarding our market risk, refer to the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the year ended November 30, 2016 .

**Item 4. Controls and Procedures**

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and accumulated and communicated to management, including our Chief Executive Officer ("Principal Executive Officer") and Chief Financial Officer ("Principal Financial Officer"), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and our Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of February 28, 2017 .

There were no changes in our internal control over financial reporting during the quarter ended February 28, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

For a discussion of our legal proceedings, see Note 16 – Legal Matters in the Notes to Consolidated Financial Statements in this report.

### Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended November 30, 2016 .

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

The following table summarizes our purchases of our own equity securities during the three months ended February 28, 2017 :

| 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 |
|---|---|---|---|---|
| December 1-31 | — | $ — | — | 1,627,000 |
| January 1-31 | — | — | — | 1,627,000 |
| February 1-28 | 152,569 | 16.67 | — | 1,627,000 |
| Total | 152,569 | $ 16.67 | — | |

In January 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. As of February 28, 2017 , we had repurchased 8,373,000 shares of our common stock pursuant to this authorization, at a total cost of $85.9 million. During the three months ended February 28, 2017 , no shares were repurchased pursuant to this authorization.

The shares purchased during the three months ended February 28, 2017 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 board of directors' authorization.

### Item 6. Exhibits

Exhibits

31.1 Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from KB Home's Quarterly Report on Form 10-Q for the quarter ended February 28, 2017, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Statements of Operations for the three months ended February 28, 2017 and February 29, 2016, (b) Consolidated Balance Sheets as of February 28, 2017 and November 30, 2016, (c) Consolidated Statements of Cash Flows for the three months ended February 28, 2017 and February 29, 2016, and (d) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KB HOME
Registrant

| | | | |
|---|---|---|---|
| Dated | April 5, 2017 | By: | /s/ JEFF J. KAMINSKI<br>Jeff J. Kaminski<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Dated | April 5, 2017 | By: | /s/ WILLIAM R. HOLLINGER<br>William R. Hollinger<br>Senior Vice President and Chief Accounting Officer<br>(Principal Accounting Officer) |

**INDEX OF EXHIBITS**

| | |
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Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey T. Mezger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KB Home;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated April 5, 2017

/s/ JEFFREY T. MEZGER

Jeffrey T. Mezger
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeff J. Kaminski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KB Home;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated April 5, 2017

/s/ JEFF J. KAMINSKI

Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of KB Home (the "Company") on Form 10-Q for the period ended February 28, 2017 (the “Report”), I, Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated April 5, 2017

/s/ JEFFREY T. MEZGER
Jeffrey T. Mezger
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of KB Home (the "Company") on Form 10-Q for the period ended February 28, 2017 (the “Report”), I, Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated April 5, 2017

/s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)