

KB HOME

FORM 10-Q (Quarterly Report)

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Address	10990 WILSHIRE BLVD LOS ANGELES, CA 90024
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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 May 31, 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

(State of incorporation)

95-3666267

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 31, 2017 .

There were 85,548,203 shares of the registrant's common stock, par value \$1.00 per share, outstanding on May 31, 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Total revenues	\$ 1,002,794	\$ 811,050	\$ 1,821,390	\$ 1,489,421
Homebuilding:				
Revenues	\$ 1,000,072	\$ 808,462	\$ 1,816,318	\$ 1,484,204
Construction and land costs	(846,596)	(688,714)	(1,544,676)	(1,257,532)
Selling, general and administrative expenses	(103,917)	(93,810)	(196,806)	(181,742)
Operating income	49,559	25,938	74,836	44,930
Interest income	202	134	400	286
Interest expense	—	(1,970)	(6,307)	(5,667)
Equity in income (loss) of unconsolidated joint ventures	(596)	(825)	135	(1,428)
Homebuilding pretax income	49,165	23,277	69,064	38,121
Financial services:				
Revenues	2,722	2,588	5,072	5,217
Expenses	(816)	(871)	(1,635)	(1,730)
Equity in income (loss) of unconsolidated joint ventures	911	(197)	940	(784)
Financial services pretax income	2,817	1,520	4,377	2,703
Total pretax income	51,982	24,797	73,441	40,824
Income tax expense	(20,200)	(9,200)	(27,400)	(12,100)
Net income	\$ 31,782	\$ 15,597	\$ 46,041	\$ 28,724
Earnings per share:				
Basic	\$.37	\$.18	\$.54	\$.33
Diluted	\$.33	\$.17	\$.49	\$.31
Weighted average shares outstanding:				
Basic	85,445	84,196	85,285	86,704
Diluted	97,732	94,720	96,975	97,060
Cash dividends declared per common share	\$.025	\$.025	\$.050	\$.050

See accompanying notes.

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CONSOLIDATED BALANCE SHEETS
(In Thousands – Unaudited)

	May 31, 2017	November 30, 2016
Assets		
Homebuilding:		
Cash and cash equivalents	\$ 348,588	\$ 592,086
Receivables	234,712	231,665
Inventories	3,488,204	3,403,228
Investments in unconsolidated joint ventures	64,000	64,016
Deferred tax assets, net	711,885	738,985
Other assets	99,996	91,145
	<u>4,947,385</u>	<u>5,121,125</u>
Financial services	11,410	10,499
Total assets	<u>\$ 4,958,795</u>	<u>\$ 5,131,624</u>
Liabilities and stockholders' equity		
Homebuilding:		
Accounts payable	\$ 186,993	\$ 215,331
Accrued expenses and other liabilities	487,836	550,996
Notes payable	2,510,121	2,640,149
	<u>3,184,950</u>	<u>3,406,476</u>
Financial services	1,457	2,003
Stockholders' equity:		
Common stock	116,546	116,224
Paid-in capital	703,004	696,938
Retained earnings	1,605,442	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	(537,268)	(535,402)
Total stockholders' equity	<u>1,772,388</u>	<u>1,723,145</u>
Total liabilities and stockholders' equity	<u>\$ 4,958,795</u>	<u>\$ 5,131,624</u>

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands – Unaudited)

	Six Months Ended May 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 46,041	\$ 28,724
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in (income) loss of unconsolidated joint ventures	(1,075)	2,212
Amortization of discounts and issuance costs	3,314	3,770
Depreciation and amortization	1,500	1,832
Deferred income taxes	27,100	11,800
Loss on early extinguishment of debt	5,685	—
Stock-based compensation	7,037	7,506
Inventory impairments and land option contract abandonments	10,009	13,706
Changes in assets and liabilities:		
Receivables	(2,905)	13,734
Inventories	(100,520)	(220,061)
Accounts payable, accrued expenses and other liabilities	(54,673)	(29,546)
Other, net	(6,093)	(1,136)
Net cash used in operating activities	(64,580)	(167,459)
Cash flows from investing activities:		
Contributions to unconsolidated joint ventures	(11,105)	(750)
Return of investments in unconsolidated joint ventures	6,958	—
Purchases of property and equipment, net	(4,100)	(2,876)
Net cash used in investing activities	(8,247)	(3,626)
Cash flows from financing activities:		
Change in restricted cash	—	5,827
Repayment of senior notes	(105,326)	—
Payments on mortgages and land contracts due to land sellers and other loans	(61,640)	(26,639)
Issuance of common stock under employee stock plans	3,049	—
Payments of cash dividends	(4,341)	(4,364)
Stock repurchases	(2,543)	(87,531)
Net cash used in financing activities	(170,801)	(112,707)
Net decrease in cash and cash equivalents	(243,628)	(283,792)
Cash and cash equivalents at beginning of period	593,000	560,341
Cash and cash equivalents at end of period	<u>\$ 349,372</u>	<u>\$ 276,549</u>

See accompanying notes.

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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 May 31, 2017, the results of our consolidated operations for the three months and six months ended May 31, 2017 and 2016, and our consolidated cash flows for the six months ended May 31, 2017 and 2016. The results of our consolidated operations for the three months and six months ended May 31, 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 \$256.1 million at May 31, 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 \$31.8 million for the three months ended May 31, 2017 and \$15.6 million for the three months ended May 31, 2016. For the six months ended May 31, 2017 and 2016, our comprehensive income was \$46.0 million and \$28.7 million, respectively. Our comprehensive income for each of the three-month and six-month periods ended May 31, 2017 and 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 expect to adopt ASU 2014-09 under the modified retrospective method in our 2019 first quarter. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements and disclosures, 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. We are also continuing to evaluate the impact adopting this guidance may have on other aspects of our business.

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 May 31, 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’ operations. KBHS was operational in all of our served markets outside of California as of May 31, 2017, and became operational in California in June 2017. 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues:				
West Coast	\$ 460,600	\$ 331,273	\$ 816,432	\$ 615,119
Southwest	126,189	111,671	243,825	212,003
Central	292,746	240,232	535,002	442,393
Southeast	120,537	125,286	221,059	214,689
Total	<u>\$ 1,000,072</u>	<u>\$ 808,462</u>	<u>\$ 1,816,318</u>	<u>\$ 1,484,204</u>

Pretax income (loss):				
West Coast	\$ 36,496	\$ 19,619	\$ 59,349	\$ 41,735
Southwest	9,949	10,134	18,621	22,637
Central	26,985	23,335	46,663	33,914
Southeast	479	(6,590)	(1,734)	(14,154)
Corporate and other	(24,744)	(23,221)	(53,835)	(46,011)
Total	<u>\$ 49,165</u>	<u>\$ 23,277</u>	<u>\$ 69,064</u>	<u>\$ 38,121</u>

Inventory impairment charges:				
West Coast	\$ 3,144	\$ 4,574	\$ 3,144	\$ 4,574
Southwest	—	—	1,343	—
Central	—	—	—	787
Southeast	1,158	5,356	3,032	5,915
Total	<u>\$ 4,302</u>	<u>\$ 9,930</u>	<u>\$ 7,519</u>	<u>\$ 11,276</u>

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Land option contract abandonments:				
West Coast	\$ 1,044	\$ 261	\$ 1,835	\$ 421
Southwest	—	111	—	111
Central	518	—	518	460
Southeast	137	1,438	137	1,438
Total	<u>\$ 1,699</u>	<u>\$ 1,810</u>	<u>\$ 2,490</u>	<u>\$ 2,430</u>
			May 31, 2017	November 30, 2016
Inventories:				
Homes under construction				
West Coast			\$ 937,202	\$ 695,742
Southwest			149,669	130,886
Central			334,326	297,290
Southeast			109,855	122,020
Subtotal			<u>1,531,052</u>	<u>1,245,938</u>
Land under development				
West Coast			641,669	820,088
Southwest			287,557	268,507
Central			451,551	456,508
Southeast			179,982	182,554
Subtotal			<u>1,560,759</u>	<u>1,727,657</u>
Land held for future development or sale				
West Coast			195,684	210,910
Southwest			111,608	122,927
Central			18,328	15,439
Southeast			70,773	80,357
Subtotal			<u>396,393</u>	<u>429,633</u>
Total			<u>\$ 3,488,204</u>	<u>\$ 3,403,228</u>
Assets:				
West Coast			\$ 1,881,660	\$ 1,847,279
Southwest			584,515	564,636
Central			918,171	909,497
Southeast			375,823	414,730
Corporate and other			1,187,216	1,384,983
Total			<u>\$ 4,947,385</u>	<u>\$ 5,121,125</u>

3. Financial Services

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues				
Insurance commissions	\$ 1,408	\$ 1,371	\$ 2,618	\$ 2,947
Title services	1,314	1,217	2,449	2,270
Interest income	—	—	5	—
Total	2,722	2,588	5,072	5,217
Expenses				
General and administrative	(816)	(871)	(1,635)	(1,730)
Operating income	1,906	1,717	3,437	3,487
Equity in income (loss) of unconsolidated joint ventures	911	(197)	940	(784)
Pretax income	\$ 2,817	\$ 1,520	\$ 4,377	\$ 2,703

	May 31,	November 30,
	2017	2016
Assets		
Cash and cash equivalents	\$ 784	\$ 914
Receivables	1,622	1,764
Investments in unconsolidated joint ventures (a)	8,972	7,771
Other assets	32	50
Total assets	\$ 11,410	\$ 10,499
Liabilities		
Accounts payable and accrued expenses	\$ 1,457	\$ 2,003
Total liabilities	\$ 1,457	\$ 2,003

(a) Our investments in unconsolidated joint ventures as of May 31, 2017 included a \$5.3 million capital contribution we made to KBHS in the 2017 first quarter, and a \$5.0 million distribution we received from HCM in the 2017 second quarter.

4. Earnings Per Share

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Numerator:				
Net income	\$ 31,782	\$ 15,597	\$ 46,041	\$ 28,724
Less: Distributed earnings allocated to nonvested restricted stock	(14)	(10)	(29)	(21)
Less: Undistributed earnings allocated to nonvested restricted stock	(200)	(66)	(285)	(116)
Numerator for basic earnings per share	31,568	15,521	45,727	28,587

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Effect of dilutive securities:				
Interest expense and amortization of debt issuance costs associated with convertible senior notes, net of taxes	664	667	1,327	1,333
Add: Undistributed earnings allocated to nonvested restricted stock	200	66	285	116
Less: Undistributed earnings reallocated to nonvested restricted stock	(175)	(59)	(251)	(104)
Numerator for diluted earnings per share	<u>\$ 32,257</u>	<u>\$ 16,195</u>	<u>\$ 47,088</u>	<u>\$ 29,932</u>
Denominator:				
Weighted average shares outstanding — basic	85,445	84,196	85,285	86,704
Effect of dilutive securities:				
Share-based payments	3,885	2,122	3,288	1,954
Convertible senior notes	8,402	8,402	8,402	8,402
Weighted average shares outstanding — diluted	<u>97,732</u>	<u>94,720</u>	<u>96,975</u>	<u>97,060</u>
Basic earnings per share	<u>\$.37</u>	<u>\$.18</u>	<u>\$.54</u>	<u>\$.33</u>
Diluted earnings per share	<u>\$.33</u>	<u>\$.17</u>	<u>\$.49</u>	<u>\$.31</u>

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 May 31, 2017 or May 31, 2016 .

Outstanding options to purchase 3.6 million shares of our common stock were excluded from the diluted earnings per share calculations for the three-month and six-month periods ended May 31, 2017 , and outstanding options to purchase 9.7 million shares of our common stock were excluded from the diluted earnings per share calculations for the three-month and six-month periods ended May 31, 2016 because the effect of their inclusion in each case 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):

	May 31, 2017	November 30, 2016
Due from utility companies, improvement districts and municipalities	\$ 107,224	\$ 102,780
Recoveries related to self-insurance claims	78,919	84,476
Refundable deposits and bonds	14,425	13,665
Recoveries related to warranty and other claims	11,613	14,609
Other	35,279	28,745
Subtotal	<u>247,460</u>	<u>244,275</u>
Allowance for doubtful accounts	<u>(12,748)</u>	<u>(12,610)</u>
Total	<u>\$ 234,712</u>	<u>\$ 231,665</u>

6. Inventories

Inventories consisted of the following (in thousands):

	May 31, 2017	November 30, 2016
Homes under construction	\$ 1,531,052	\$ 1,245,938
Land under development	1,560,759	1,727,657
Land held for future development or sale (a)	396,393	429,633
Total	<u>\$ 3,488,204</u>	<u>\$ 3,403,228</u>

(a) Land held for sale totaled \$65.4 million at May 31, 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Capitalized interest at beginning of period	\$ 311,111	\$ 300,314	\$ 306,723	\$ 288,442
Interest incurred (a)	43,344	46,258	93,423	92,509
Interest expensed (a)	—	(1,970)	(6,307)	(5,667)
Interest amortized to construction and land costs (b)	(50,471)	(35,557)	(89,855)	(66,239)
Capitalized interest at end of period (c)	<u>\$ 303,984</u>	<u>\$ 309,045</u>	<u>\$ 303,984</u>	<u>\$ 309,045</u>

(a) Interest incurred and interest expensed for the six months ended May 31, 2017 included a charge of \$5.7 million for the early extinguishment of debt.

(b) Interest amortized to construction and land costs for the three months ended May 31, 2017 included \$1.1 million related to land sales during the period. Interest amortized to construction and land costs for the six months ended May 31, 2017 and 2016 included \$1.6 million and \$.5 million , respectively, related to land sales during those 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 43 and 32 communities or land parcels for recoverability during the six months ended May 31, 2017 and 2016, respectively. The carrying value of the communities or land parcels evaluated during the six months ended May 31, 2017 and 2016 was \$381.1 million and \$248.7 million , respectively. Some of the communities or land parcels evaluated during the six months ended May 31, 2017 and 2016 were evaluated in more than one quarterly period. Communities or land parcels evaluated for recoverability in more than one quarterly period were counted only once for each six-month period. The communities or land parcels evaluated during the six months ended May 31, 2017 included certain communities or land

parcels previously held for future development that were reactivated during 2016 or 2017 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 \$4.3 million for the three months ended May 31, 2017 and \$7.5 million for the six months ended May 31, 2017. For the three months and six months ended May 31, 2016, we recognized inventory impairment charges of \$9.9 million and \$11.3 million, respectively. The inventory impairment charges for the three-month and six-month periods ended May 31, 2017 and 2016 reflected our decisions to make changes in our operational strategies aimed at more quickly monetizing our investment in those communities or land parcels. Inventory impairment charges for the three-month and six-month periods ended May 31, 2017 related to two communities and four communities, respectively, where we decided to accelerate the overall pace for selling, building and delivering homes on land previously held for future development. Inventory impairment charges for the three months and six months ended May 31, 2016 included \$5.4 million associated with the sales of two land parcels in the Metro Washington, D.C. market as part of the wind down of our operations in that market, and \$4.6 million associated with one community in California where we decided to accelerate the overall timing for selling, building and delivering homes on land that was previously held for future development. The charges for the six months ended May 31, 2016 also reflected our decision to accelerate the overall timing for selling, building and delivering homes in a community in Florida 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:

Unobservable Input (a)	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Average selling price	\$231,000 - \$399,800	\$280,100	\$231,000 - \$399,800	\$280,100 - \$310,000
Deliveries per month	3 - 4	4	3 - 4	1 - 4
Discount rate	18%	20%	17% - 18%	17% - 20%

(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 May 31, 2017, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$195.1 million, representing 25 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 \$1.7 million corresponding to 134 lots for the three months ended May 31, 2017, and \$2.5 million of such charges corresponding to 520 lots for the six months ended May 31, 2017. We recognized land option contract abandonment charges of \$1.8 million corresponding to 312 lots for the three months ended May 31, 2016, and \$2.4 million of such charges corresponding to 492 lots for the six months ended May 31, 2016. Of the land option contract abandonment charges recognized for the three months and six months ended May 31, 2016, \$1.4 million related to the wind down of our Metro Washington, D.C. operations.

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 or sale, 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 May 31, 2017 and November 30, 2016 was a VIE, but we were not the primary beneficiary of the VIE. All of our

joint ventures at May 31, 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 May 31, 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):

	May 31, 2017		November 30, 2016	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	\$ 19,313	\$ 522,124	\$ 24,910	\$ 641,642
Other land option contracts and other similar contracts	12,099	333,792	17,919	431,954
Total	\$ 31,412	\$ 855,916	\$ 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 \$26.2 million at May 31, 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 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 \$13.2 million at May 31, 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues	\$ 7,080	\$ 18,514	\$ 26,802	\$ 21,852
Construction and land costs	(6,898)	(18,501)	(24,793)	(25,996)
Other expense, net	(1,157)	(1,468)	(2,253)	(2,591)
Loss	\$ (975)	\$ (1,455)	\$ (244)	\$ (6,735)

The year-over-year decreases in combined revenues and construction and land costs for three months ended May 31, 2017 primarily reflected decreased land sale activity from unconsolidated joint ventures in California. The year-over-year increase in combined revenues for the six months ended May 31, 2017 was primarily due to increased land sale activity from unconsolidated joint ventures in California and Nevada, while the decrease in construction and land costs reflected a change in the geographic mix of sales.

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

	May 31, 2017	November 30, 2016
Assets		
Cash	\$ 25,266	\$ 31,928
Receivables	742	882
Inventories	149,204	165,385
Other assets	2,562	629
Total assets	\$ 177,774	\$ 198,824
Liabilities and equity		
Accounts payable and other liabilities	\$ 20,163	\$ 19,880
Notes payable (a)	33,045	44,381
Equity	124,566	134,563
Total liabilities and equity	\$ 177,774	\$ 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 May 31, 2017 or November 30, 2016.

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

	May 31, 2017	November 30, 2016
Number of investments in unconsolidated joint ventures	6	7
Investments in unconsolidated joint ventures	\$ 64,000	\$ 64,016
Number of unconsolidated joint venture lots controlled under land option contracts and other similar contracts	397	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 May 31, 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 May 31, 2017, we are committed to purchase 99 lots from one of our unconsolidated joint ventures in quarterly takedowns over the next three years for an aggregate purchase price of approximately \$43.7 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):

	May 31, 2017	November 30, 2016
Cash surrender value of corporate-owned life insurance contracts	\$ 73,505	\$ 70,829
Property and equipment, net	16,831	14,240
Prepaid expenses	8,699	4,894
Debt issuance costs associated with unsecured revolving credit facility	961	1,182
Total	<u>\$ 99,996</u>	<u>\$ 91,145</u>

11. Accrued Expenses and Other Liabilities

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

	May 31, 2017	November 30, 2016
Self-insurance and other litigation liabilities	\$ 173,704	\$ 170,988
Employee compensation and related benefits	111,694	130,352
Accrued interest payable	65,928	67,411
Warranty liability	60,037	56,682
Inventory-related obligations (a)	43,390	82,682
Customer deposits	18,863	18,175
Real estate and business taxes	9,347	14,370
Other	4,873	10,336
Total	<u>\$ 487,836</u>	<u>\$ 550,996</u>

(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 rates were as follows (dollars in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Income tax expense (a)	\$ 20,200	\$ 9,200	\$ 27,400	\$ 12,100
Effective income tax rate (a)	38.9%	37.1%	37.3%	29.6%

(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 million and \$.4 million for the three months ended May 31, 2017 and 2016, respectively, and \$1.2 million and \$3.7 million for the six months ended May 31, 2017 and 2016, respectively.

The majority of the federal energy tax credits for the three-month and six-month periods ended May 31, 2017 and 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 not been any 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 \$736.7 million as of May 31, 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 May 31, 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 May 31, 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 six months ended May 31, 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 our actual tax expense, the realization of our deferred tax assets over time and/or the value of our deferred tax assets on our consolidated balance sheets.

Unrecognized Tax Benefits. At both May 31, 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. Our 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):

	May 31, 2017	November 30, 2016
Mortgages and land contracts due to land sellers and other loans	\$ 33,447	\$ 66,927
9.10% Senior notes due September 15, 2017	164,748	263,932
7 1/4% Senior notes due June 15, 2018	299,755	299,647
4.75% Senior notes due May 15, 2019	397,874	397,364
8.00% Senior notes due March 15, 2020	345,510	344,811
7.00% Senior notes due December 15, 2021	446,253	445,911
7.50% Senior notes due September 15, 2022	346,999	346,774
7.625% Senior notes due May 15, 2023	247,562	247,404
1.375% Convertible senior notes due February 1, 2019	227,973	227,379
Total	<u>\$ 2,510,121</u>	<u>\$ 2,640,149</u>

The carrying amounts of our senior notes listed above are net of debt issuance costs and discounts, which totaled \$18.3 million at May 31, 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 Facility 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 May 31, 2017 , we had no cash borrowings and \$32.4 million of letters of credit outstanding under the Credit Facility. Therefore, as of May 31, 2017 , we had \$242.6 million available for cash borrowings under the Credit Facility, with up to \$105.1 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 May 31, 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 May 31, 2017 , inventories having a carrying value of \$61.6 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 May 31, 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 May 31, 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 – \$195.8 million ; 2018 – \$302.6 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 six months ended May 31, 2017 and the year ended November 30, 2016 (in thousands):

Description	Fair Value Hierarchy	May 31, 2017	November 30, 2016
Inventories (a)	Level 2	\$ —	\$ 3,657
Inventories (a)	Level 3	12,513	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 \$20.0 million were written down to their fair value of \$12.5 million during the six months ended May 31, 2017, resulting in inventory impairment charges of \$7.5 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):

	Fair Value Hierarchy	May 31, 2017		November 30, 2016	
		Carrying Value (a)	Estimated Fair Value	Carrying Value (a)	Estimated Fair Value
Financial Liabilities:					
Senior notes	Level 2	\$ 2,248,701	\$ 2,464,800	\$ 2,345,843	\$ 2,494,844
Convertible senior notes	Level 2	227,973	239,200	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. The carrying value of corporate-owned life insurance is based on the cash surrender value of the policies and, accordingly, approximates fair value.

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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 57,710	\$ 50,575	\$ 56,682	\$ 49,085
Warranties issued	8,784	6,315	15,924	11,567
Payments	(6,457)	(8,446)	(12,569)	(12,467)
Adjustments	—	393	—	652
Balance at end of period	\$ 60,037	\$ 48,837	\$ 60,037	\$ 48,837

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 \$78.9 million and \$84.5 million are included in receivables in our consolidated balance sheets at May 31, 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 159,882	\$ 173,017	\$ 158,584	\$ 173,011
Self-insurance expense (a)	3,598	4,406	8,238	8,422
Payments	(2,720)	(12,029)	(4,760)	(15,435)
Reclassification of estimated probable recoveries (b)	(4,255)	(8,661)	(5,557)	(9,265)
Balance at end of period	\$ 156,505	\$ 156,733	\$ 156,505	\$ 156,733

(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 \$11.6 million at May 31, 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 May 31, 2017, we had \$564.8 million of performance bonds and \$32.4 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 May 31, 2017, we had total cash deposits of \$31.4 million to purchase land having an aggregate purchase price of \$855.9 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 three-month or six-month periods ended May 31, 2017 .

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. The work was performed pursuant to a County-issued grading permit and in reliance on third-party experts. 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 staff in an effort to resolve the matters alleged in the NOV. An administrative hearing before the RWQCB was originally scheduled for August 10, 2016, but was continued pending ongoing discussions with the RWQCB staff. On May 26, 2017, we and the RWQCB staff reached a settlement regarding the matters alleged in the NOV, and agreed to a stipulated administrative order in lieu of formal administrative proceedings. The stipulated administrative order is subject to a thirty-day public comment period, after which it will be presented to the RWQCB, or its delegate, for approval. Under the stipulated administrative order, we agreed to pay a total of \$.3 million and to enhance certain of our land development procedures. We are also seeking recovery of the costs associated with this matter from responsible parties. While the ultimate outcome is uncertain, we believe that the RWQCB will approve the stipulated administrative order with the terms agreed to with the RWQCB staff, and it is 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 May 31, 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):

Six Months Ended May 31, 2017

	Number of Shares			Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Grantor Stock Ownership Trust	Treasury Stock	Total Stockholders' Equity
	Common Stock	Grantor Stock Ownership Trust	Treasury Stock							
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	—	—	—	—	—	46,041	—	—	—	46,041
Dividends on common stock	—	—	—	—	—	(4,341)	—	—	—	(4,341)
Employee stock options/other	256	—	—	256	2,793	—	—	—	—	3,049
Stock awards	66	279	27	66	(3,764)	—	—	3,021	677	—
Stock-based compensation	—	—	—	—	7,037	—	—	—	—	7,037
Stock repurchases	—	—	(152)	—	—	—	—	—	(2,543)	(2,543)
Balance at May 31, 2017	<u>116,546</u>	<u>(9,153)</u>	<u>(21,845)</u>	<u>\$ 116,546</u>	<u>\$ 703,004</u>	<u>\$ 1,605,442</u>	<u>\$ (16,057)</u>	<u>\$ (99,279)</u>	<u>\$ (537,268)</u>	<u>\$ 1,772,388</u>

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 May 31, 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 May 31, 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 six months ended May 31, 2017.

During the six months ended May 31, 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 and PSU 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 May 31, 2017 and 2016, our board of directors declared, and we paid, a quarterly cash dividend of \$.025 per share of common stock. Quarterly cash dividends declared and paid during the six months ended May 31, 2017 and 2016 totaled \$.050 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 six months ended May 31, 2017 :

	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	12,731,545	\$ 18.95
Granted	—	—
Exercised	(255,623)	11.93
Cancelled	(344,528)	18.26
Options outstanding at end of period	12,131,394	\$ 19.12
Options exercisable at end of period	10,082,581	\$ 19.87

As of May 31, 2017 , the weighted average remaining contractual life of stock options outstanding and stock options exercisable was 4.0 years and 3.0 years , respectively. There was \$2.1 million of total unrecognized compensation expense related to unvested stock option awards as of May 31, 2017 that is expected to be recognized over a weighted average period of 1.3 years . For the three months ended May 31, 2017 and 2016, stock-based compensation expense associated with stock options totaled \$.3 million and \$1.1 million , respectively. For the six-month periods ended May 31, 2017 and 2016, stock-based compensation expense associated with stock options totaled \$1.1 million and \$2.0 million , respectively. The aggregate intrinsic values of stock options outstanding and stock options exercisable were \$62.8 million and \$51.4 million , respectively, at May 31, 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 \$3.6 million and \$3.5 million for the three months ended May 31, 2017 and 2016, respectively, related to restricted stock and PSUs. We recognized total compensation expense of \$5.9 million and \$5.5 million for the six-month periods ended May 31, 2017 and 2016, respectively, related to restricted stock and PSUs.

Director Awards. On April 13, 2017, we granted equity awards to our non-employee directors under our Non-Employee Directors Compensation Plan and pursuant to the respective elections each director made thereunder. The equity awards consisted of 22,994 shares of our common stock that were issued on an unrestricted basis to the respective directors on the grant date, and 43,499 shares that will be paid out on the earlier of a change in control or the date the respective directors leave our board.

19. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Six Months Ended May 31,	
	2017	2016
Summary of cash and cash equivalents at end of period:		
Homebuilding	\$ 348,588	\$ 274,849
Financial services	784	1,700
Total	\$ 349,372	\$ 276,549
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	\$ 2,105	\$ 2,729
Income taxes paid	3,039	2,635

	Six Months Ended May 31,	
	2017	2016
Supplemental disclosures of noncash activities:		
Reclassification of warranty recoveries to receivables	\$ —	\$ 2,151
Decrease in consolidated inventories not owned	(37,371)	(32,324)
Increase in inventories due to distributions of land and land development from an unconsolidated joint venture	3,676	4,875
Inventories acquired through seller financing	28,160	32,436

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 May 31, 2017.

Condensed Consolidating Statements of Operations (in thousands)

	Three Months Ended May 31, 2017				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ —	\$ 893,561	\$ 109,233	\$ —	\$ 1,002,794
Homebuilding:					
Revenues	\$ —	\$ 893,561	\$ 106,511	\$ —	\$ 1,000,072
Construction and land costs	—	(751,172)	(95,424)	—	(846,596)
Selling, general and administrative expenses	(23,322)	(70,929)	(9,666)	—	(103,917)
Operating income (loss)	(23,322)	71,460	1,421	—	49,559
Interest income	198	2	2	—	202
Interest expense	(41,693)	(426)	(1,225)	43,344	—
Intercompany interest	75,610	(29,862)	(2,404)	(43,344)	—
Equity in loss of unconsolidated joint ventures	—	(595)	(1)	—	(596)
Homebuilding pretax income (loss)	10,793	40,579	(2,207)	—	49,165
Financial services pretax income	—	—	2,817	—	2,817
Total pretax income	10,793	40,579	610	—	51,982
Income tax expense	(2,500)	(17,300)	(400)	—	(20,200)
Equity in net income of subsidiaries	23,489	—	—	(23,489)	—
Net income	\$ 31,782	\$ 23,279	\$ 210	\$ (23,489)	\$ 31,782

Three Months Ended May 31, 2016

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ —	\$ 700,768	\$ 110,282	\$ —	\$ 811,050
Homebuilding:					
Revenues	\$ —	\$ 700,768	\$ 107,694	\$ —	\$ 808,462
Construction and land costs	—	(586,807)	(101,907)	—	(688,714)
Selling, general and administrative expenses	(18,976)	(64,010)	(10,824)	—	(93,810)
Operating income (loss)	(18,976)	49,951	(5,037)	—	25,938
Interest income	106	24	4	—	134
Interest expense	(44,337)	(821)	(1,100)	44,288	(1,970)
Intercompany interest	75,719	(27,479)	(3,952)	(44,288)	—
Equity in loss of unconsolidated joint ventures	—	(822)	(3)	—	(825)
Homebuilding pretax income (loss)	12,512	20,853	(10,088)	—	23,277
Financial services pretax income	—	—	1,520	—	1,520
Total pretax income (loss)	12,512	20,853	(8,568)	—	24,797
Income tax benefit (expense)	(2,800)	(8,400)	2,000	—	(9,200)
Equity in net income of subsidiaries	5,885	—	—	(5,885)	—
Net income (loss)	\$ 15,597	\$ 12,453	\$ (6,568)	\$ (5,885)	\$ 15,597

Six Months Ended May 31, 2017

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ —	\$ 1,623,488	\$ 197,902	\$ —	\$ 1,821,390
Homebuilding:					
Revenues	\$ —	\$ 1,623,488	\$ 192,830	\$ —	\$ 1,816,318
Construction and land costs	—	(1,369,624)	(175,052)	—	(1,544,676)
Selling, general and administrative expenses	(45,589)	(133,827)	(17,390)	—	(196,806)
Operating income (loss)	(45,589)	120,037	388	—	74,836
Interest income	395	3	2	—	400
Interest expense	(90,042)	(994)	(2,387)	87,116	(6,307)
Intercompany interest	149,103	(56,465)	(5,522)	(87,116)	—
Equity in income (loss) of unconsolidated joint ventures	—	136	(1)	—	135
Homebuilding pretax income (loss)	13,867	62,717	(7,520)	—	69,064
Financial services pretax income	—	—	4,377	—	4,377
Total pretax income (loss)	13,867	62,717	(3,143)	—	73,441
Income tax expense	(1,200)	(26,100)	(100)	—	(27,400)
Equity in net income of subsidiaries	33,374	—	—	(33,374)	—
Net income (loss)	\$ 46,041	\$ 36,617	\$ (3,243)	\$ (33,374)	\$ 46,041

Six Months Ended May 31, 2016

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$ —	\$ 1,302,111	\$ 187,310	\$ —	\$ 1,489,421
Homebuilding:					
Revenues	\$ —	\$ 1,302,111	\$ 182,093	\$ —	\$ 1,484,204
Construction and land costs	—	(1,087,771)	(169,761)	—	(1,257,532)
Selling, general and administrative expenses	(43,316)	(117,474)	(20,952)	—	(181,742)
Operating income (loss)	(43,316)	96,866	(8,620)	—	44,930
Interest income	240	42	4	—	286
Interest expense	(88,707)	(1,641)	(2,161)	86,842	(5,667)
Intercompany interest	149,762	(54,987)	(7,933)	(86,842)	—
Equity in loss of unconsolidated joint ventures	—	(1,425)	(3)	—	(1,428)
Homebuilding pretax income (loss)	17,979	38,855	(18,713)	—	38,121
Financial services pretax income	—	—	2,703	—	2,703
Total pretax income (loss)	17,979	38,855	(16,010)	—	40,824
Income tax benefit (expense)	(2,100)	(12,300)	2,300	—	(12,100)
Equity in net income of subsidiaries	12,845	—	—	(12,845)	—
Net income (loss)	\$ 28,724	\$ 26,555	\$ (13,710)	\$ (12,845)	\$ 28,724

Condensed Consolidating Balance Sheets (in thousands)

	May 31, 2017				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	\$ 297,258	\$ 42,386	\$ 8,944	\$ —	\$ 348,588
Receivables	4,293	145,851	84,568	—	234,712
Inventories	—	3,147,848	340,356	—	3,488,204
Investments in unconsolidated joint ventures	—	61,499	2,501	—	64,000
Deferred tax assets, net	275,558	292,017	144,310	—	711,885
Other assets	88,133	8,498	3,365	—	99,996
	<u>665,242</u>	<u>3,698,099</u>	<u>584,044</u>	<u>—</u>	<u>4,947,385</u>
Financial services	—	—	11,410	—	11,410
Intercompany receivables	3,666,867	—	100,359	(3,767,226)	—
Investments in subsidiaries	40,811	—	—	(40,811)	—
Total assets	<u>\$ 4,372,920</u>	<u>\$ 3,698,099</u>	<u>\$ 695,813</u>	<u>\$ (3,808,037)</u>	<u>\$ 4,958,795</u>
Liabilities and stockholders' equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	\$ 129,689	\$ 329,052	\$ 216,088	\$ —	\$ 674,829
Notes payable	2,451,564	32,527	26,030	—	2,510,121
	<u>2,581,253</u>	<u>361,579</u>	<u>242,118</u>	<u>—</u>	<u>3,184,950</u>
Financial services	—	—	1,457	—	1,457
Intercompany payables	19,279	3,336,520	411,427	(3,767,226)	—
Stockholders' equity	1,772,388	—	40,811	(40,811)	1,772,388
Total liabilities and stockholders' equity	<u>\$ 4,372,920</u>	<u>\$ 3,698,099</u>	<u>\$ 695,813</u>	<u>\$ (3,808,037)</u>	<u>\$ 4,958,795</u>

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)

Six Months Ended May 31, 2017

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ 24,724	\$ (83,371)	\$ (5,933)	\$ —	\$ (64,580)
Cash flows from investing activities:					
Contributions to unconsolidated joint ventures	—	(5,852)	(5,253)	—	(11,105)
Return of investments in unconsolidated joint ventures	—	1,969	4,989	—	6,958
Purchases of property and equipment, net	(3,724)	(344)	(32)	—	(4,100)
Intercompany	(77,681)	—	—	77,681	—
Net cash used in investing activities	(81,405)	(4,227)	(296)	77,681	(8,247)
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	—	(61,640)	—	—	(61,640)
Issuance of common stock under employee stock plans	3,049	—	—	—	3,049
Payments of cash dividends	(4,341)	—	—	—	(4,341)
Stock repurchases	(2,543)	—	—	—	(2,543)
Intercompany	—	91,185	(13,504)	(77,681)	—
Net cash provided by (used in) financing activities	(109,161)	29,545	(13,504)	(77,681)	(170,801)
Net decrease in cash and cash equivalents	(165,842)	(58,053)	(19,733)	—	(243,628)
Cash and cash equivalents at beginning of period	463,100	100,439	29,461	—	593,000
Cash and cash equivalents at end of period	\$ 297,258	\$ 42,386	\$ 9,728	\$ —	\$ 349,372

Six Months Ended May 31, 2016

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$ 6,508	\$ (215,372)	\$ 41,405	\$ —	\$ (167,459)
Cash flows from investing activities:					
Contributions to unconsolidated joint ventures	—	(750)	—	—	(750)
Purchases of property and equipment, net	(2,437)	(331)	(108)	—	(2,876)
Intercompany	(167,470)	—	—	167,470	—
Net cash used in investing activities	(169,907)	(1,081)	(108)	167,470	(3,626)
Cash flows from financing activities:					
Change in restricted cash	5,827	—	—	—	5,827
Payments on mortgages and land contracts due to land sellers and other loans	—	(26,639)	—	—	(26,639)
Payments of cash dividends	(4,364)	—	—	—	(4,364)
Stock repurchases	(87,531)	—	—	—	(87,531)
Intercompany	—	209,197	(41,727)	(167,470)	—
Net cash provided by (used in) financing activities	(86,068)	182,558	(41,727)	(167,470)	(112,707)
Net decrease in cash and cash equivalents	(249,467)	(33,895)	(430)	—	(283,792)
Cash and cash equivalents at beginning of period	444,850	96,741	18,750	—	560,341
Cash and cash equivalents at end of period	\$ 195,383	\$ 62,846	\$ 18,320	\$ —	\$ 276,549

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 May 31,			Six Months Ended May 31,		
	2017	2016	Variance	2017	2016	Variance
Revenues:						
Homebuilding	\$ 1,000,072	\$ 808,462	24 %	\$ 1,816,318	\$ 1,484,204	22 %
Financial services	2,722	2,588	5	5,072	5,217	(3)
Total revenues	\$ 1,002,794	\$ 811,050	24 %	\$ 1,821,390	\$ 1,489,421	22 %
Pretax income:						
Homebuilding	\$ 49,165	\$ 23,277	111 %	\$ 69,064	\$ 38,121	81 %
Financial services	2,817	1,520	85	4,377	2,703	62
Total pretax income	51,982	24,797	110	73,441	40,824	80
Income tax expense	(20,200)	(9,200)	(120)	(27,400)	(12,100)	(126)
Net income	\$ 31,782	\$ 15,597	104 %	\$ 46,041	\$ 28,724	60 %
Basic earnings per share	\$.37	\$.18	106 %	\$.54	\$.33	64 %
Diluted earnings per share	\$.33	\$.17	94 %	\$.49	\$.31	58 %

The housing market recovery continued on a steady upward path in the 2017 first half supported by favorable industry fundamentals, with generally improving household formation, economic, consumer confidence, employment and income trends driving healthy demand with constrained supply. The positive impact of these dynamics in most of our served markets and our continued focus on executing on our returns-focused growth plan enabled us to increase our deliveries, revenues and pretax income in the 2017 second quarter compared to the prior-year quarter, and achieve a record-low second quarter selling, general and administrative expense ratio. Within our homebuilding operations, housing revenues for the quarter grew 23% year over year to \$995.7 million, as the number of homes we delivered increased 11% to 2,580 and the overall average selling price of those homes rose 11% to \$385,900. Our housing gross profits for the quarter increased 23% from the year-earlier quarter due to the higher volume of homes delivered, partly offset by a 10 basis point decrease in our housing gross profit margin to 15.4%. Inventory-related charges totaled \$6.0 million for the three months ended May 31, 2017, compared to \$11.7 million in the year-earlier period. Our selling, general and administrative expense ratio improved 120 basis points to 10.4% 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 second quarter increased 91% to \$49.6 million, and as a percentage of homebuilding revenues, increased 180 basis points to 5.0%.

For the three months ended May 31, 2017, we generated net income of \$31.8 million, up 104% from the corresponding period of 2016, and diluted earnings per share of \$.33, up 94% year over year.

During the six months ended May 31, 2017, we invested \$706.6 million in land and land development to drive community openings in 2017 and beyond as we work to increase the scale of our business within our existing geographic footprint under our core business strategy. In the corresponding period of 2016, such investments totaled \$702.6 million. Approximately 48% of our total investments in the 2017 first half related to land acquisition, compared to approximately 51% in the year-earlier period.

The following table presents information concerning our net orders, cancellation rates, ending backlog and community count for the three-month and six-month periods ended May 31, 2017 and 2016 (dollars in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Net orders	3,416	3,249	5,996	5,521
Net order value (a)	\$ 1,383,512	\$ 1,203,002	\$ 2,468,934	\$ 2,027,676
Cancellation rates (b)	21%	21%	22%	24%
Ending backlog — homes	5,612	5,205	5,612	5,205
Ending backlog — value	\$ 2,181,416	\$ 1,829,102	\$ 2,181,416	\$ 1,829,102
Ending community count	236	242	236	242
Average community count	238	242	237	243

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

Net Orders. For the three months ended May 31, 2017, net orders from our homebuilding operations grew 5% from the year-earlier period, despite a 2% decrease in our average community count, reflecting a 7% increase in absorptions to 4.8 homes per community, per month. The combination of higher net orders and a higher overall average selling price resulted in the value of our 2017 second quarter net orders increasing 15% from the year-earlier quarter. We had particularly strong growth in our West Coast and Southwest homebuilding reporting segments. In our West Coast homebuilding reporting segment, net order value increased 23% from the year-earlier quarter, reflecting 7% growth in net orders and a 15% increase in the average selling price of those orders. In our Southwest homebuilding reporting segment, net order value rose 19% year over year as a result of 16% growth in net orders and a 2% rise in the average selling price of those orders. Our cancellation rate as a percentage of gross orders for the three months ended May 31, 2017 remained even with the year-earlier quarter. As a percentage of beginning backlog, our second quarter cancellation rate improved to 19% in 2017 from 21% in 2016. For the six months ended May 31, 2017, net orders increased 9% and net order value grew 22% from the corresponding period of 2016, while the cancellation rate as a percentage of gross orders also improved.

Backlog. The number of homes in our backlog at May 31, 2017 rose 8% from May 31, 2016. The potential future housing revenues in our backlog at May 31, 2017 grew 19% from May 31, 2016, reflecting 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 11%. The growth in our backlog value reflected year-over-year increases in three of our four homebuilding reporting segments, ranging from 6% in our Central homebuilding reporting segment to 42% 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 second quarter decreased 2% on a year-over-year basis, as increases in our West Coast, Southwest and Central homebuilding reporting segments were more than offset by a 26% 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. For the six months ended May 31, 2017, our average and ending community counts each decreased 2% from 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues:				
Housing	\$ 995,660	\$ 807,408	\$ 1,806,607	\$ 1,480,054
Land	4,412	1,054	9,711	4,150
Total	1,000,072	808,462	1,816,318	1,484,204
Costs and expenses:				
Construction and land costs				
Housing	(842,377)	(682,303)	(1,535,164)	(1,247,131)
Land	(4,219)	(6,411)	(9,512)	(10,401)
Total	(846,596)	(688,714)	(1,544,676)	(1,257,532)
Selling, general and administrative expenses				
Total	(103,917)	(93,810)	(196,806)	(181,742)
Total	(950,513)	(782,524)	(1,741,482)	(1,439,274)
Operating income	\$ 49,559	\$ 25,938	\$ 74,836	\$ 44,930
Homes delivered	2,580	2,329	4,804	4,282
Average selling price	\$ 385,900	\$ 346,700	\$ 376,100	\$ 345,600
Housing gross profit margin as a percentage of housing revenues	15.4%	15.5%	15.0%	15.7%
Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues	16.0%	16.3%	15.6%	16.2%
Adjusted housing gross profit margin as a percentage of housing revenues	21.0%	20.7%	20.5%	20.7%
Selling, general and administrative expenses as a percentage of housing revenues	10.4%	11.6%	10.9%	12.3%
Operating income as a percentage of homebuilding revenues	5.0%	3.2%	4.1%	3.0%

For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast. As of May 31, 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):

Segment	Three Months Ended May 31,					
	Homes Delivered		Net Orders		Cancellation Rates	
	2017	2016	2017	2016	2017	2016
West Coast	730	581	1,065	995	13%	14%
Southwest	436	392	629	541	18	16
Central	1,005	906	1,275	1,210	27	26
Southeast	409	450	447	503	22	28
Total	2,580	2,329	3,416	3,249	21%	21%

Three Months Ended May 31,						
Segment	Net Order Value			Average Community Count		
	2017	2016	Variance	2017	2016	Variance
West Coast	\$ 705,358	\$ 572,882	23 %	66	61	8 %
Southwest	184,802	155,337	19	41	37	11
Central	368,007	328,242	12	92	91	1
Southeast	125,345	146,541	(14)	39	53	(26)
Total	\$ 1,383,512	\$ 1,203,002	15 %	238	242	(2)%

Six Months Ended May 31,						
Segment	Homes Delivered		Net Orders		Cancellation Rates	
	2017	2016	2017	2016	2017	2016
West Coast	1,336	1,089	1,891	1,550	13%	18 %
Southwest	843	742	1,085	900	19	19
Central	1,866	1,671	2,235	2,111	28	28
Southeast	759	780	785	960	25	26
Total	4,804	4,282	5,996	5,521	22%	24 %

Segment	Net Order Value			Average Community Count		
	2017	2016	Variance	2017	2016	Variance
West Coast	\$ 1,288,861	\$ 910,493	42 %	65	59	10 %
Southwest	316,533	262,625	21	40	37	8
Central	642,890	581,457	11	91	91	—
Southeast	220,650	273,101	(19)	41	56	(27)
Total	\$ 2,468,934	\$ 2,027,676	22 %	237	243	(2)%

May 31,						
Segment	Backlog – Homes			Backlog – Value		
	2017	2016	Variance	2017	2016	Variance
West Coast	1,468	1,199	22 %	\$ 999,269	\$ 703,346	42 %
Southwest	1,046	763	37	300,530	218,047	38
Central	2,348	2,282	3	674,406	638,052	6
Southeast	750	961	(22)	207,211	269,657	(23)
Total	5,612	5,205	8 %	\$ 2,181,416	\$ 1,829,102	19 %

Revenues . Homebuilding revenues for the three months ended May 31, 2017 rose 24% from the year-earlier period to \$1.00 billion , primarily due to an increase in housing revenues.

Housing revenues increased 23% year over year to \$995.7 million for the quarter ended May 31, 2017 due to increases in both the number of homes we delivered and the overall average selling price of those homes. We delivered 2,580 homes in the 2017 second quarter, up 11% from the year-earlier period, 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 11% year over year to \$385,900 for the three months ended May 31, 2017 , reflecting a shift in product and geographic mix and generally rising home prices.

Land sale revenues totaled \$4.4 million for the three months ended May 31, 2017 and \$1.1 million for the three months ended May 31, 2016 . The higher land sale revenues in the 2017 second quarter reflected the execution of our plans, as announced in the 2016 fourth quarter, to monetize certain non-strategic land parcels through land sales as part of our returns-focused growth plan.

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, or reduce our debt. 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.

For the six months ended May 31, 2017, our homebuilding revenues increased 22% from the year-earlier period to \$1.82 billion. Housing revenues for the six months ended May 31, 2017 rose \$326.6 million, or 22%, from the corresponding period of 2016, reflecting growth in the number of homes delivered and an increase in the overall average selling price of those homes. For the first six months of 2017, we delivered 4,804 homes, which represented an increase of 12% from the year-earlier period. The overall average selling price of homes delivered for the six months ended May 31, 2017 rose 9% from the corresponding period of 2016 to \$376,100.

Land sale revenues increased to \$9.7 million for the six months ended May 31, 2017 from \$4.2 million for the six months ended May 31, 2016, reflecting the factors discussed above with respect to our 2017 second quarter land sale revenues.

Operating Income. Our homebuilding operating income increased 91% to \$49.6 million for the three months ended May 31, 2017. Homebuilding operating income for the 2017 second quarter included \$6.0 million of inventory impairment and land option contract abandonment charges, compared to \$11.7 million of such charges in the corresponding 2016 quarter. The charges in the 2016 second quarter were in part the result of our decision to wind down our Metro Washington, D.C. operations. As a percentage of homebuilding revenues, our homebuilding operating income increased 180 basis points year over year to 5.0% for the three months ended May 31, 2017.

For the six months ended May 31, 2017, our homebuilding operating income of \$74.8 million rose 67% from the corresponding period of 2016. The six-month period ended May 31, 2017 included total inventory impairment and land option contract abandonment charges of \$10.0 million, compared to \$13.7 million in the six-month period ended May 31, 2016. As a percentage of homebuilding revenues, homebuilding operating income for the six months ended May 31, 2017 improved 110 basis points year over year to 4.1%.

The year-over-year improvements in our homebuilding operating income for the three-month and six-month periods ended May 31, 2017 primarily reflected increases in housing gross profits that were partly offset by increases in selling, general and administrative expenses. In addition, the year-over-year comparison for the three months and six months ended May 31, 2017 reflected nominal profits from land sales in the current period, compared to land sale losses in the year-earlier period, as further discussed below.

Housing gross profits increased to \$153.3 million for the three months ended May 31, 2017 from \$125.1 million for the year-earlier period. Our housing gross profits for the 2017 and 2016 second quarters included inventory-related charges of \$6.0 million and \$6.4 million, respectively.

Our housing gross profit margin for the 2017 second quarter declined 10 basis points year over year to 15.4%, primarily due to an increase in the amortization of previously capitalized interest (approximately 60 basis points), partly offset by improved operating leverage on fixed costs as a result of the increased volume of homes delivered and corresponding higher housing revenues (approximately 30 basis points) and lower inventory-related charges (approximately 20 basis points). The increase in the amortization of previously capitalized interest as a percentage of housing revenues was mainly due to longer-term development and/or extended construction time frames for certain communities in our West Coast homebuilding reporting segment. Sales incentives did not impact our year-over-year housing gross profit margin comparison for the three months ended May 31, 2017.

Excluding the amortization of previously capitalized interest associated with housing operations of \$49.3 million and \$35.6 million in the three-month periods ended May 31, 2017 and 2016, respectively, and the above-mentioned inventory-related charges in the applicable periods, our adjusted housing gross profit margin improved 30 basis points from the year-earlier quarter to 21.0%. 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 second quarter rose to \$103.9 million from \$93.8 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 120 basis points from the prior-year period to 10.4% for the three months ended May 31, 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 totaled \$.2 million for the three months ended May 31, 2017, compared to land sale losses of \$5.4 million for the year-earlier quarter. The land sale losses in the 2016 second quarter were mainly comprised of inventory impairment charges

associated with the sales of two land parcels in the Metro Washington, D.C. market as part of the wind down of our operations in that market.

Our housing gross profits of \$271.4 million for the six months ended May 31, 2017 increased \$38.5 million, or 17%, from \$232.9 million for the year-earlier period. Housing gross profits for the six months ended May 31, 2017 included \$10.0 million of inventory impairment and land option contract abandonment charges. For the six months ended May 31, 2016, housing gross profits included \$7.6 million of such charges. Our housing gross profit margin of 15.0% for the first six months of 2017 decreased 70 basis points year over year, primarily reflecting the impact of higher construction and land costs and an increase in the amortization of previously capitalized interest, partly offset by improved operating leverage on fixed costs as a result of the increased volume of homes delivered and corresponding higher housing revenues, and lower inventory impairment and land option contract abandonment charges. Sales incentives as a percentage of housing revenues for the six months ended May 31, 2017 were approximately the same as the year-earlier period. In the six months ended May 31, 2017, our adjusted housing gross profit margin declined 20 basis points year over year to 20.5%.

Selling, general and administrative expenses increased \$15.1 million, or 8%, year over year to \$196.8 million for the six months ended May 31, 2017 from \$181.7 million for the corresponding period of 2016 for the reasons described above with respect to the three months ended May 31, 2017. As a percentage of housing revenues, selling, general and administrative expenses improved 140 basis points year over year to 10.9% for the six months ended May 31, 2017.

For the six months ended May 31, 2017, land sales generated profits of \$.2 million. For the six months ended May 31, 2016, land sale losses of \$6.3 million reflected the inventory impairment charges associated with the wind down of our operations in the Metro Washington, D.C. market, and inventory impairment charges recorded in the 2016 first quarter related to the 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 May 31, 2017 within five years. The following table presents our inventories as of May 31, 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	\$ 2,036.8	\$ 1,114.0	\$ 264.6	\$ 72.8	\$ 3,488.2

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 May 31, 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 but largely in our West Coast and Central segments, while inventories in the greater than 10 years category were primarily located in our Southwest homebuilding reporting segment. The inventories in the 6-10 years and greater than 10 years categories were generally 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 May 31, 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 the three months ended May 31, 2017 and \$.1 million for the three months ended May 31, 2016 . For the six months ended May 31, 2017 and 2016, our interest income totaled \$.4 million and \$.3 million , respectively. 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. All interest incurred during the three months ended May 31, 2017 was capitalized as the average amount of our inventory qualifying for interest capitalization was higher than our average debt level for the period. As a result, we had no interest expense for the three months ended May 31, 2017, compared to \$2.0 million for the three months ended May 31, 2016 . For the six months ended May 31, 2017 , our interest expense, net of amounts capitalized, totaled \$6.3 million , compared to \$5.7 million for the year-earlier period. Our interest expense for the six months ended May 31, 2017 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 completed on January 13, 2017 using internally generated cash, represented a step toward reducing our debt in line with our returns-focused growth plan.

During the six months ended May 31, 2017 and the three months and six months ended May 31, 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 decreased to \$43.3 million for the three months ended May 31, 2017 from \$46.3 million for the year-earlier period, due to the lower average debt level in the current period as a result of the above-mentioned optional redemption of the 9.10% Senior Notes due 2017. We capitalized all of the interest incurred in the three months ended May 31, 2017 and \$44.3 million , or 96% , of the interest incurred in the three months ended May 31, 2016. For the six months ended May 31, 2017 , interest incurred increased to \$93.4 million from \$92.5 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 \$87.1 million and \$86.8 million of the interest incurred in the six months ended May 31, 2017 and 2016, respectively. The percentage of interest capitalized, excluding the charge for the early extinguishment of debt in the current period, was 99% and 94% for the six months ended May 31, 2017 and 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 \$49.3 million for the three months ended May 31, 2017 from \$35.6 million for the year-earlier period. For the six months ended May 31, 2017, interest amortized to construction and land costs associated with housing operations rose to \$88.2 million from \$65.8 million for the year-earlier period. The year-over-year increases in interest amortized for the three-month and six-month periods ended May 31, 2017 reflected 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 5.0% and 4.4% for the three months ended May 31, 2017 and 2016, respectively, and 4.9% and 4.4% for the six months ended May 31, 2017 and 2016, respectively. The year-over-year increase in the amortization of previously capitalized interest as a percentage of housing revenues for both the three-month and six-month periods ended May 31, 2017 was mainly due to longer-term development and/or extended construction time frames for certain communities in our West Coast homebuilding reporting segment. Additionally, interest amortized to construction and land costs in the 2017 second quarter included \$1.1 million related to land sales that occurred during the period. For the six months ended May 31, 2017 and 2016, interest amortized to construction and land costs included \$1.6 million and \$.5 million , respectively, 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 loss of unconsolidated joint ventures totaled \$.6 million for the three months ended May 31, 2017 and \$.8 million for the three months ended May 31, 2016 . For the six months ended May 31, 2017 , our equity in income of unconsolidated joint ventures was \$.1 million , compared to equity in loss of unconsolidated joint ventures of \$1.4 million for the same period of 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Housing revenues	\$ 995,660	\$ 807,408	\$ 1,806,607	\$ 1,480,054
Housing construction and land costs	(842,377)	(682,303)	(1,535,164)	(1,247,131)
Housing gross profits	153,283	125,105	271,443	232,923
Add: Inventory-related charges (a)	6,001	6,384	10,009	7,563
Housing gross profits excluding inventory-related charges	159,284	131,489	281,452	240,486
Add: Amortization of previously capitalized interest (b)	49,345	35,551	88,218	65,757
Adjusted housing gross profits	\$ 208,629	\$ 167,040	\$ 369,670	\$ 306,243
Housing gross profit margin as a percentage of housing revenues	15.4%	15.5%	15.0%	15.7%
Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues	16.0%	16.3%	15.6%	16.2%
Adjusted housing gross profit margin as a percentage of housing revenues	21.0%	20.7%	20.5%	20.7%

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

(b) Represents the amortization of previously capitalized interest 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) housing inventory impairment and land option contract abandonment charges (as applicable) recorded during a given period and (2) amortization of previously capitalized interest associated with housing operations, 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 housing inventory impairment and land option contract abandonment charges, and the amortization of previously capitalized interest associated with housing operations, 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 housing inventory impairment and land option contract abandonment charges, and amortization of previously capitalized interest associated with housing operations. 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):

	May 31, 2017	November 30, 2016
Notes payable	\$ 2,510,121	\$ 2,640,149
Stockholders' equity	1,772,388	1,723,145
Total capital	<u>\$ 4,282,509</u>	<u>\$ 4,363,294</u>
Ratio of debt to capital	<u>58.6%</u>	<u>60.5%</u>
Notes payable	\$ 2,510,121	\$ 2,640,149
Less: Cash and cash equivalents	(348,588)	(592,086)
Net debt	2,161,533	2,048,063
Stockholders' equity	1,772,388	1,723,145
Total capital	<u>\$ 3,933,921</u>	<u>\$ 3,771,208</u>
Ratio of net debt to capital	<u>54.9%</u>	<u>54.3%</u>

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 May 31,			Six Months Ended May 31,		
	2017	2016	Variance	2017	2016	Variance
Revenues	\$ 460,600	\$ 331,273	39 %	\$ 816,432	\$ 615,119	33 %
Construction and land costs	(394,513)	(287,930)	(37)	(702,135)	(526,727)	(33)
Selling, general and administrative expenses	(29,129)	(22,892)	(27)	(53,589)	(44,133)	(21)
Operating income	<u>\$ 36,958</u>	<u>\$ 20,451</u>	<u>81 %</u>	<u>\$ 60,708</u>	<u>\$ 44,259</u>	<u>37 %</u>
Homes delivered	730	581	26 %	1,336	1,089	23 %
Average selling price	\$ 631,000	\$ 570,200	11 %	\$ 611,100	\$ 564,800	8 %
Housing gross profit margin	14.3%	13.1%	120bps	14.0%	14.4%	(40)bps

This segment's revenues for the three-month and six-month periods ended May 31, 2017 and 2016 were generated solely from housing operations. Housing revenues for the 2017 second quarter and first half grew 39% and 33%, respectively, from the corresponding year-earlier periods due to increases both in the number of homes delivered and the average selling price of those homes. The increases in the number of homes delivered in the three-month and six-month periods ended May 31, 2017 primarily reflected the substantially higher backlog level at the beginning of each period as compared to the corresponding year-earlier period, and were largely attributable to our northern California operations. The average selling price of homes delivered during the three months and six months ended May 31, 2017 rose from the corresponding periods of 2016 due to a shift in product and geographic mix, and generally rising home prices.

Operating income for the three months ended May 31, 2017 increased significantly from the year-earlier period, reflecting higher housing gross profits, partly offset by higher selling, general and administrative expenses. Housing gross profits increased as a result of the higher volume of homes delivered and an increase in the housing gross profit margin. The year-over-year growth in the housing gross profit margin was mainly due to improved operating leverage from the increased volume of homes delivered and corresponding higher housing revenues and a shift in product and geographic mix, partly offset by higher construction and land costs and an increase in the amortization of previously capitalized interest. Inventory-related charges impacting the 2017 second quarter housing gross profit margin totaled \$4.2 million, compared to \$4.8 million in the year-earlier quarter. Selling, general and administrative expenses for the three months ended May 31, 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.

For the six months ended May 31, 2017, operating income rose 37% from the year-earlier period, reflecting growth in housing gross profits that was partly offset by an increase in selling, general and administrative expenses. The increase in housing gross profits reflected 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 and geographic mix of homes delivered, an increase in the amortization of previously capitalized interest, 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. Inventory-related charges impacting the housing gross profit margin totaled \$5.0 million for each of the six-month periods ended May 31, 2017 and 2016. Selling, general and administrative expenses for the 2017 first half increased from the year-earlier period, primarily for the reasons described above with respect to the three months ended May 31, 2017.

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 May 31,			Six Months Ended May 31,		
	2017	2016	Variance	2017	2016	Variance
Revenues	\$ 126,189	\$ 111,671	13 %	\$ 243,825	\$ 212,003	15 %
Construction and land costs	(105,541)	(91,446)	(15)	(205,279)	(172,751)	(19)
Selling, general and administrative expenses	(10,566)	(9,581)	(10)	(21,020)	(15,291)	(37)
Operating income	\$ 10,082	\$ 10,644	(5) %	\$ 17,526	\$ 23,961	(27) %
Homes delivered	436	392	11 %	843	742	14 %
Average selling price	\$ 289,400	\$ 284,900	2 %	\$ 289,200	\$ 285,700	1 %
Housing gross profit margin	16.4%	18.1%	(170)bps	15.8%	18.5%	(270)bps

This segment's revenues for the three months and six months ended May 31, 2017 and 2016 were generated solely from housing operations. Housing revenues for the three-month and six-month periods ended May 31, 2017 increased 13% and 15%, respectively, from the corresponding year-earlier periods, 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 primarily reflected this segment having more homes in backlog at the beginning of each of the 2017 periods as compared to the corresponding 2016 periods. The year-over-year increase in the number of homes delivered for the three months ended May 31, 2017 was attributable to both our Arizona and Nevada operations, while the increase for the six months ended May 31, 2017 primarily occurred in our Nevada operations.

Operating income for the three months ended May 31, 2017 decreased slightly from the corresponding period of 2016, mainly due to higher selling, general and administrative expenses. Housing gross profits were essentially flat compared to the year-earlier quarter, reflecting an increase in the number of homes delivered, mostly offset by a decline in the housing gross profit margin. The year-over-year decrease in the housing gross profit margin reflected higher construction and land costs and a shift in product mix of homes delivered, as well as favorable warranty adjustments in the year-earlier period. Selling, general and administrative expenses for the 2017 second quarter rose from the corresponding 2016 quarter, mainly due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues.

For the six months ended May 31, 2017, this segment's operating income declined from the year-earlier period, reflecting lower housing gross profits and higher selling, general and administrative expenses. The decrease in housing gross profits reflected a year-over-year decline in the housing gross profit margin, partly offset by an increase in the number of homes delivered. The housing gross profit margin declined on a year-over-year basis for the reasons described above with respect to the three-month

period ended May 31, 2017, and higher inventory-related charges. Inventory-related charges impacting the housing gross profit margin totaled \$1.3 million for the six months ended May 31, 2017, compared to \$.1 million for the year-earlier period. Selling, general and administrative expenses for the 2017 first half rose from the year-earlier period, primarily for the reasons described above with respect to the three months ended May 31, 2017, and the inclusion of a favorable legal settlement in the 2016 first half.

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 May 31,			Six Months Ended May 31,		
	2017	2016	Variance	2017	2016	Variance
Revenues	\$ 292,746	\$ 240,232	22 %	\$ 535,002	\$ 442,393	21 %
Construction and land costs	(237,956)	(192,478)	(24)	(436,423)	(359,633)	(21)
Selling, general and administrative expenses	(27,805)	(24,857)	(12)	(51,762)	(48,959)	(6)
Operating income	\$ 26,985	\$ 22,897	18 %	\$ 46,817	\$ 33,801	39 %
Homes delivered	1,005	906	11 %	1,866	1,671	12 %
Average selling price	\$ 289,000	\$ 264,000	9 %	\$ 282,800	\$ 262,300	8 %
Housing gross profit margin	18.9%	20.0%	(110)bps	18.7%	19.1%	(40)bps

This segment's revenues for the three months and six months ended May 31, 2017 and 2016 were generated from both housing operations and land sales. Housing revenues for the 2017 second quarter increased 21% to \$290.4 million from \$239.2 million for the year-earlier quarter. For six months ended May 31, 2017, housing revenues rose 20% to \$527.7 million from \$438.2 million. The housing revenue growth in each period of 2017 reflected 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 second quarter and first half reflected increases from both our Texas and Colorado operations. The average selling price for the three months and six months ended May 31, 2017 rose from the corresponding periods 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 May 31, 2017 and 2016 totaled \$2.3 million and \$1.1 million, respectively, while such revenues for the six months ended May 31, 2017 and 2016 totaled \$7.3 million and \$4.2 million, respectively.

Operating income for the three months ended May 31, 2017 increased \$4.1 million from the year-earlier period, mainly due to growth in housing gross profits, partly offset by an increase in selling, general and administrative expenses. Housing gross profits expanded due to the increased volume of homes delivered, partially offset by a decrease in the housing gross profit margin. The housing gross profit margin declined from the year-earlier quarter, largely due to higher construction and land costs and a shift in product mix of homes delivered. Land option contract abandonment charges impacting the housing gross profit margin for the three months ended May 31, 2017 totaled \$.5 million. There were no such inventory-related charges in the year-earlier quarter. Land sales generated break-even results in the three months ended May 31, 2017 and 2016. Selling, general and administrative expenses for the 2017 second quarter increased from the year-earlier quarter due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues, partly offset by lower overhead costs as a result of our cost containment efforts.

For the six months ended May 31, 2017, operating income increased \$13.0 million from the year-earlier period, mainly due to growth in housing gross profits and the absence of land sale losses in the current period. The increase in housing gross profits reflected an increase in the number of homes delivered, partly offset by a lower housing gross profit margin. The housing gross profit margin decreased from the year-earlier period due to the reasons described above with respect to the three months ended May 31, 2017, partly offset by unfavorable warranty adjustments in the year-earlier period. Land option contract abandonment charges impacting the housing gross profit margin totaled \$.5 million for each of the six-month periods ended May 31, 2017 and 2016. Land sales generated nominal profits for the six months ended May 31, 2017, compared to a loss of \$.9 million for the six months ended May 31, 2016. The land sale loss in the year-earlier period included an inventory impairment charge of approximately \$.8 million related to the sales of our last remaining land parcels in the Rio Grande Valley area of Texas. Selling, general and administrative expenses for the 2017 first half increased compared to the corresponding period of 2016, mainly due to the reasons described above with respect to the three months ended May 31, 2017. In addition, the 2016 first half 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 May 31,			Six Months Ended May 31,		
	2017	2016	Variance	2017	2016	Variance
Revenues	\$ 120,537	\$ 125,286	(4) %	\$ 221,059	\$ 214,689	3 %
Construction and land costs	(106,962)	(115,410)	7	(197,939)	(195,306)	(1)
Selling, general and administrative expenses	(13,096)	(14,601)	10	(24,787)	(30,221)	18
Operating income (loss)	\$ 479	\$ (4,725)	(a)	\$ (1,667)	\$ (10,838)	85 %
Homes delivered	409	450	(9) %	759	780	(3) %
Average selling price	\$ 289,600	\$ 278,400	4 %	\$ 288,100	\$ 275,200	5 %
Housing gross profit margin	11.3%	12.2%	(90)bps	10.5%	11.5%	(100)bps

(a) Percentage not meaningful.

This segment's revenues for the the three months and six months ended May 31, 2017 were generated from both housing operations and land sales. Revenues for the three months and six months ended May 31, 2016 were generated solely from housing operations. Housing revenues for the three months ended May 31, 2017 decreased 5% from the year-earlier period to \$118.5 million , reflecting a decrease in the number of homes delivered, partly offset by an increase in the average selling price of those homes. For the six months ended May 31, 2017 , housing revenues increased 2% to \$218.7 million as an increase in the average selling price was partly offset by a decrease in the number of homes delivered. The year-over-year decreases in the number of homes delivered for the three months and six months ended May 31, 2017 mainly reflected the wind down of our Metro Washington, D.C. operations. The average selling price for the three months and six months ended May 31, 2017 rose from the corresponding 2016 periods, 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 and six months ended May 31, 2017 totaled \$2.1 million and \$2.4 million , respectively.

For the three months ended May 31, 2017 , this segment generated operating income, compared to a loss in the year-earlier period mainly due to a decrease in selling, general and administrative expenses and the absence of land sale losses in the current period, partly offset by a decrease in housing gross profits. The year-over-year decline in housing gross profits reflected both a decrease in the number of homes delivered and a lower 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. In the 2017 second quarter, inventory-related charges impacting the housing gross profit margin totaled \$1.3 million , compared to \$1.4 million for the prior-year quarter. Sales incentives as a percentage of housing revenues in the 2017 second quarter increased slightly from the year-earlier quarter. Land sales generated profits of \$.2 million for the quarter ended May 31, 2017 . Land sale losses of \$5.4 million for the three months ended May 31, 2016 reflected inventory impairment charges associated with the sales of two land parcels in the Metro Washington, D.C. area as part of the wind down of our operations in that market. Selling, general and administrative expenses decreased in the 2017 second quarter from the year-earlier period, primarily due to lower overhead costs and a lower volume of homes delivered.

For the six months ended May 31, 2017 , this segment's operating loss improved from the year-earlier period mainly due to a decrease in selling, general and administrative expenses and improved land sale results, partly offset by a decline in housing gross profits. Housing gross profits decreased compared to the year-earlier period, for the reasons described above with respect to the three months ended May 31, 2017. 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-related charges, partly offset by unfavorable warranty adjustments in the year-earlier period. In the 2017 first half, inventory-related charges impacting the housing gross profit margin totaled \$3.2 million , compared to \$2.0 million for the prior-year period. Sales incentives as a percentage of housing revenues in the first six months of 2017 increased slightly from the year-earlier period. Land sales generated profits of \$.2 million for the six months ended May 31, 2017 . Land sale losses of \$5.4 million for the six months ended May 31, 2016 reflected inventory impairment charges associated with the wind down of our operations in the Metro Washington, D.C. area, as described above. Selling, general and administrative expenses for the six-month period ended May 31, 2017 decreased from the year-earlier period, primarily due to lower overhead costs as a result of our cost containment efforts, the wind down of our Metro Washington, D.C. operations in 2016, and the lower volume of homes delivered. In addition, the 2016 period 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 May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues	\$ 2,722	\$ 2,588	\$ 5,072	\$ 5,217
Expenses	(816)	(871)	(1,635)	(1,730)
Equity in income (loss) of unconsolidated joint ventures	911	(197)	940	(784)
Pretax income	\$ 2,817	\$ 1,520	\$ 4,377	\$ 2,703

Revenues . Financial services revenues for the three months ended May 31, 2017 increased slightly to \$2.7 million from \$2.6 million for the year-earlier period. For the six months ended May 31, 2017 , financial services revenues decreased slightly to \$5.1 million from \$5.2 million for the corresponding period of 2016.

Expenses . General and administrative expenses totaled \$.8 million and \$.9 million for the three-month periods ended May 31, 2017 and May 31, 2016 , respectively. For the six months ended May 31, 2017 and 2016, general and administrative expenses totaled \$1.6 million and \$1.7 million , respectively.

Equity in Income (Loss) of Unconsolidated Joint Ventures . The equity in income of unconsolidated joint ventures was \$.9 million for the three months ended May 31, 2017 , compared to the equity in loss of unconsolidated joint ventures of \$.2 million for the three months ended May 31, 2016 . For the six months ended May 31, 2017 , the equity in income of unconsolidated joint ventures was \$.9 million , compared to the equity in loss of unconsolidated joint ventures of \$.8 million for corresponding period of 2016. The year-over-year changes for the three-month and six-month periods ended May 31, 2017 primarily reflected the commencement of KBHS' operations in 2017, as described below, and the wind down of HCM in the latter part of 2016. The equity in loss of unconsolidated joint ventures for the three months and six months ended May 31, 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 three months or six months ended May 31, 2017.

In connection with the wind-down process, our equity in loss of unconsolidated joint ventures in the 2016 fourth quarter 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' operations. KBHS was operational in all of our served markets outside of California as of May 31, 2017, and became operational in California in June 2017. Our financial services reporting segment is separately reported in our consolidated financial statements.

INCOME TAXES

Our income tax expense totaled \$20.2 million and \$9.2 million for the three months ended May 31, 2017 and 2016, respectively. For the six months ended May 31, 2017 and 2016, our income tax expense was \$27.4 million and \$12.1 million , respectively. Our income tax expense for the three months ended May 31, 2017 reflected the favorable impact of \$.1 million of federal energy tax credits we earned from building energy-efficient homes, resulting in an effective income tax rate of 38.9% . For the three months ended May 31, 2016, our effective income tax rate of 37.1% reflected the favorable impact of \$.4 million of federal energy tax credits. Income tax expense for the six months ended May 31, 2017 and 2016 reflected the favorable impact of federal energy tax credits of \$1.2 million and \$3.7 million , respectively. Our effective income tax rate was 37.3% for the six months ended May 31, 2017 and 29.6% for the six months ended May 31, 2016. The majority of the federal energy tax credits for the three-month and six-month periods ended May 31, 2017 and 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.

At May 31, 2017 and November 30, 2016, we had deferred tax assets of \$736.7 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 May 31, 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 \$706.6 million for the six months ended May 31, 2017, compared to \$702.6 million for the corresponding period of 2016. Approximately 48% of our total investments in the six months ended May 31, 2017 related to land acquisition, compared to approximately 51% 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 six months of 2017 and 2016, approximately 60% and 63%, 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):

Segment	May 31, 2017		November 30, 2016		Variance	
	Lots	\$	Lots	\$	Lots	\$
West Coast	10,781	\$ 1,774,555	10,904	\$ 1,726,740	(123)	\$ 47,815
Southwest	8,928	548,834	8,338	522,320	590	26,514
Central	18,378	804,205	18,272	769,237	106	34,968
Southeast	6,998	360,610	7,311	384,931	(313)	(24,321)
Total	45,085	\$ 3,488,204	44,825	\$ 3,403,228	260	\$ 84,976

The carrying value of the lots owned or controlled under land option contracts and other similar contracts at May 31, 2017 increased from November 30, 2016 primarily due to the investments in land and land development we made during the six months ended May 31, 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 May 31, 2017, compared to 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 second quarter with \$348.6 million of cash and cash equivalents, compared to \$592.1 million at November 30, 2016. The majority of our cash and cash equivalents at May 31, 2017 and November 30, 2016 was invested in interest-bearing bank deposit accounts.

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

	May 31, 2017	November 30, 2016	Variance
Mortgages and land contracts due to land sellers and other loans	\$ 33,447	\$ 66,927	\$ (33,480)
Senior notes	2,248,701	2,345,843	(97,142)
Convertible senior notes	227,973	227,379	594
Total	<u>\$ 2,510,121</u>	<u>\$ 2,640,149</u>	<u>\$ (130,028)</u>

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 58.6% at May 31, 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 May 31, 2017 was 54.9%, compared to 54.3% at November 30, 2016.

LOC Facility. We had no letters of credit outstanding under the LOC Facility at May 31, 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 May 31, 2017, we had no cash borrowings and \$32.4 million of letters of credit outstanding under the Credit Facility. Therefore, as of May 31, 2017, we had \$242.6 million available for cash borrowings under the Credit Facility, with up to \$105.1 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 May 31, 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 May 31, 2017:

Financial Covenants and Other Requirements	Covenant Requirement	Actual
Consolidated tangible net worth	≥ \$1.24 billion	\$1.77 billion
Leverage Ratio	≤ .650	.586
Interest Coverage Ratio (a)	≥ 1.500	2.405
Minimum liquidity (a)	≥ \$178.4 million	\$348.6 million
Investments in joint ventures and non-guarantor subsidiaries	≤ \$471.9 million	\$104.8 million
Borrowing base in excess of borrowing base indebtedness (as defined)	n/a	\$548.0 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 May 31, 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 May 31, 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 May 31, 2017, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of \$33.4 million, secured primarily by the underlying property, which had an aggregate carrying value of \$61.6 million.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In April 2017, Moody's Investor Services upgraded our corporate credit rating to B1, with a stable outlook, from B2, with a positive outlook. As of May 31, 2017, our credit rating by Fitch Ratings was B+, with a stable outlook, and our credit rating by Standard and Poor's Financial Services was B, with a positive outlook.

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

	Six Months Ended May 31,	
	2017	2016
Net cash used in:		
Operating activities	\$ (64,580)	\$ (167,459)
Investing activities	(8,247)	(3,626)
Financing activities	(170,801)	(112,707)
Net decrease in cash and cash equivalents	<u>\$ (243,628)</u>	<u>\$ (283,792)</u>

Operating Activities. Operating activities used net cash of \$64.6 million in the six months ended May 31, 2017 and \$167.5 million in the six months ended May 31, 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 six months ended May 31, 2017 largely reflected net cash of \$100.5 million used for investments in inventories, a net decrease in accounts payable, accrued expenses and other liabilities of \$54.7 million and a net increase in receivables of \$2.9 million, partly offset by net income of \$46.0 million. In the six months ended May 31, 2016, our net cash used in operating activities mainly reflected investments in inventories of \$220.1 million, and a net decrease in accounts payable, accrued expenses and other liabilities of \$29.5 million, partly offset by net income of \$28.7 million and a net decrease in receivables of \$13.7 million.

Investing Activities. Investing activities used net cash of \$8.2 million in the six months ended May 31, 2017 and \$3.6 million in the year-earlier period. In the six months ended May 31, 2017, our uses of cash included \$11.1 million for contributions to unconsolidated joint ventures and \$4.1 million for net purchases of property and equipment. These uses of cash were partially offset by a \$7.0 million return of investments in unconsolidated joint ventures. In the six months ended May 31, 2016, cash of \$2.9 million was used for net purchases of property and equipment and \$.7 million was used for contributions to unconsolidated joint ventures.

Financing Activities. Financing activities used net cash of \$170.8 million in the six months ended May 31, 2017 and \$112.7 million in the six months ended May 31, 2016. In the six months ended May 31, 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 \$61.6 million, dividend payments on our common stock of \$4.3 million and repurchases of previously issued shares of our common stock delivered to us by employees to satisfy withholding taxes on the vesting of restricted stock and PSU awards, as well as shares forfeited by individuals upon their termination of employment at a

total cost of \$2.5 million . The cash used in financing activities for the six months ended May 31, 2017 was partly offset by \$3.0 million of issuances of common stock under employee stock plans. In the six months ended May 31, 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 \$26.6 million , and dividend payments on our common stock of \$4.4 million . The cash used was partly offset by a decrease of \$5.8 million in our restricted cash balance.

During the three months ended May 31, 2017 and May 31, 2016 , our board of directors declared, and we paid, a quarterly cash dividend of \$.025 per share of common stock. Quarterly cash dividends declared and paid during the six months ended May 31, 2017 and 2016 totaled \$.050 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 \$177.8 million at May 31, 2017 and \$198.8 million at November 30, 2016 . Our investments in unconsolidated joint ventures totaled \$64.0 million at both May 31, 2017 and November 30, 2016 . As of May 31, 2017 and November 30, 2016 , one of our unconsolidated joint ventures had outstanding secured debt of \$33.0 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 May 31, 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 May 31, 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 397 unconsolidated joint venture lots controlled under land option and other similar contracts at May 31, 2017 , we are committed to purchase 99 lots from one of our unconsolidated joint ventures in quarterly takedowns over the next three years for an aggregate purchase price of approximately \$43.7 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 May 31, 2017 , we had total cash deposits of \$31.4 million to purchase land having an aggregate purchase price of \$855.9 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 May 31, 2017, we estimate the remaining purchase price to be paid would be as follows: 2017 – \$350.5 million; 2018 – \$178.1 million; 2019 – \$115.8 million; 2020 – \$64.3 million; 2021 – \$33.9 million; and thereafter – \$81.9 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 \$26.2 million at May 31, 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 May 31, 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 \$13.2 million at May 31, 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 May 31, 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 May 31, 2017 (in millions):

	Total	2017	2018-2019	2020-2021	Thereafter
Contractual obligations:					
Long-term debt	\$ 2,528.4	\$ 195.8	\$ 932.6	\$ 350.0	\$ 1,050.0
Interest	577.3	82.5	256.6	167.6	70.6
Total	\$ 3,105.7	\$ 278.3	\$ 1,189.2	\$ 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 six months ended May 31, 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

We believe the housing market will remain on a positive trajectory for the remainder of 2017 based on favorable industry fundamentals, including rising household formations, healthy economic conditions, high consumer confidence, and steady job and income growth, that are fueling demand with relatively low inventories of homes available for sale in many markets. The resale inventory supply continues to be below normal levels and for-sale housing starts are insufficient to meet demand and continue to lag behind historical levels. It is this supply/demand imbalance and improving national economy that drives our belief that the housing recovery trend will remain positive for the foreseeable future.

Given these dynamics in most of our served markets, and based on the year-over-year increase in our backlog value at May 31, 2017, we believe we are on track to achieve our primary objectives for 2017 as we continue to execute on our returns-focused growth plan. Our present outlook is as follows:

2017 Third Quarter :

- We expect to generate housing revenues in the range of \$1.08 billion to \$1.15 billion, compared to \$910 million in the year-earlier quarter, reflecting both the conversion of our higher backlog at May 31, 2017 into homes delivered and an anticipated overall average selling price of those homes in the range of \$405,000 to \$410,000.
- We expect our housing gross profit margin will improve from the 2017 second quarter to approximately 16.4% to 16.7%, 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 10.1%, improving on a sequential and year-over-year basis due to our anticipated improved operating leverage from an increase in 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 third quarter.
- We expect our average community count for the third quarter will be approximately flat as compared to the 2016 third quarter.

2017 Full-Year :

- We expect our housing revenues to be in the range of \$4.2 billion to \$4.4 billion, an increase from \$3.6 billion in 2016, and anticipate our overall average selling price to be in the range of \$390,000 to \$400,000, representing an increase of 7% to 10% as compared to \$363,800 in 2016.
- We expect our operating income margin to range from 6.0% to 6.6%, assuming no inventory-related charges, as compared to 5.7% in 2016.
- We expect our housing gross profit margin to range from 16.3% to 16.7%, 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 10.3%, as compared to 10.9% in 2016.
- We expect our average community count to be approximately flat relative to 2016.

Our future performance and the strategies we implement (and adjust or refine as necessary or appropriate) in the 2017 third 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 plan 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;
- the performance of KBHS Home Loans, LLC;
- 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. We generally have no obligation to prepay our debt before maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed rate debt until we are required or elect to refinance or repurchase such debt. 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 May 31, 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 May 31, 2017	\$ 2,704,000	

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 May 31, 2017 .

There were no changes in our internal control over financial reporting during the quarter ended May 31, 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

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 May 31, 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 May 31, 2017 , no shares were repurchased pursuant to this authorization.

Item 6. Exhibits

Exhibits

- 10.49 [Amended and Restated KB Home Performance-Based Incentive Plan for Senior Management, as amended on April 13, 2017.](#)
- 10.50 [Amended and Restated KB Home 1999 Incentive Plan, as amended on April 13, 2017.](#)
- 10.51 [Amended and Restated KB Home 2001 Stock Incentive Plan, as amended on April 13, 2017.](#)
- 10.52 [Amended KB Home 2010 Equity Incentive Plan, as amended on April 13, 2017.](#)
- 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 May 31, 2017, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Statements of Operations for the three months and six months ended May 31, 2017 and 2016, (b) Consolidated Balance Sheets as of May 31, 2017 and November 30, 2016, (c) Consolidated Statements of Cash Flows for the six months ended May 31, 2017 and 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 July 7, 2017 By: /s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated July 7, 2017 By: /s/ WILLIAM R. HOLLINGER
William R. Hollinger
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

INDEX OF EXHIBITS

- 10.49 Amended and Restated KB Home Performance-Based Incentive Plan for Senior Management, as amended on April 13, 2017.
- 10.50 Amended and Restated KB Home 1999 Incentive Plan, as amended on April 13, 2017.
- 10.51 Amended and Restated KB Home 2001 Stock Incentive Plan, as amended on April 13, 2017.
- 10.52 Amended KB Home 2010 Equity Incentive Plan, as amended on April 13, 2017.
- 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.
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**AMENDED AND RESTATED KB HOME
PERFORMANCE-BASED INCENTIVE PLAN FOR SENIOR MANAGEMENT
(as amended on April 13, 2017)**

SECTION 1. *Purpose.* The purposes of the KB Home Performance-Based Incentive Plan for Senior Management (the “Plan”) are to promote the interests of KB Home and its stockholders by (i) attracting and retaining exceptional executive personnel and other key employees of the Company and its Affiliates, as defined below; (ii) motivating such employees by means of performance-related incentives to achieve long-range performance goals; (iii) enabling such employees to participate in the long-term growth and financial success of the Company; and (iv) qualifying compensation paid under the Plan for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Plan is an amendment and restatement of the Kaufman and Broad Home Corporation Performance-Based Incentive Plan for Senior Management which shall be effective as of October 2, 2008 (the “Amendment Date”).

SECTION 2. *Definitions.* As used in the Plan, the following terms shall have the meanings set forth below:

“Affiliate” shall mean (i) any entity that, directly or indirectly, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in either case as determined by the Committee.

“Amendment Date” shall have the meaning set forth in Section 1 hereof.

“Award” shall mean any Performance-Based Bonus opportunity granted under the Plan, as well as any Option, Stock Appreciation Right, award of Restricted Stock, or Other Stock-Based Award granted under the Plan or granted in payment or settlement of a Performance-Based Bonus.

“Award Agreement” shall mean any written agreement, contract, or other instrument or document (which may include, if so designated by the Committee, an Employment Agreement, as defined herein) evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

“Board” shall mean the Board of Directors of the Company.

“Change of Ownership” shall be deemed to have occurred if either (1) individuals who, as of the Effective Date of this Plan, constitute the Board of the Company (as of the Effective Date, the “Incumbent Board”) cease for any reason to constitute at least a majority of the directors constituting the Board, provided that any person becoming a director subsequent to the

Effective Date of this Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least three-quarters (3/4) of the then directors who are members of the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is (A) in connection with the acquisition by a third person, including a "group" as such term is used in Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, of 20% or more of the combined voting securities ordinarily having the right to vote for the election of directors of the Company (unless such acquisition of beneficial ownership was approved by a majority of the Board who are members of the Incumbent Board), or (B) in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board, or (2) the Board (a majority of which shall consist of directors who are members of the Incumbent Board) has determined that a Change of Ownership, for purposes of this Plan, shall have occurred. If any of the events enumerated in clauses (1) or (2) occur, the Board shall determine the effective date of the Change of Ownership resulting therefrom, for purposes of the Plan.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time. All references to the Code or any section thereof shall include the Treasury Regulations and other Department of Treasury guidance issued thereunder.

"Committee" shall mean a committee of the Board designated by the Board to administer the Plan and composed of not less than the minimum number of persons from time to time required by Rule 16b-3, each of whom (i) to the extent necessary to comply with Rule 16b-3 only, is a "disinterested Person" within the meaning of Rule 16b-3 and (ii) to the extent necessary to comply with Section 162(m) only, is an "outside director" within the meaning of Section 162(m). Until otherwise determined by the Board, the Compensation Committee designated by the Board shall be the Committee under the Plan.

"Company" shall mean KB Home, together with any successor thereto.

"Effective Date" shall have the meaning set forth in Section 14(a) hereof.

"Employment Agreement" shall mean (i) with respect to Awards relating to performance in fiscal year 1995, an agreement between the Company and a Participant, the effectiveness or continuing effectiveness of which is contingent upon approval, or approval of the Plan, by the Company's stockholders, which approval shall satisfy all applicable requirements of Section 162(m) and (ii) with respect to Awards relating to performance in any fiscal year of the Company after fiscal year 1995, an agreement between the Company and a Participant entered into prior to the end of the first fiscal quarter of such fiscal year.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean the fair market value of the property or other item being valued, as determined by the Committee in its sole discretion.

“Incentive Stock Option” shall mean a right to purchase Shares from the Company that is granted under Section 7 of the Plan and that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

“Non-Qualified Stock Option” shall mean a right to purchase Shares from the Company that is granted under Section 7 of the Plan and that is not intended to be an Incentive Stock Option.

“Officer” shall mean, at any time, an individual who is an officer of the Company or any of its subsidiaries.

“Option” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

“Other Stock-Based Award” shall mean any right granted under Section 11 of the Plan.

“Participant” shall mean any Officer selected by the Committee to receive an Award under the Plan.

“Performance-Based Bonus” shall mean a bonus opportunity awarded in accordance with Section 6 of the Plan.

“Person” shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

“Plan” shall mean this KB Home Performance-Based Incentive Plan for Senior Management.

“Restricted Stock” shall mean any Share granted under Section 9 of the Plan.

“Rule 16b-3” shall mean Rule 16b-3 as promulgated and interpreted by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

“Section 162(m)” shall mean Section 162(m) of the Code and, for the avoidance of doubt only, the Treasury Regulations and other Department of Treasury guidance issued thereunder.

“Section 409A” shall mean Section 409A of the Code and, for the avoidance of doubt only, the Treasury Regulations and other Department of Treasury guidance issued thereunder.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto and shall include the Staff thereof.

“Shares” shall mean shares of the Common Stock, \$1 par value, of the Company, or such other securities of the Company as may be designated by the Committee from time to time.

“Stock Appreciation Right” shall mean any right granted under Section 8 of the Plan.

“Substitute Awards” shall mean Awards granted in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Company or with which the Company combines.

SECTION 3. *Administration.*

(a) *Authority of Committee.* The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an eligible Officer; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended, provided that Options may be settled only in cash and Shares; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee, provided that such determinations shall not cause a violation of the requirements of Section 409A; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) recommend to the Board any amendment, alteration, suspension, discontinuance or termination of the Plan, and subject to the shareholder approval requirement set forth in Section 12(a), to take any such action not required by applicable law to be taken by the Board, (ix) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(b) *Committee Discretion Binding.* Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any stockholder and any Officer.

SECTION 4. *Award Limits.*

(a) *Plan Shares.* Subject to adjustment as provided in Section 4(c), the number of Shares with respect to which Awards may be granted under the Plan shall be 1,000,000. If, after the Effective Date of the Plan, any Shares covered by an Award denominated in Shares granted under the Plan, or to which such an Award relates, are forfeited, or if such an Award is settled for cash or otherwise terminates or is canceled without the delivery of Shares, then the Shares covered by such Award, or to which such Award relates, or the number of Shares otherwise counted against the aggregate number of Shares with respect to which Awards may be granted,

to the extent of any such settlement, forfeiture, termination or cancellation, shall again become Shares with respect to which Awards may be granted. In the event that any Option or other Award granted hereunder is exercised through the delivery of Shares or in the event that withholding tax liabilities arising from such Award are satisfied by the withholding of Shares by the Company, the number of Shares available for Awards under the Plan shall be increased by the number of Shares so surrendered or withheld.

(b) *Individual Stock-Based Awards.* Subject to adjustment as provided in Section 4(c), no Participant may receive stock-based Awards under the Plan in any calendar year that relate to more than 100,000 Shares; provided, however, that such number may be increased with respect to any Participant by any Shares available for grant to such Participant in accordance with this Paragraph 4(b) in any prior years that were not granted in such prior years. No provision of this Paragraph 4(b) shall be construed as limiting the amount of any cash-based Award which may be granted to any Participant.

(c) *Adjustments.* In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property, and other than normal cash dividends), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affecting the Shares or the price of the Shares, the Committee shall make appropriate proportionate adjustments to reflect such change with respect to any or all of (i) the number of Shares or other securities of the Company (or number and kind of other securities or property) with respect to which Awards may be granted, (ii) the number of Shares or other securities of the Company (or number and kind of other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, in each case, that (A) with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to fail to qualify under Section 422(b)(1) of the Code, as from time to time amended, (B) with respect to any Award no such adjustment shall be authorized to the extent that such authority would be inconsistent with the Plan's meeting the requirements of Section 162(m) of the Code, as from time to time amended, and (C) with respect to any Award under the Plan no such adjustment shall be authorized to the extent that such authorization or adjustment would cause a violation of the requirements of Section 409A.

(d) *Substitute Awards.* Any Shares underlying Substitute Awards shall not, except in the case of Shares with respect to which Substitute Awards are granted to individuals who are officers or directors of the Company for purposes of Section 16 of the Exchange Act or any successor section thereto, be counted against the Shares available for Awards under the Plan; provided that any assumption or substitution under this Section 4(d) must comply with the requirements of Section 409A.

(e) *Sources of Shares Deliverable Under Awards.* Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of Shares acquired by the Company on the open market or otherwise.

(f) *Cash Award Limits.* (i) Any Participant who is the Chief Executive Officer at the time of payment of an Award (other than a stock-based Award) shall be eligible to be paid in any calendar year an amount not in excess of \$5,000,000 in respect of any such cash Award under the Plan, and (ii) no Participant other than a Participant described in clause (i) of this Paragraph 4(f) shall be eligible to be paid in any calendar year more than \$2,000,000 in respect of any such cash Award. No provision of this Paragraph 4(f) shall be construed as limiting the number of stock-based Awards that a Participant may receive.

SECTION 5. *Eligibility.* Any Officer, including any Officer who is a director of the Company or any Affiliate, who is not a member of the Committee, shall be eligible to be designated a Participant.

SECTION 6. *Performance-Based Bonuses.*

(a) At such times and in such manner as may be prescribed by Section 162(m), the Committee may select Participants and award to such Participants the opportunity to earn a Performance-Based Bonus, which will be contingent upon the Company's attainment of performance goals selected by the Committee.

(b) Performance goals which may be employed by the Committee for purposes of a Performance-Based Bonus awarded under Paragraph (a) will include pre-tax income, after-tax income, cash flow, return on equity, return on capital, earnings per share, unit volume, net sales or service quality, as determined in accordance with GAAP, if applicable, which goals may relate to the Company as a whole or, if applicable, to the performance of one or more specific divisions or Affiliates.

(c) Notwithstanding Paragraphs (a) and (b), the formula for determining a Performance-Based Bonus to any Participant may, if so determined by the Committee, be governed by the terms of an Employment Agreement applicable to such Participant.

(d) Performance-Based Bonuses awarded under Paragraph (a) may be paid in cash, other Awards or any combination thereof, and the form of payment may be governed, as to any Participant, by an Employment Agreement applicable to such Participant.

SECTION 7. *Stock Options.*

(a) *Grant.* Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Officers to whom Options shall be granted, the number of Shares to be covered by each Option, the exercise price therefor and the conditions and limitations applicable to the exercise of the Option, provided, however, that the Committee shall not amend an Option to reduce the per Share exercise price (except as permitted by Section 4(c)) or otherwise modify an Option or add any feature for the deferral of compensation in any manner that would cause a violation of the requirements of Section 409A. The Committee shall have the authority to grant Incentive Stock Options, or to grant Non-Qualified Stock Options, or to grant both types of options. In the case of Incentive Stock Options, the terms and conditions of such

grants shall be subject to and comply with such rules as may be prescribed by Section 422 of the Code, as from time to time amended, and any regulations implementing such statute.

(b) *Exercise Price.* The Committee in its sole discretion shall establish the exercise price at the time each Option is granted, which exercise price shall be not less than the Fair Market Value of the Shares subject to the Option on the date of grant of the Option.

(c) *Exercise.* Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that the Committee shall not extend the exercise period of an Option beyond the earlier of the latest date upon which the Option could have expired by its original terms under any circumstances or the tenth anniversary of the date of grant of such Option. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable.

(d) *Payment.* No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the exercise price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by exchanging Shares owned by the Participant (which are not the subject of any pledge or other security interest), or by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the Fair Market Value of any such Shares so tendered to the Company as of the date of such tender is at least equal to such exercise price plus the related amount of any taxes required to be withheld by the Company in connection with such exercise, to the extent such withholding taxes are then ascertainable. If the amount of such taxes is not ascertainable at the time of the notice of exercise, such amount shall be tendered by you to the Company as soon as the same shall become ascertainable and shall be communicated to you by the Company.

SECTION 8. *Stock Appreciation Rights.*

(a) *Grant.* Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Officers to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Stock Appreciation Right Award, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to another Award. Stock Appreciation Rights granted in tandem with or in addition to an Award may be granted either at the same time as the Award or at a later time.

(b) *Exercise and Payment.* A Stock Appreciation Right shall entitle the Participant to receive an amount equal to the excess of the Fair Market Value of a Share on the date of exercise of the Stock Appreciation Right over the grant price thereof, provided that the Committee may for administrative convenience determine that, with respect to any Stock Appreciation Right which is not related to an Incentive Stock Option and which can only be exercised for cash during limited periods of time in order to satisfy the conditions of Rule 16b-3, the exercise of

such Stock Appreciation Right for cash during such limited period shall be deemed to occur for all purposes hereunder on the day during such limited period on which the Fair Market Value of the Shares is the highest. Any such determination by the Committee may be changed by the Committee from time to time and may govern the exercise of Stock Appreciation Rights granted prior to such determination as well as Stock Appreciation Rights thereafter granted. The Committee shall determine whether a Stock Appreciation Right shall be settled in cash, Shares or a combination of cash and Shares.

(c) *Other Terms and Conditions.* Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine, at or after the grant of a Stock Appreciation Right, the term, methods of exercise, methods and form of settlement, and any other terms and conditions of any Stock Appreciation Right. Any such determination by the Committee may be changed by the Committee from time to time and may govern the exercise of Stock Appreciation Rights granted or exercised prior to such determination as well as Stock Appreciation Rights granted or exercised thereafter. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

SECTION 9. *Restricted Stock.*

(a) *Grant.* Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Officers to whom Shares of Restricted Stock shall be granted, the number of Shares of Restricted Stock to be granted to each Participant, the duration of the period during which, and the conditions under which, the Restricted Stock may be forfeited to the Company, and the other terms and conditions of such Awards. Notwithstanding any other provision of this Plan to the contrary, the period during which such Awards may be forfeited to the Company shall not terminate prior to the third anniversary of the date of grant of such Award; provided, however, that the Committee may determine to have such period terminate after the first anniversary of the date of grant of any such Award if the Committee has established conditions for the earning of such Award that relate to performance of the Company or one or more divisions or units thereof. Subject to the preceding sentence, once established, such performance vesting criteria may be changed, adjusted or amended during the term of an Award.

(b) *Transfer Restrictions.* Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, except as provided in the Plan or the applicable Award Agreements. Certificates issued in respect of Shares of Restricted Stock shall be registered in the name of the Participant and deposited by such Participant, together with a stock power endorsed in blank, with the Company. Upon the lapse of the restrictions applicable to such Shares of Restricted Stock, the Company shall deliver such certificates to the Participant or the Participant's legal representative.

(c) *Dividends and Distributions.* Dividends and other distributions paid on or in respect of any Shares of Restricted Stock may be paid directly to the Participant, or may be reinvested in additional Shares of Restricted Stock, as determined by the Committee in its sole discretion.

SECTION 10. *Change of Ownership.* Notwithstanding anything to the contrary in this

Plan, unless otherwise specifically determined by the Committee at the time of grant, all Options theretofore granted and not fully exercisable shall become exercisable in full and the restrictions on any other outstanding Awards shall lapse upon the occurrence of a Change of Ownership.

SECTION 11. *Other Stock-Based Awards.* The Committee shall have authority to grant to any Officer an “Other Stock-Based Award”, which shall consist of any right which is (i) not an Award described in Sections 6 through 9 above and (ii) an Award of Shares or an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as deemed by the Committee to be consistent with the purposes of the Plan; provided that any such rights must comply, to the extent deemed desirable by the Committee, with Rule 16b-3 and applicable law. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of any such Other Stock-Based Award.

SECTION 12. *Amendment and Termination.*

(a) *Amendments to the Plan.* Subject to the authority of the Committee as set forth in Section 3, and subject to the requirements of Section 409A and of Section 13(p) hereof, if applicable, the Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without shareholder approval if such approval is necessary to comply with any tax or regulatory requirement, including for these purposes any approval requirement which is a prerequisite for exemptive relief from Section 16(b) of the Exchange Act, for which or with which the Board deems it necessary or desirable to qualify or comply. Notwithstanding anything to the contrary herein, the Committee may amend the Plan in such manner as may be necessary so as to have the Plan conform with local rules and regulations in any jurisdiction outside the United States, subject to the requirements of Section 409A and of Section 13(p) hereof, if applicable.

(b) *Amendments to Awards.* Subject to the requirements of Section 409A and of Section 13(p) hereof, if applicable, the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Award theretofore granted, prospectively or retroactively; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of any Participant or any holder or beneficiary of any Award theretofore granted shall not to that extent be effective without the consent of the affected Participant, holder or beneficiary; and provided further that no outstanding Option may be amended to decrease the per Share exercise price or extend the exercise period thereof, or otherwise modified in any manner, except in accordance with Sections 4(c), 7(a), and 7(c) hereof.

(c) *Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events.* The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4(c) hereof) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such

adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan; provided that no such adjustment shall be authorized to the extent that such authority would be inconsistent with the Plan's meeting the requirements of Section 162(m) of the Code, as from time to time amended, or to the extent that such authority or adjustment would cause a violation of the requirements of Section 409A.

(d) *Cancellation.* Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to the Fair Market Value of such canceled Award; provided, however, that except as permitted by Sections 4(c) and 12(c) hereof, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per Share exercise price, and no alternative Award may be made if such action would cause a violation of Section 409A.

SECTION 13. *General Provisions.*

(a) *Dividend Equivalents.* In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under Section 10 or as an Award granted pursuant to Sections 6 through 9 hereof, may provide the Participant with dividends or dividend equivalents, payable in cash, Shares, other securities or other property on a current or deferred basis.

(b) *Nontransferability.* No Award shall be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant, except by will or the laws of descent and distribution; provided, however, that an Award may be transferable, to the extent set forth in the applicable Award Agreement, (i) if such Award Agreement provisions do not disqualify such Award for exemption under Rule 16b-3, or (ii) if such Award is not intended to qualify for exemption under such rule.

(c) *No Rights to Awards.* Except as may be provided in an Employment Agreement, no Officer, Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Employees, Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards need not be the same with respect to each recipient.

(d) *Share Certificates.* All certificates for Shares or other securities of the Company or any Affiliate delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(e) *Withholding.* A Participant may be required to pay to the Company or any Affiliate,

and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any Award, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, other Awards or other property) of any applicable withholding taxes in respect of an Award, its exercise, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld pursuant to this Section 13(e) shall be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of the liability for such withholding taxes based on the minimum applicable statutory withholding rates (or such other rate that will not create an adverse accounting cost or consequence).

(f) *Award Agreements.* Each Award hereunder shall be evidenced by an Award Agreement which shall be delivered to the Participant and shall specify the terms and conditions of the Award and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment of a Participant.

(g) *No Limit on Other Compensation Arrangements.* Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of bonuses, options, restricted stock, Shares and other types of Awards provided for hereunder (subject to shareholder approval if such approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(h) *No Right to Employment.* The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(i) *No Rights as Stockholder.* Subject to the provisions of the applicable Award, no Participant or holder or beneficiary of any Award shall have any rights as a stockholder with respect to any Shares to be distributed under the Plan until he or she has become the holder of such Shares. Notwithstanding the foregoing, in connection with each grant of Restricted Stock hereunder, the applicable Award shall specify if and to what extent the Participant shall not be entitled to the rights of a stockholder in respect of such Restricted Stock.

(j) *Governing Law.* The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of California, except to the extent that the General Corporation Law of the State of Delaware shall be applicable to the Company.

(k) *Severability.* If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such

provision shall be construed or deemed amended to conform the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(l) *Other Laws.* The Committee may refuse to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such Shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary. Without limiting the generality of the foregoing, no Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would be in compliance with all applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject.

(m) *No Trust or Fund Created.* Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(n) *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and cash shall be paid in lieu of any fractional Shares, and such fractional Shares shall be eliminated by rounding down.

(o) *Headings.* Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(p) *Section 409A.*

(1) To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A, the Award Agreement evidencing such Award shall comply with the requirements of Section 409A. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A, including without limitation any Treasury Regulations or other Department of Treasury guidance that may be issued or amended after the Effective Date or the Amendment Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A, including such Department of Treasury guidance as may be issued after the Effective Date or the Amendment Date, the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any

other actions, that the Committee determines are necessary or appropriate to (A) exempt the Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (B) comply with the requirements of Section 409A.

(2) A Participant shall be solely responsible and liable for the satisfaction of all taxes, interest, and penalties that may be imposed on such Participant or for such Participant's account in connection with an Award (including any taxes, interest, and penalties under Section 409A), and neither the Company nor its affiliates shall have any obligation to indemnify or otherwise hold such Participant harmless from any or all of such taxes, interest, or penalties.

SECTION 14. *Term of the Plan.*

(a) *Effective Date.* The Plan became effective as of December 1, 1994 (the "Effective Date") and was subsequently approved by the shareholders of the Company within one year thereafter. This amendment and restatement shall be effective as of the Amendment Date as defined herein.

(b) *Expiration Date.* The plan expired on November 30, 2004. No Award shall be granted under the Plan after November 30, 2004. Unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted hereunder may, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, continue after the authority for grant of new Awards hereunder has been exhausted.



AMENDED AND RESTATED KB HOME 1999 INCENTIVE PLAN
(as amended on April 13, 2017)

SECTION 1. *Purpose.* The purposes of the Amended and Restated KB Home 1999 Incentive Plan (the “Plan”) are to promote the interests of KB Home and its stockholders by (i) attracting and retaining exceptional employees; (ii) motivating such employees by means of performance-related incentives to achieve long-range performance goals; (iii) enabling such employees to participate in the long-term growth and financial success of the Company; and (iv) qualifying compensation paid under the Plan for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Plan is an amendment and restatement of the KB Home 1999 Incentive Plan which shall be effective as of October 2, 2008 (the “Amendment Date”).

SECTION 2. *Definitions.* As used in the Plan, the following terms shall have the meanings set forth below:

“Amendment Date” shall have the meaning set forth in Section 1 hereof.

“Award” shall mean any Performance-Based Bonus opportunity granted under the Plan, as well as any Option, Stock Appreciation Right, share of Restricted Stock, Performance Share, Stock Unit, or Other Stock-Based Award or a Performance-Based Award granted under the Plan or granted in payment or settlement of a Performance-Based Bonus.

“Award Agreement” shall mean any written agreement, contract, or other instrument or document (which may include, if so designated by the Committee, an Employment Agreement, as defined herein), including through electronic medium, evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

“Board” shall mean the Board of Directors of the Company.

“Change of Ownership” means and includes each of the following: (a) Individuals who, as of the Effective Date of this Plan, constitute the Board of Directors of the Company (the “Board of Directors” generally and as of the Effective Date, the “Incumbent Board”) cease for any reason to constitute at least a majority of the directors constituting the Board of Directors, *provided* that any person becoming a director subsequent to the Effective Date of this Plan whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least three-quarters (3/4) of the then directors who are members of the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is (i) in connection with the acquisition by a third person, including a “group” as such term is used in Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, of 20% or more of the combined voting securities ordinarily having the right to vote for the election of

directors of the Company (unless such acquisition of beneficial ownership was approved by a majority of the Board of Directors who are members of the Incumbent Board), or (ii) in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or (b) The Board of Directors (a majority of which shall consist of directors who are members of the Incumbent Board) has determined that a Change of Ownership triggering the exercisability of Options and the lapse of restrictions on other Awards as described in Section 13 hereof shall have occurred.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. All references to the Code or any section thereof shall include the Treasury Regulations and other Department of Treasury guidance issued thereunder.

“Committee” shall mean the committee of the Board described in Section 3(a) hereof.

“Company” shall mean KB Home, together with any successor thereto.

“Covered Employee” shall mean an Employee who is, or could be, a “covered employee” within the meaning of Section 162(m) of the Code.

“Disability” shall mean a Participant’s disability, as determined by the Committee in its sole discretion.

“Effective Date” shall have the meaning set forth in Section 16(a) hereof.

“Eligible Individual” shall mean any person who is an Employee, as determined by the Committee.

“Employee” shall mean any employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.

“Employment Agreement” shall mean, with respect to Awards relating to performance in any fiscal year of the Company, an agreement between the Company and a Participant entered into prior to the end of the first fiscal quarter of such fiscal year.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Fair Market Value” shall mean, as of any given date, (a) if Shares are traded on a securities exchange, the closing price of a Share as reported in the *Wall Street Journal* for such date or, if no sale occurred on such date, for the first trading date immediately prior to such date during which a sale occurred; or (b) if Shares are not traded on a securities exchange, (i) the last sales price on such date (if Shares are then listed as a Global Market Issue under the NASDAQ Global Market System) or (ii) the mean between the closing representative bid and asked prices (in all other cases) for Shares on such date; or, if no sales prices or bid and asked prices, as applicable, are reported by a national quotation system, the first date immediately prior to such

date on which sales prices or bid and asked prices, as applicable, are reported by a national quotation system; or (c) if Shares are not publicly traded, or with respect to any non-Share based Award or settlement of an Award, the fair market value established by the Committee acting in good faith.

“Full Value Award” means any Award other than an Option or Stock Appreciation Right or other Award for which the Participant pays the intrinsic value.

“Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

“Non-Qualified Stock Option” shall mean an Option that is not intended to be an Incentive Stock Option.

“Option” shall mean a right granted to a Participant pursuant to Section 7 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

“Other Stock-Based Award” shall mean any right granted under Section 10 of the Plan.

“Participant” shall mean any Eligible Individual who has been granted an Award pursuant to the Plan.

“Performance-Based Award” shall mean an Award granted to selected Covered Employees pursuant to Sections 6, 8, 9 or 10 hereof, but which is subject to the terms and conditions set forth in Section 11 hereof. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

“Performance-Based Bonus” shall mean a bonus opportunity awarded in accordance with Section 6 of the Plan.

“Performance Criteria” shall mean the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that may be used to establish Performance Goals are limited to the following: economic value-added, sales or revenue, net income (either before or after interest, taxes, depreciation and amortization), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders’ equity, return on assets, return on capital, stockholder returns, return on sales, return on investments, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per Share, price per Share, market share, unit volume, net sales and service quality, any of which may be measured either in absolute terms or as compared to any incremental change or as compared to results of a peer group. The Committee shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

“Performance Goals” shall mean, for a Performance Period, the goals established in

writing by the Committee for the Performance Period based upon one or more of the Performance Criteria, as selected by the Committee. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

“Performance Period” shall mean the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance-Based Award.

“Performance Share” shall mean a right granted to a Participant pursuant to Section 10(a) hereof, to receive Shares, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

“Person” shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

“Qualified Performance-Based Compensation” shall mean any compensation that is intended to qualify as “qualified performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

“Restricted Stock” shall mean any Share awarded to a Participant pursuant to Section 9 of the Plan that is subject to certain restrictions and may be subject to risk of forfeiture.

“Rule 16b-3” shall mean Rule 16b-3 as promulgated and interpreted by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto and shall include the Staff thereof.

“Section 409A” shall mean Section 409A of the Code and, for the avoidance of doubt only, the Treasury Regulations and other Department of Treasury guidance issued thereunder.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Shares” shall mean shares of the Common Stock, \$1 par value, of the Company, and such other securities of the Company that may be substituted for the Shares pursuant to Section 13 of the Plan.

“Stock Appreciation Right” shall mean any right granted under Section 8 of the Plan.

“Stock Unit” shall mean any right granted under Section 10(b) of the Plan.

“Subsidiary” shall mean any “subsidiary corporation” as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

SECTION 3. *Administration.*

(a) *Committee.* The Plan shall be administered by the Committee. The Committee shall consist solely of two or more members of the Board each of whom is an “outside director,” within the meaning of Section 162(m) of the Code, a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) under the Exchange Act, or any successor rule, and an “independent director” under the rules of the New York Stock Exchange (or other principal securities market on which the Shares are traded), as the same may be amended from time to time. Appointment of Committee members shall be effective upon acceptance of appointment. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Section 162(m) of the Code or Rule 16b-3, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

(b) *Authority of Committee.* Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant; (iii) determine the number of Awards to be granted and the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the grant date, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines; *provided, however*, that the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended, *provided, however*, that Options and Stock Appreciation Rights may be settled only in cash and Shares; (vi) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (vii) recommend to the Board any amendment, alteration, suspension, discontinuance or termination of the Plan, and subject to the stockholder approval requirement set forth in Section 14(a) hereof, to take any such action not required by applicable law to be taken by the Board; (viii) establish, amend, suspend, or waive such rules and

regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(c) *Action by the Committee.* A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any Employee of the Company or any Subsidiary, the Company's independent registered public accounting firm, or any executive compensation consultant or other professional retained by the Company or the Committee to assist in the administration of the Plan.

(d) *Committee Decisions Binding.* Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including, but not limited to, the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder and any Employee.

SECTION 4. *Award Limits.*

(a) *Plan Shares.* Subject to Section 4(b) and Section 13 hereof, the aggregate number of Shares which may be granted pursuant to Awards under the Plan shall only be the aggregate number of Shares which are available or may become available for grant under the Amended and Restated KB Home 1999 Incentive Plan as in effect immediately prior to the Amendment Date (the "Prior Plan"); *provided, however*, that such aggregate number of Shares available for grant under the Plan shall be reduced by 1.25 Shares for each Share granted pursuant to any Full Value Award and shall be reduced by 1.0 Share for each Share granted pursuant to any Option or Stock Appreciation Right Award.

(b) *Shares Available for Grant.* To the extent that an Award terminates, expires, or lapses for any reason, or is settled in cash, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. Any Shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall not be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or securities exchange rules, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against Shares available for grant pursuant to this Plan; *provided, however*, that any assumption or substitution pursuant to this Section 4(b) shall not cause a violation of the requirements of Section 409A. Notwithstanding the provisions of this Section 4(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

(c) *Individual Stock-Based Awards.* Subject to adjustment as provided in Section 13 hereof, no Participant may be granted stock-based Awards under the Plan in any fiscal year of

the Company that relate to more than 1,000,000 Shares. No provision of this Section 4(c) shall be construed as limiting the amount of any cash-based Award which may be granted to any Participant.

(d) *Sources of Shares Deliverable Under Awards.* Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of Shares acquired by the Company on the open market or otherwise.

(e) *Cash Award Limits.* (i) Any Participant who is the Chief Executive Officer at the time of payment of an Award or Awards under the Plan (other than a stock-based Award) shall be eligible to be paid in cash in any fiscal year of the Company an amount not in excess of \$5,000,000 in respect of any such Award(s), and (ii) no Participant other than a Participant described in clause (i) of this Section 4(e) shall be eligible to be paid more than \$3,000,000 in cash in any fiscal year of the Company in respect of any Award(s) under the Plan. No provision of this Section 4(e) shall be construed as limiting the number of stock-based Awards, or other cash-based compensation for employment, that a Participant may receive.

SECTION 5. *Eligibility and Participation.*

(a) *Eligibility.* Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

(b) *Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

SECTION 6. *Performance-Based Bonuses.*

(a) *Grant.* At such times and in such manner as the Committee deems appropriate, the Committee may select Participants and, subject to Section 4(e) hereof, award to such Participants the opportunity to earn a cash bonus (a "Performance-Based Bonus"), which shall be contingent upon the attainment of Performance Goals or other specific performance goals that are established by the Committee and relate to one or more of the Performance Criteria or other specific performance criteria, in each case on a specified date or dates or over any period or periods determined by the Committee, and which shall comply with, or be exempt from, the requirements of Section 409A. Any such Performance-Based Bonus paid to a Covered Employee shall be a Performance-Based Award and be based upon objectively determinable bonus formulas established in accordance with Section 11(c) hereof.

(b) *Employment Agreement.* Notwithstanding Section 6(a) above, the formula for determining a Performance-Based Bonus to any Participant may, if so determined by the Committee, be governed by the terms of an Employment Agreement applicable to such Participant; *provided, however*, that such formula is in accordance with Section 162(m) of the Code.

SECTION 7. *Stock Options.*

(a) *General.* The Committee is authorized to grant Options to Participants on the following terms and conditions, *provided* that no Option may be granted to a Participant unless the Company is an “eligible issuer of service recipient stock” within the meaning of Section 409A with respect to such Participant:

(1) *Exercise Price.* The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided, however*, that subject to Section 7(b)(3) hereof, the exercise price for any Option shall not be less than 100% of the Fair Market Value of a Share on the date of grant.

(2) *Time and Conditions of Exercise.* The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided, however*, that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised; *provided, however*, that no Option granted under the Plan shall become exercisable after ten years from the date of grant.

(3) *Payment.* The Committee shall determine the form in which the exercise price of an Option may be paid, including, without limitation: (i) cash, (ii) Shares held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iii) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided, however*, that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which Shares shall be delivered or deemed to be delivered to Participants. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless exercise of Awards by a Participant may be permitted through the use of such an automated system. Notwithstanding any other provision of the Plan to the contrary, no Participant shall be permitted to pay the exercise price of an Option with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

(4) *Evidence of Grant; Other Terms and Conditions.* All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions not inconsistent with the Plan as may be specified by the Committee. The Committee shall determine the number of Shares subject to an Option and the exercise price of such Option on or before the date of grant of such Option, and shall not amend an Option to reduce the per Share exercise price (except as permitted by Section 13 hereof), extend the exercise period of an Option beyond the earlier of the latest date upon which the Option could have expired by its original terms under any circumstances or the tenth anniversary of the date of grant of such Option, or otherwise modify an Option or add any feature for the

deferral of compensation in any manner that would cause a violation of the requirements of Section 409A.

(5) *Prohibition on Reload Grants.* The Committee shall not have the authority to grant or provide for the automatic grant of an Option to any Participant to replace Shares a Participant delivers in payment of the exercise price of any Option granted hereunder in accordance with Section 7(a)(3) hereof, or in the event that the withholding tax liability arising upon exercise of any Option by a Participant is satisfied through the withholding by the Company of Shares otherwise deliverable upon exercise of the Option.

(b) *Incentive Stock Options.* Incentive Stock Options shall be granted only to Employees and the terms of any Incentive Stock Options granted pursuant to the Plan, in addition to the requirements of Section 7(a) above, must comply with the provisions of this Section 7(b).

(1) *Expiration.* Subject to Section 7(b)(3) below, an Incentive Stock Option shall expire and may not be exercised to any extent by any Participant (or permitted beneficiary or representative of such Participant) after the first to occur of the following events:

(i) Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;

(ii) Ninety days after the termination of the Participant's employment as an Employee for any reason other than Disability or death; and

(iii) One year after the date of the termination of the Participant's employment as an Employee on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.

(2) *Dollar Limitation.* The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(3) *Ten Percent Owners.* An Incentive Stock Option may be granted to any Participant who, at the date of grant, owns Shares possessing more than ten percent of the total combined voting power of all classes of Shares only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(4) *Notice of Disposition.* The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such Shares to the Participant.

(5) *Right to Exercise.* Except as provided in Section 7(b)(1)(iii) above, during a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

(6) *Failure to Meet Requirements.* Any Option (or portion thereof) purported to be an Incentive Stock Option, which, for any reason, fails to meet the requirements of Section 422 of the Code shall be considered a Non-Qualified Stock Option.

SECTION 8. *Stock Appreciation Rights.*

(a) *Grant.* Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Participants to whom Stock Appreciation Rights shall be granted, *provided* that no Stock Appreciation Right may be granted to a Participant unless the Company is an "eligible issuer of service recipient stock" within the meaning of Section 409A with respect to such Participant; the number of Shares to be covered by each Stock Appreciation Right Award; the strike price per Share thereof, *provided* that such strike price shall not be less than 100% of the Fair Market Value of a Share on the date of grant; and the conditions and limitations applicable to the exercise thereof. Stock Appreciation Rights may be granted in tandem with another Award no later than the grant date of such Award, in addition to another Award, or freestanding and unrelated to another Award. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

(b) *Exercise and Payment.* The Committee shall determine the time or times at which a Stock Appreciation Right may be exercised in whole or in part; *provided, however*, that the term of any Stock Appreciation Right granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of a Stock Appreciation Right may be exercised; *provided, however*, that no Stock Appreciation Right granted under the Plan shall become exercisable after ten years from the date of grant. A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount equal to the product of (i) the excess of (A) the Fair Market Value of Shares on the date the Stock Appreciation Right is exercised over (B) the strike price and (ii) the number of Shares with respect to which the Stock Appreciation Right is exercised, subject to any limitations the Committee may impose and any applicable tax withholding. Payment of the amounts determined under this Section 8(b) shall be made in cash, in Shares (based on their Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement.

(c) *Evidence of Grant; Other Terms and Conditions.* All Stock Appreciation Rights shall be evidenced by an Award Agreement between the Company and the Participant. The Award

Agreement shall include such additional provisions not inconsistent with the Plan as may be specified by the Committee. Subject to the terms of the Plan and the applicable Award Agreement, the Committee shall determine, on or before the date of grant of a Stock Appreciation Right, the number of Shares subject to a Stock Appreciation Right and the strike price thereof, the term, methods of exercise, methods and form of settlement, and any other terms and conditions of any Stock Appreciation Right. Any such determination by the Committee may be changed by the Committee from time to time and may govern the exercise of Stock Appreciation Rights granted or exercised prior to such determination as well as Stock Appreciation Rights granted or exercised thereafter; *provided, however*, that the Committee shall not amend a Stock Appreciation Right to reduce the per Share strike price (except as permitted by Section 13 hereof), extend the exercise period of a Stock Appreciation Right beyond the earlier of the latest date upon which the Stock Appreciation Right could have expired by its original terms under any circumstances or the tenth anniversary of the date of grant of such Stock Appreciation Right, or otherwise modify a Stock Appreciation Right or add any feature for the deferral of compensation in any manner that would cause a violation of the requirements of Section 409A. Except as otherwise set forth herein, the Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

SECTION 9. *Restricted Stock.*

(a) *Grant.* Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Participants to whom Shares of Restricted Stock shall be granted, the number of Shares of Restricted Stock to be granted to each Participant, the duration of the period during which, and the conditions under which, the Restricted Stock may be forfeited to the Company, and the other terms and conditions of such Awards. Subject to Section 13(b) hereof, the period during which such Awards may be forfeited to the Company shall terminate in three equal annual installments from the date of grant of such Awards; *provided, however*, that the Committee may determine to have such period terminate after the first anniversary of the date of grant of any such Award if the Committee has established conditions for the earning of such Award that relate to performance of the Company or one or more divisions or units thereof. All awards of Restricted Stock shall be evidenced by an Award Agreement.

(b) *Forfeiture.* Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited.

(c) *Certificates for Restricted Stock.* Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

(d) *Dividends and Distributions.* Dividends and other distributions paid on or in respect of any Shares of Restricted Stock may be paid directly to the Participant, or may be reinvested in

additional Shares of Restricted Stock, as determined by the Committee in its sole discretion.

SECTION 10. *Other Stock-Based Awards.* The Committee shall have authority to grant to any Participant an “Other Stock-Based Award”, which shall consist of any right which is (i) not an Award described in Section 6 through Section 9 hereof and (ii) an Award of Shares or an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as deemed by the Committee to be consistent with the purposes of the Plan; *provided, however* , that any such rights must comply with applicable law and, to the extent deemed desirable by the Committee, with applicable securities exchange listing requirements, and *provided, further* , that any Other Stock-Based Award shall comply with, or be exempt from, the requirements of Section 409A. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the terms and conditions of any such Other Stock-Based Award. Other Stock-Based Awards shall include, but not be limited to, Performance Share Awards and Stock Unit Awards.

(a) *Performance Share Awards.* Any Participant selected by the Committee may be granted one or more Performance Share Awards which shall be denominated in a number of Shares and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant. In addition, the Committee will have the sole and complete authority to determine the duration of the period during which, and the conditions under which, any such Performance Share Award shall be subject to restrictions and may be forfeited to the Company; *provided, however* , that, subject to Sections 10(e) and 13(b) hereof, the period during which any Performance Share Award granted to a Participant will be restricted from transfer by the Participant and may be forfeited to the Company will terminate no earlier than the first anniversary of the date of grant, unless otherwise provided in an applicable Award Agreement.

(b) *Stock Unit Awards.*

(1) *Grant of Stock Unit Awards.* The Committee shall have authority to grant to Participants Stock Unit Awards, the value of which is based, in whole or in part, on the Fair Market Value of Shares. Each Stock Unit shall consist of a bookkeeping entry representing an amount equivalent to the Fair Market Value of one Share. Such Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Committee. Stock Units may be granted as additional compensation or in lieu of any other compensation, as specified by the Committee, *provided* that Stock Units shall not be granted in substitution for or payment of any Award or other compensation in a manner that causes a violation of the requirements of Section 409A. Subject to the provisions of the Plan, Stock Unit Awards shall be subject to such terms, restrictions, conditions, vesting requirements and payment rules as the Committee may determine in its sole discretion.

(2) *Settlement of Stock Units.* Settlement of Stock Units shall be made by issuance of

Shares, provided that the Committee may provide for Stock Units to be settled in cash (in the sole discretion of the Company). The amount of Shares, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents, which may be valued as if reinvested in Shares. Until a Stock Unit is settled, the number of Shares represented by a Stock Unit shall be subject to adjustment pursuant to Section 13 hereof.

(c) *Term.* Except as otherwise provided herein, the term of any Award of Performance Shares, Stock Units or Other Stock-Based Awards shall be set by the Committee in its discretion.

(d) *Exercise or Purchase Price.* The Committee may establish the exercise or purchase price, if any, of any Other Stock-Based Awards; *provided, however*, that such price shall not be less than the par value of a Share on the date of grant, unless otherwise permitted by applicable state law.

(e) *Settlement of Other Stock-Based Awards.* Settlement of Other Stock-Based Awards (including Performance Share and Stock Unit Awards) shall occur within 60 days after the date on which such Other Stock-Based Awards shall vest. The Committee may provide for Other Stock-Based Awards to be settled at such other times as it determines appropriate, *provided* that in no event shall any Other Stock-Based Award be settled after the later of: (i) the 15th day of the third month following the end of the Participant's first taxable year in which the Other Stock-Based Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company's first taxable year in which the Other Stock-Based Award is no longer subject to a substantial risk of forfeiture. The Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Stock Units, or Other Stock-Based Awards may vest upon an involuntary "separation from service" within the meaning of Section 409A, following a Change of Ownership of the Company, because of the Participant's death or Disability, or otherwise; *provided, however*, that any such provision with respect to Performance Shares or Stock Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation, where applicable for Company deductibility purposes.

(f) *Form of Payment.* Payments with respect to any Awards granted under this Section 10 shall be made in cash, in Shares or a combination of both, as determined by the Committee.

(g) *Award Agreement.* All Awards under this Section 10 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement.

SECTION 11. *Performance-Based Awards*

(a) *Purpose.* The purpose of this Section 11 is to provide the Committee the ability to qualify Awards other than Options and that are granted pursuant to Sections 6, 8, 9 and 10 hereof as Performance-Based Awards. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Section 11 shall control over any contrary provision contained in Section 6, 8, 9 or 10 hereof; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on

Performance Criteria or Performance Goals but that do not satisfy the requirements of this Section 11.

(b) *Applicability.* This Section 11 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive payment of an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

(c) *Procedures with Respect to Performance-Based Awards.* To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Section 6, 8, 9 or 10 hereof which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year of the Company in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (1) designate one or more Covered Employees, (2) select the Performance Criteria applicable to the Performance Period, (3) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (4) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

(d) *Payment of Performance-Based Awards.* Unless otherwise provided in the applicable Award Agreement, a Covered Employee must be employed by the Company or a Subsidiary on the day a Performance-Based Award is paid to the Covered Employee. Furthermore, a Covered Employee shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved. In determining the amount earned under a Performance-Based Award, the Committee may reduce or eliminate the amount of the Performance-Based Award earned for the Performance Period, if in its sole and absolute discretion, such reduction or elimination is appropriate.

(e) *Additional Limitations.* Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as Qualified Performance-Based Compensation, and the Plan shall be deemed amended to the extent necessary to conform to such

requirements.

SECTION 12. *Provisions Applicable to Awards.*

(a) *Stand-Alone and Tandem Awards.* Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted no later than the time of grant of such other Awards, and such grants shall comply with the requirements of Section 409A (unless exempt therefrom) and the Plan.

(b) *Beneficiaries.* Notwithstanding Section 15(b) hereof, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

SECTION 13. *Changes in Capital Structure.*

(a) *Adjustments.*

(1) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the Shares or the price of the Shares, the Committee shall make appropriate proportionate adjustments to reflect such change with respect to (i) the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 4(a) and Section 4(c) hereof); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iii) subject to Section 14, the grant, exercise, or strike price per Share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(2) In the event of any transaction or event described in this Section 13 or any unusual or nonrecurring transactions or events affecting the Company, any Subsidiary, any affiliate of the Company, or the financial statements of the Company or any Subsidiary or affiliate, or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in

order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13 the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of Shares (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock, Performance Shares or Stock Units and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

Any adjustment under this Section 13(a) shall be made only to the extent that such adjustment will not cause a violation of the requirements of Section 409A.

(b) *Acceleration Upon a Change of Ownership.* Notwithstanding Section 13(a) above, and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change of Ownership occurs and a Participant's Awards are not converted, assumed, or replaced by a successor entity, then immediately prior to the Change of Ownership such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change of Ownership, the Committee may cause any and all Awards outstanding hereunder to terminate at a specific time in the future, including but not limited to the date of such Change of Ownership, and shall give each Participant the right to exercise such Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine; *provided, however*, that the Committee may not extend the original exercise periods for Options or Stock Appreciation Rights if such extension would cause such Options or Stock Appreciation Rights to

violate the requirements of Section 409A; and *provided, further*, that the Committee may not change the time at which any Other Stock-Based Award may be settled, paid, or exercised if such change would cause a violation of Section 409A. In the event that the terms of any agreement (other than this Plan and any Award Agreement hereunder) between the Company or any Subsidiary or affiliate of the Company and a Participant contains provisions that conflict with and are more restrictive than the provisions of this Section 13(b), this Section 13(b) shall prevail and control and the more restrictive terms of such agreement (and only such terms) shall be of no force or effect.

(c) *No Other Rights.* Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to an Award or the grant or exercise price of any Award.

SECTION 14. *Amendment and Termination.*

(a) *Amendments to the Plan.* Subject to the requirements of Section 409A and of Section 15(s) hereof, if applicable, with the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; *provided, however*, that (1) to the extent necessary and desirable to comply with any applicable law, regulation, or securities exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (2) stockholder approval is required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Section 13 hereof), (ii) permits the Committee to grant Options or Stock Appreciation Rights with an exercise or strike price that is below Fair Market Value on the date of grant, (iii) permits the Committee to extend the exercise period for an Option or Stock Appreciation Right beyond ten years from the date of grant, or (iv) expands the class of persons who are eligible to participate in the Plan. Notwithstanding any provision in this Plan to the contrary, no Option may be amended to reduce the per Share exercise price of the Shares subject to such Option below the per Share exercise price as of the date the Option is granted and, except as permitted by Section 13 hereof, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per Share exercise price.

(b) *Amendments to Awards.* Except with respect to amendments made pursuant to Section 15(s) hereof, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

(c) *Cancellation.* Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled

Award equal in value to the Fair Market Value of such canceled Award; *provided, however* , that no Option may be amended to reduce the per Share exercise price of the Shares subject to such Option below the per Share exercise price as of the date the Option is granted and, except as permitted by Section 13 hereof, no Option or Stock Appreciation Right may be granted in exchange for, or in connection with, the cancellation or surrender of an Option or Stock Appreciation Right having a higher per Share exercise price or strike price, and no alternative Award may be made if such action would cause a violation of Section 409A.

SECTION 15. *General Provisions*

(a) *Dividend Equivalents.* In the sole and complete discretion of the Committee, any Award (other than Award made as an Option or a Stock Appreciation Right) may provide the Participant with dividends or dividend equivalents, payable in cash, Shares, other securities or other property on a current or deferred basis.

(b) *Nontransferability.* No Award shall be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant, except by will or the laws of descent and distribution and, in the case of any Award, except by gift or pursuant to a domestic relations order (as defined in Section 414(p)(1)(B) of the Code, and including acceleration of the time of payment as permitted under Section 1.409A-3(j)(ii) of the Treasury Regulations) to members of the Participant's family, or trusts or other entities whose beneficiaries or beneficial owners are the Participant or members of the Participant's family, without approval of the stockholders of the Company.

(c) *No Rights to Awards.* Except as may be provided in an Employment Agreement, no Eligible Individual or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Employees, Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards need not be the same with respect to each recipient.

(d) *Share Certificates; Book Entry Procedures.*

(1) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing Shares pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any securities exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any Share certificate to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Committee may require that a Participant make such reasonable covenants, agreements, and representations, or do or refrain from such acts, as the Committee, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(2) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

(e) *Withholding.* The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income (or such other rate that will not create an adverse accounting cost or consequence).

(f) *Award Agreements.* Each Award hereunder shall be evidenced by an Award Agreement which shall be delivered to the Participant and shall specify the terms and conditions of the Award and any rules applicable thereto, including but not limited to the effect on such Award of the death, Disability, retirement or other termination of employment of a Participant, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

(g) *No Limit on Other Compensation Arrangements.* Nothing contained in the Plan shall prevent the Company or any Subsidiary from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of bonuses, options, restricted stock, Shares and other types of Awards provided for hereunder (subject to stockholder approval if such approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(h) *No Right to Employment.* Nothing in the Plan or any Award shall be construed as giving a Participant the right to be retained in the employ of the Company or any Subsidiary. Further, the Company or a Subsidiary may at any time dismiss a Participant from employment, with or without cause, free from any liability or any claim under the Plan.

(i) *No Rights as Stockholder.* Subject to the provisions of the applicable Award, no Participant or holder or beneficiary of any Award shall have any rights as a stockholder with respect to any Shares to be distributed under the Plan until he or she has become the record or beneficial owner of such Shares. Notwithstanding the foregoing, in connection with each grant of Restricted Stock hereunder, the applicable Award shall specify if and to what extent the Participant shall not be entitled to the rights of a stockholder in respect of such Restricted Stock.

(j) *Governing Law.* The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of California, except to the extent that the General Corporation Law of the State of Delaware is applicable.

(k) *Severability.* If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(l) *Other Laws.* The obligation of the Company to make payment of awards in Shares or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company may refuse to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such Shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary. Without limiting the generality of the foregoing, no Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would be in compliance with all applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject. The Company shall be under no obligation to register pursuant to the Securities Act any of the Shares paid pursuant to the Plan. If Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

(m) *No Trust or Fund Created.* The Plan is intended to be an “unfunded” plan for incentive compensation. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Subsidiary or any affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Subsidiary pursuant to an Award,

such right shall be no greater than the right of any unsecured general creditor of the Company or any Subsidiary.

(n) *Indemnification.* To the extent allowable pursuant to applicable law, each member of the Committee and each member of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided, however*, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(o) *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and cash shall be paid in lieu of any fractional Shares, and such fractional Shares shall be eliminated by rounding down.

(p) *Expenses.* The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

(q) *Headings.* Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

(r) *Limitations Applicable to Section 16 Persons.* Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

(s) *Section 409A.*

(1) To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A, the Award Agreement evidencing such Award shall comply with the requirements of Section 409A. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A, including without limitation any Treasury Regulations or other Department of Treasury guidance that may be issued or amended after the Effective Date or the Amendment Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that

any Award may be subject to Section 409A, including such Department of Treasury guidance as may be issued after the Effective Date or the Amendment Date, the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (A) exempt the Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (B) comply with the requirements of Section 409A.

(2) If, at the time of a Participant's "separation from service" (within the meaning of Section 409A), (A) such Participant is a "specified employee" (within the meaning of Section 409A as determined annually by the Committee in accordance with the methodology specified by resolution of the Board or the Committee and in accordance with Section 1.409A-1(i) of the Treasury Regulations) and (B) the Company shall make a good-faith determination that an amount payable pursuant to an Award constitutes "deferred compensation" (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A in order to preserve the tax treatment intended for such payment or to avoid additional tax, interest, or penalties under Section 409A, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it on the first business day after such six-month period. Such amount shall be paid without interest, unless otherwise determined by the Committee, in its sole discretion, or as otherwise provided in any applicable agreement between the Company and the relevant Participant.

(3) For purposes of this Plan, a "separation from service" within the meaning of Section 409A shall mean termination of services provided by a Participant to his or her Company, whether voluntary or involuntary, as determined by the Committee in accordance with Treasury Regulation Section 1.409A-1(h). In determining whether a Participant has experienced a Separation from Service, the following provisions shall apply:

(i) For a Participant who provides services to the Company as an employee, except as otherwise provided in part (iii) of this Subsection, a separation from service shall occur when such Participant has experienced a termination of employment with the Company. Such Participant shall be considered to have experienced a termination of employment when the facts and circumstances indicate that the Participant and the Company reasonably anticipate that either (A) no further services will be performed for the Company after a certain date, or (B) the level of bona fide services the Participant will perform for the Company after such date (whether as an employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed by such Participant (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the Company if the Participant has been providing services to the Company less than 36 months).

If such Participant is on military leave, sick leave, or other bona fide leave of absence, the employment relationship between the Participant and the Company shall be treated as continuing intact, provided that the period of such leave does not exceed 6 months, or if longer, so long as the Participant retains a right to reemployment with the Company under an applicable statute or by contract. If the period of a military leave, sick leave, or other bona fide leave of absence exceeds 6 months and the Participant does not retain a right to reemployment under an applicable

statute or by contract, the employment relationship shall be considered to be terminated for purposes of this Plan as of the first day immediately following the end of such 6-month period. In applying the provisions of this paragraph, a leave of absence shall be considered a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Company. For purposes of this paragraph, where a leave of absence is due to any physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where such impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29-month period of absence shall be substituted for such 6-month period.

(ii) For a Participant who provides services to the Company as an independent contractor, except as otherwise provided in part (iii) of this Subsection, a separation from service shall occur upon the expiration of the contract (or in the case of more than one contract, all contracts) under which services are performed for the Company, provided that the expiration of such contract(s) is determined by the Committee to constitute a good-faith and complete termination of the contractual relationship between the Participant and the Company.

(iii) For a Participant who provides services to the Company as both an employee and an independent contractor, a separation from service generally shall not occur until the Participant has ceased providing services for such Company as both an employee and as an independent contractor, as determined in accordance with the provisions set forth in parts (i) and (ii) of this Subsection, respectively. Similarly, if a Participant either (A) ceases providing services for the Company as an independent contractor and begins providing services for the Company as an employee, or (B) ceases providing services for the Company as an employee and begins providing services for the Company as an independent contractor, the Participant will not be considered to have experienced a separation from service until the Participant has ceased providing services for the Company in both capacities, as determined in accordance with the applicable provisions set forth in parts (i) and (ii) of this Subsection.

Notwithstanding the foregoing provisions in this part (iii), if a Participant provides services for the Company as both an employee and as a director of the Board of the Company, to the extent permitted by Treas. Reg. §1.409A-1(h)(5) the services provided by such Participant as a director of the Board of the Company shall not be taken into account in determining whether the Participant has experienced a Separation from Service as an employee.

(iv) For purposes of this Subsection, services performed for the Company shall include service performed both for the Company and for any other corporation that is a member of the same "controlled group" of corporations as the Company under Section 414(b) of the Code or any other trade or business (such as a partnership) that is under common control with the Company as determined under Section 414(c) of the Code, in each case as modified by Treasury Regulation Section 1.409A-1(h)(3) and substituting "at least 50 percent" for "at least 80 percent" each place it appears in Section 1563(a) of the Code or Treasury Regulation Section 1.414(c)-2.

(4) A Participant shall be solely responsible and liable for the satisfaction of all taxes, interest, and penalties that may be imposed on such Participant or for such Participant's account in connection with an Award (including any taxes, interest, and penalties under Section 409A),

and neither the Company nor its affiliates shall have any obligation to indemnify or otherwise hold such Participant harmless from any or all of such taxes, interest, or penalties.

SECTION 16. *Term of the Plan.*

(a) *Effective Date.* The Plan first became effective on April 2, 1999, the date on which the Plan was adopted and approved by the Board (the "Effective Date"), and was subsequently approved by the Company's stockholders. This amendment and restatement shall be effective as of the Amendment Date as defined herein.

(b) *Expiration Date.* The Plan will expire on, and no Option or Award shall be granted under the Plan after, April 2, 2009, or after such earlier date as the Committee may determine, in its sole discretion. Any Awards that are outstanding on April 2, 2009 shall remain in force according to the terms of the Plan and the applicable Award Agreement.



**AMENDED AND RESTATED KB HOME
2001 STOCK INCENTIVE PLAN
(as amended on April 13, 2017)**

SECTION 1. *Purpose* . The purpose of the KB Home 2001 Stock Incentive Plan (the “Plan”) is to promote the success of KB Home (the “Company”) by providing a method whereby employees of the Company and its subsidiaries and other eligible participants may be encouraged to invest in the Common Stock, \$1.00 par value, of the Company (“Common Stock”), increase their proprietary interest in its business, remain in the employ of the Company or its subsidiaries, and increase their personal interests in the continued success and progress of the Company. The Plan provides for the grant of Options that satisfy the requirements for treatment as Incentive Stock Options (“ISOs”) as defined under Section 422 of the Code or that are not intended to satisfy such requirements (“Non-Qualified Options”), as well as for certain other “Awards,” as defined below. The Plan is an amendment and restatement of the KB Home 2001 Stock Incentive Plan, which amendment and restatement shall be effective as of October 2, 2008 (the “Amendment Date”).

SECTION 2. *Definitions*. As used in this Plan, the following terms shall have the indicated meanings:

(a) Amendment Date: Amendment Date shall have the meaning set forth in Section 1 hereof.

(b) Award: An award under this Plan of a Performance Stock Award, Restricted Stock Award, or Stock Unit Award.

(c) Board: The board of directors of KB Home.

(d) Code: The Internal Revenue Code of 1986, as amended from time to time. All references to the Code or any section thereof shall include the Treasury Regulations and other Department of Treasury guidance issued thereunder.

(e) Committee: The Committee specified in Section 3(a) of this Plan.

(f) Company: KB Home and its Subsidiaries.

(g) Effective Date: Effective Date shall have the meaning set forth in Section 13(a) hereof.

(h) Exchange Act: The Securities Exchange Act of 1934, as amended.

(i) Fair Market Value: As of any given date, (a) if Shares are traded on a securities exchange, the closing price of a Share as reported in the *Wall Street Journal* for such date or, if no sale occurred on such date, for the first trading date immediately prior to such date during which a sale occurred; or (b) if Shares are not traded on a securities exchange, (i) the last sales price on such date (if Shares are then listed as a Global Market Issue under the NASDAQ Global Market System) or (ii) the mean between the closing representative bid and asked prices (in all other cases) for Shares on such date; or, if no sales prices or bid and asked prices, as applicable, are reported by a national quotation system, the first date immediately prior to such date on which sales prices or bid and asked prices, as applicable, are reported by a national quotation system; or (c) if Shares are not publicly traded, or with respect to any non-Share based Award or settlement of an Award, the fair market value established by the Committee acting in good faith.

(j) Limited Stock Appreciation Right: A right granted pursuant to Section 6(b) to receive cash in certain circumstances with respect to a related Option.

(k) Option: An Option is a right granted under Section 6(a) to purchase a number of shares of Common Stock at such exercise price, at such times, and on such other terms and conditions as are specified in or determined pursuant to the document(s) evidencing the Award.

(l) Participant: An individual eligible under Section 5(a) to participate in this Plan.

(m) Performance Objectives: With reference to a particular Option or Award, the objectives established by the Committee under various criteria, the satisfaction of which may result in the grant, issuance, retention and/or vesting of an Option, a Performance Stock Award or Stock Unit Award, or which may accelerate the release of shares of Common Stock from the restrictions of a Restricted Stock Award. The Performance Objectives may differ from Participant to Participant and from Award to Award, as determined by the Committee and specified in the applicable Award. For purposes of an Award that is intended to qualify as “qualified performance-based compensation” under Code Section 162(m), the term “Performance Objective” shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee in the Award: (i) pre-tax income, (ii) after-tax income, (iii) cash flow, (iv) return on equity, (v) return on capital, (vi) earnings per share (including earnings before interest, taxes, depreciation and amortization), (vii) unit volume, (viii) net sales, (ix) service quality or (v) total shareholder return, in each case as determined in accordance with Generally Accepted Accounting Principles, if applicable.

(n) Performance Stock Award: Performance Stock is an award of shares of Common Stock made under Section 7(a), the grant, issuance, retention and/or vesting of which is subject to such performance and other conditions as are expressed in the document(s) evidencing the Award.

(o) Plan: The KB Home 2001 Stock Incentive Plan, as it may be amended from time to

time.

(p) Restricted Stock Award: Restricted Stock is a right granted under Section 7(b) to shares of Common Stock issued or issuable under the Plan but subject during specified periods of time to such conditions on vesting, restrictions on transferability and/or repurchase rights as are expressed in the document(s) evidencing the Award.

(q) Section 409A: Section 409A of the Code and, for the avoidance of doubt only, the Treasury Regulations and other Department of Treasury guidance issued thereunder.

(r) Stock Unit Award: An award granted under Section 8 of this Plan.

(s) Subsidiary: Any corporation of which the Company owns, directly or indirectly, fifty percent (50%) or more of the voting or capital stock, or any partnership or other entity of which the Company owns, directly or indirectly, a fifty percent (50%) or more participating interest or the general partner of which is a Subsidiary.

(t) Tax Date: The date on which taxes of any kind are required by law to be withheld with respect to shares of Common Stock subject to an Option or Award.

SECTION 3. *Administration.*

(a) The Plan shall be administered by the Board and/or by a committee of the Board, as appointed from time to time by the Board (the "Committee"). The Board shall fill vacancies on, and from time to time may remove or add members to, the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent. The Committee may designate the Secretary of the Company or other Company employees to assist the Committee in the administration of the Plan, and may grant authority to such persons to issue and/or execute agreements or other documents under this Plan on behalf of the Committee or the Company.

(b) The Committee shall have full power and authority, subject to applicable law, the terms of the Plan, and such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be issued or adopted by the Board, to grant to eligible persons Options, Limited Stock Appreciation Rights and Awards pursuant to the provisions of the Plan, to fix the exercise price and other terms of Options, to fix the terms of any Performance Stock Award and/or Restricted Stock Award in a manner consistent with the terms of Section 7, to fix the terms of any Stock Unit Award in a manner consistent with the terms of Section 8, to prescribe, amend and rescind rules and regulations, if any, relating to the Plan, to interpret the provisions of the Plan, Options, Limited Stock Appreciation Rights and Awards issued under the Plan, to amend such Options, Limited Stock Appreciation Rights and Awards from time to time subject to the provisions of the Plan, and to supervise the administration of the Plan. All decisions made by the Committee pursuant to the provisions of the Plan and related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, stockholders, employees and optionees.

(c) Each person who is or shall have been a member of the Committee or of the Board

shall be indemnified and held harmless by the Company from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with any claim, action, suit or proceeding to which he or she may be a party by reason of any action taken or any failure to act under the Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, or as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

SECTION 4. *Shares Subject to the Plan.*

(a) The shares to be delivered upon exercise of Options or Limited Stock Appreciation Rights granted under the Plan or pursuant to Awards, may be made available from the authorized but unissued shares of the Company or from shares reacquired by the Company, including shares purchased in the open market or in private transactions.

(b) Subject to adjustments made pursuant to the provisions of Section 4(d) and this Section 4(b), the aggregate number of shares reserved for issuance upon the exercise of Options and pursuant to Awards which may be granted under the Plan shall not exceed 4,200,000 shares of Common Stock. The aggregate number of shares of Common Stock issued under this Plan shall equal only the number of shares actually issued upon exercise or settlement of an Option or vesting or settlement of any Award and not returned to the Company upon cancellation, expiration or forfeiture of Options and Awards or delivered (either actually or by attestation) in payment or satisfaction of the exercise price, purchase price or tax obligation of Options and Awards.

(c) The aggregate number of shares of Common Stock issued and issuable pursuant to ISOs may not exceed 4,200,000 shares. The maximum number of shares of Common Stock subject to Options granted during any calendar year to any one Participant shall not exceed 1,000,000. The maximum number of shares of Common Stock subject to Awards (other than Stock Units issued or issuable upon exercise of Options) that may be granted during any calendar year to any one Participant shall not exceed 500,000 in the aggregate.

(d) In the event of any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or other similar corporate event affecting the Common Stock such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available to Participants under this Plan, the Committee shall make appropriate proportional adjustments to any or all of (1) the number and kind of shares which thereafter may be awarded or optioned and sold or made the subject of Limited Stock Appreciation Rights under the Plan, (2) the number and kind of shares subject to outstanding Options and Awards, and Limited Stock Appreciation Rights, and (3) the exercise price with respect to any of the foregoing and/or, if deemed appropriate, make provision for a cash payment to a Participant, including to reflect such an event occurring prior to an Option or Award, the grant of which was intentionally deferred in anticipation of such event; provided, however, that the number of shares subject to any Option or Award shall always be a whole number. Any adjustment under this Section 4(d) shall be made

only to the extent that such adjustment will not cause a violation of the requirements of Section 409A.

SECTION 5. *Eligibility and Extent of Participation.*

(a) The persons eligible to receive Awards, Options and associated Limited Stock Appreciation Rights under the Plan shall consist of employees or prospective employees of the Company and consultants or advisors of the Company who, in the Committee's judgment, can make substantial contributions to the Company's long-term profitability and value. For purposes of the administration of previously granted Options and Awards, the term "Participant" shall also include a former Participant and any permitted transferee (including any trust, partnership or estate) of a Participant or former Participant.

(b) Subject to the limitations of the Plan, the Committee shall, after such consultation with and consideration of the recommendations of management as the Committee considers desirable, select from eligible persons those Participants to be granted Options and Awards and determine the time when each Option and Award shall be granted, the number of shares subject to each Option and Award and whether Limited Stock Appreciation Rights should be granted in connection with such Option, the number of shares for each Award and the restrictions associated with such Award. Subject to the provisions of Section 4, both Options and Awards may be granted to the same Participant.

SECTION 6. *Grants of Options and Limited Stock Appreciation Rights.*

(a) *Grant of Options.* Options on shares of Common Stock may be granted to Participants by the Committee from time to time at its sole discretion, provided that no Option may be granted to a Participant unless the Company is an "eligible issuer of service recipient stock" within the meaning of Section 409A with respect to such Participant. Options intended to qualify as ISOs pursuant to Code Section 422 and Non-Qualified Options which are not intended to qualify as ISOs may be granted as the Committee in its sole discretion shall determine. Each Option grant shall contain such terms and conditions as may be approved by the Committee. Subject to the terms of the Plan, the Committee may establish provisions regarding (1) the number of shares of Common Stock which may be issued upon exercise of the Option, (2) the purchase price of the shares of Common Stock and the means of payment for the shares of Common Stock, (3) the term of the Option, (4) such terms and conditions of exercisability as may be determined from time to time by the Committee, (5) restrictions on the transfer of the Option and forfeiture provisions, and (6) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee. The grant of an Option shall not constitute or be evidence of any agreement or other understanding, express or implied, on the part of the Company or any Subsidiary to employ an individual for any specific period.

(b) *Grant of Limited Stock Appreciation Rights in the Event of Change of Ownership.* If deemed by the Committee to be in the best interests of the Company, any Option granted on or after the Effective Date of the Plan may include a Limited Stock Appreciation Right at the time of grant of the Option. Unless otherwise specified, any reference in this Plan to an Option or

Options shall include any associated Limited Stock Appreciation Right. Such Limited Stock Appreciation Rights shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose, provided that:

(1) A Limited Stock Appreciation Right shall be exercisable only during the ninety-one (91) day period specified in the last sentence of Section 9(a), provided, however, that except in connection with a Change of Ownership, no Limited Stock Appreciation Right granted to a Participant who is subject to Section 16 of the Exchange Act shall be exercisable within six (6) months of the date of its grant; and

(2) A Limited Stock Appreciation Right shall, upon its exercise, entitle the optionee to whom such Limited Stock Appreciation Right was granted to receive an amount of cash equal to the amount by which the the Fair Market Value per share of Common Stock on the date of exercise of such Limited Stock Appreciation Right shall exceed the exercise price of the associated Option, multiplied by the number of shares of Common Stock with respect to which such Limited Stock Appreciation Right shall have been exercised. Upon the exercise of a Limited Stock Appreciation Right, any associated Option shall cease to be exercisable to the extent of the shares of Common Stock with respect to which such Limited Stock Appreciation Right was exercised. Upon the exercise or termination of an associated Option, any related Limited Stock Appreciation Right shall terminate to the extent of the shares of Common Stock with respect to which such associated Option was exercised or terminated.

(c) Exercise Price.

(1) The price at which each share of Common Stock may be purchased upon exercise of a particular Option shall be as specified by the Committee, in its sole discretion, but in no event shall the exercise price be less than 100% of the Fair Market Value of a share of Common Stock at the time such Option is granted, except that the Committee may specifically provide that the exercise price of an Option may be higher or lower in the case of an Option granted to employees of a company acquired by the Company in assumption and substitution of options held by such employees at the time such company is acquired, provided that such assumption and substitution shall not cause a violation of the requirements of Section 409A.

(2) Unless approved by shareholders and subject to adjustment pursuant to Section 4(d), the exercise price of any Option previously awarded under the Plan may not be adjusted downward, whether through amendment, cancellation or replacement grants, or by any other means.

(3) If the Committee, in its discretion, shall deem it desirable, and subject to the requirements of Section 409A, if applicable, the grant of an Option may be made conditional upon the receipt of a payment therefor by the optionee or upon the optionee agreeing to forego receipt of an amount of other compensation. Such condition and the terms and conditions as to its satisfaction may also provide for the reimbursement to the optionee of any part or all of such payment under such circumstances as the Committee may specify.

(d) Exercise.

(1) Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify, provided, however, that except in connection with a Change of Ownership, (i) Options granted to Participants who are subject to Section 16 of the Exchange Act shall not become exercisable within six (6) months from the date of grant and (ii) in no event may any Option granted hereunder be exercisable after the expiration of 15 years from the date of such grant. Subject to the foregoing, each Option grant shall specify the effect thereon of the death, retirement or other termination of employment of the optionee. In addition, the Committee may impose such other conditions with respect to the exercise of Options, including without limitation, any relating to the application of Federal or state securities laws, as it may deem necessary or advisable.

(2) No shares shall be delivered pursuant to any exercise of an Option until the Participant has made payment in full of the option price therefor or provision for such payment satisfactory to the Committee. The exercise price of an Option may be paid in cash or certified or cashiers' check or by delivery (either actually or by attestation) of shares of Common Stock that have been acquired or held by the Participant in such manner as to not result in an accounting charge. To the extent authorized by the Committee, either at the time of grant or at the time of exercise of an Option, the exercise price of an Option also may be paid through one or more of the following: (i) shares of capital stock of the Corporation, (ii) other property deemed acceptable by the Committee, (iii) a reduction in the number of shares or other property otherwise issuable pursuant to such Option, (iv) a promissory note of or other commitment to pay by the Participant or of a third party, the terms and conditions of which shall be determined by the Committee, or (v) any combination of the foregoing. No optionee or the legal representative, legatee or distributee of an optionee shall be deemed to be a holder of any shares subject to any Option prior to the issuance of such shares upon exercise of such Option.

(e) *Transferability of Options.* Unless the documents evidencing the grant of an Option (or an amendment thereto authorized by the Committee) expressly states that the Option is transferable as provided hereunder, no Option granted under the Plan may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner, other than by will or the laws of descent and distribution. The Committee may in its sole discretion grant an Option or amend an outstanding Option to provide that the Option is transferable or assignable to a member or members of the Participant's "immediate family," as such term is defined under Exchange Act Rule 16a-1(e), or to a trust for the benefit solely of a member or members of the Participant's immediate family, or to a partnership or other entity whose only owners are members of the Participant's family, provided that (1) no consideration is given in connection with the transfer of such Option, and (2) following any such transfer or assignment the Option will remain subject to substantially the same terms applicable to the Option while held by the Participant, as modified as the Committee in its sole discretion shall determine appropriate, and the transferee shall agree to be bound by such terms.

(f) *Evidence of Grant; Other Terms and Conditions.* All Options shall be evidenced by an award agreement between the Company and the Participant. Such award agreement shall include such additional provisions not inconsistent with the Plan as may be specified by the Committee. The Committee shall determine the number of Shares subject to an Option and the

exercise price of such Option on or before the date of grant of such Option, and shall not amend an Option to reduce the per Share exercise price (except as permitted by Section 4(d) hereof), extend the exercise period of an Option beyond the earlier of the latest date upon which the Option could have expired by its original terms under any circumstances or the tenth anniversary of the date of grant of such Option, or otherwise modify such Option or add any feature for the deferral of compensation in any manner that would cause a violation of the requirements of Section 409A.

SECTION 7. *Performance Stock Awards and Restricted Stock Awards.*

(a) *Performance Stock Awards.* Subject to the terms of this Plan, Performance Stock Awards may be granted to Participants by the Committee from time to time at its sole discretion. Performance Stock Awards shall consist of an award of shares of Common Stock, the grant, issuance, retention and/or vesting of which shall be subject to such Performance Objectives, and to such further terms and conditions as the Committee deems appropriate. Each Performance Stock Award shall contain provisions regarding (1) the number of shares of Common Stock subject to such Award or a formula for determining such, (2) the performance criteria and level of achievement versus these criteria which shall determine the number of shares of Common Stock granted, issued, retainable and/or vested, (3) the period as to which performance shall be measured for determining achievement of such performance criteria (a "Performance Period"), (4) forfeiture provisions, and (5) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee. The grant, issuance, retention and/or vesting of each Performance Stock Award shall be subject to such performance criteria and level of achievement versus these criteria as the Committee shall determine, which criteria may be based on financial performance and/or personal performance evaluations. Notwithstanding anything to the contrary herein, the performance criteria for any Performance Stock that is intended by the Committee to satisfy the requirements for "qualified performance-based compensation" under Code Section 162(m) shall be a measure based on one or more Performance Objectives selected by the Committee and specified at the time the Performance Stock Award is granted. Notwithstanding anything in this Plan to the contrary, Performance Stock Awards may provide that upon satisfaction of Performance Objectives the shares subject to the Award are subject to such further holding periods and/or restrictions on transferability as the Committee may provide. Any Performance Stock Award shall comply with, or be exempt from, the requirements of Section 409A.

(b) *Restricted Stock Awards.* Subject to the terms of this Plan, Restricted Stock Awards may be granted to Participants by the Committee from time to time at its sole discretion. Restricted Stock consists of shares of Common Stock which are registered or are issuable by the Company in the name of a Participant in exchange for such cash or other consideration, if any, as determined by the Committee. Restricted Stock shall be subject during specified periods of time to such conditions to vesting, to restrictions on their sale or other transfer by the Participant and/or to repurchase rights as may be determined by the Committee, consistent with the terms of the Plan. The transfer and sale of shares of Common Stock pursuant to Restricted Stock Awards shall be subject to the following terms and conditions:

- (1) The number of shares of Common Stock to be transferred or sold by the Company

to a Participant pursuant to a Restricted Stock award shall be determined by the Committee.

(2) Subject to the requirements of applicable law, the Committee shall determine the price, if any, at which shares of Restricted Stock shall be sold or awarded to a Participant, which may vary from time to time and among Participants and which may be below the Fair Market Value of such Shares at the date of grant.

(3) All shares of Common Stock transferred or sold as Restricted Stock hereunder shall be subject to such restrictions or conditions as the Committee may determine, including, without limitation any or all of the following: (i) a prohibition against the sale, transfer, pledge or other encumbrance of the Shares, such prohibition to lapse at such time or times as the Committee shall determine (whether in annual or more frequent installments, at the time of the death, disability or retirement of the holder of such Shares, or otherwise); (ii) a requirement that the holder of shares of Common Stock forfeit or resell back to the Company at a price specified by the Committee (which price may be more than the price, if any, paid by the Participant for such Shares) all or part of such shares of Common Stock in the event of termination of employment during any period in which such shares of Common Stock are subject to conditions; (iii) such other conditions or restrictions as the Committee may deem advisable; and (iv) any applicable Performance Objectives which, if achieved, shall cause acceleration of the lapsing of restrictions imposed upon all or part of the shares covered by the Restricted Stock Award.

Notwithstanding anything else in this Plan to the contrary, the restrictions set forth in Section 7(b)(3) shall not lapse with respect to a Restricted Stock Award before the second anniversary of the date of grant of such Restricted Stock Award, provided, however, that the Committee, in its sole discretion, may designate that such restrictions shall lapse upon the achievement of Performance Objectives. Subject to the preceding sentence, once established, Performance Objectives and the terms under which the lapsing of restrictions may be accelerated may be changed, adjusted or amended by the Committee in its sole discretion. Notwithstanding anything in this Plan to the contrary, Restricted Stock Awards may provide that upon the lapsing of restrictions set forth above, the shares subject to the Award may be subject to such further holding periods and/or restrictions on transferability as the Committee may provide.

(c) *Settlement of Awards.* To the extent that any Performance Share Award or Restricted Stock Award provides for shares to be issued, or the Award to be otherwise settled, later than the date of grant of such Award, such issuance or settlement shall occur within 60 days after the date on which such Award shall vest. The Committee may provide for any Performance Share Award or Restricted Stock Award to be settled at such other time as it determines appropriate, provided that in no event shall any such Award be settled after the later of: (i) the 15th day of the third month following the end of the Participant's taxable year in which the Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company's first taxable year in which the Award is no longer subject to a substantial risk of forfeiture.

(d) *Rights with Respect to Shares.* Unless the terms of the Award provide otherwise, unless and until shares subject to the Award are forfeited pursuant to the terms of this Plan or the Award, a Participant shall have the right to vote and to receive dividends and other distributions

on shares subject to a Performance Stock Award or Restricted Stock Award, subject, however, to the terms, conditions and restrictions described in this Plan and the Award.

(e) *Escrow.* Shares of Common Stock issued pursuant to a Performance Stock Award or Restricted Stock Award may be held in escrow by the Company until such time as the Committee shall have determined that the restrictions set forth in Section 7 have lapsed or until the shares subject to such Performance Stock Award or Restricted Stock Award are forfeited pursuant to their terms.

(f) *Restrictive Legends.* Certificates for shares of Common Stock delivered pursuant to Performance Stock Awards or Restricted Stock Awards may bear an appropriate legend referring to the terms, conditions and restrictions described in this Plan and in the applicable Award. Any attempt to dispose of any such shares of Common Stock in contravention of the terms, conditions and restrictions described in this Plan or in the applicable Award shall be ineffective. Any shares of Common Stock of the Company or other property, including cash, received by a Participant as a dividend or as a result of any stock split, combination, exchange of shares, reorganization, merger, consolidation or similar event with respect to shares of Common Stock received pursuant to a Performance Stock Award or Restrictive Stock Award shall have the same status and bear the same legend and be held in escrow pursuant to Section 7(d) as the shares received pursuant to the Performance Stock Award or Restricted Stock Award unless otherwise determined by the Committee at the time of such event.

(g) *Designation of Beneficiaries.* A Participant may designate a beneficiary or beneficiaries to receive such Participant's Common Stock hereunder in the event of such Participant's death, and may, at any time and from time to time, change any such beneficiary designation. All beneficiary designations and changes therein shall be in writing and shall be effective if and when delivered to the Committee during the lifetime of the Participant.

(h) *Discretionary Adjustments.* Notwithstanding satisfaction of any Performance Objectives, the number of shares of Common Stock granted, issued, retainable and/or vested under a Performance Stock Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine. The Committee may make adjustments or modifications, and its determination thereof shall be conclusive, in any applicable Performance Objectives to give effect to the intent of this Plan in connection with any event affecting the performance criteria established as the Performance Objectives, including without limitation, any reorganization, recapitalization, merger, consolidation, offering of additional shares of Common Stock or other change in the Company's shareholders' equity by means other than earnings, or any similar event, provided that any such adjustment or modification shall be made only to the extent that it will not cause a violation of the requirements of Section 409A. The grant of an Award shall not constitute or be evidence of any agreement or other understanding, express or implied, on the part of the Company or any Subsidiary to employ an individual for any specific period.

SECTION 8. *Stock Unit Awards*

(a) *Grant of Stock Unit Awards.* The Committee shall have authority to grant to Participants Stock Unit Awards, the value of which is based, in whole or in part, on the value of Common Stock. Each “Stock Unit” shall consist of a bookkeeping entry representing an amount equivalent to the Fair Market Value of one share of Common Stock. Such Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Committee. Stock Units may be granted as additional compensation or in lieu of any other compensation, as specified by the Committee, provided that Stock Units shall not be granted in substitution for or payment of any Award or other compensation in a manner that causes a violation of the requirements of Section 409A. Subject to the provisions of the Plan, Stock Unit Awards shall be subject to such terms, restrictions, conditions, vesting requirements and payment rules as the Committee may determine in its sole discretion.

(b) *Transferability of Stock Units.* Unless the Stock Unit Award (or an amendment thereto authorized by the Committee) expressly states otherwise, any shares of Common Stock which are part of a Stock Unit Award shall not be assigned, sold transferred, pledged or otherwise encumbered before the date on which the shares are issued.

(c) *Settlement of Stock Units.* Settlement of Stock Units shall be made by issuance of Common Stock (unless provided otherwise by the Committee at the time of grant) and shall occur within 60 days after the date on which such Stock Units shall vest. The Committee may provide in the terms of the Stock Unit Award for Stock Units to be settled in cash (in the sole discretion of the Company) and to be settled at such other times as it determines appropriate, provided that in no event shall any Stock Unit be settled after the later of: (i) the 15th day of the third month following the end of the Participant’s first taxable year in which the Stock Unit is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month following the end of the Company’s first taxable year in which the Stock Unit is no longer subject to a substantial risk of forfeiture. The amount of shares of Common Stock, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents, which may be valued as if reinvested in Common Stock. Until a Stock Unit is settled, the number of shares of Common Stock represented by a Stock Unit shall be subject to adjustment pursuant to Section 4(d).

SECTION 9. *Special Rules.*

(a) Notwithstanding anything to the contrary in this Plan, unless otherwise specifically determined by the Committee at the time of grant, all Options theretofore granted and not fully exercisable shall become exercisable in full and the restrictions on all outstanding Awards shall lapse upon the occurrence of a Change of Ownership. A “Change of Ownership” shall be deemed to have occurred if either (1) individuals who, as of the Effective Date of this Plan, constitute the Board of Directors of the Company (the “Board of Directors” generally and as of the Effective Date, the “Incumbent Board”) cease for any reason to constitute at least a majority of the directors constituting the Board of Directors, provided that any person becoming a director subsequent to the Effective Date of this Plan whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least three-quarters (3/4) of the then directors who are members of the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is (i) in connection with the acquisition by a third

person, including a “group” as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Act”), of beneficial ownership, directly or indirectly, of 20% or more of the combined voting securities ordinarily having the right to vote for the election of directors of the Company (unless such acquisition of beneficial ownership was approved by a majority of the Board of Directors who are members of the Incumbent Board), or (ii) in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board, or (2) the Board of Directors (a majority of which shall consist of directors who are members of the Incumbent Board) has determined that a Change of Ownership triggering the exercisability of Options and the lapse of restrictions on Awards as described in this Section 10 shall have occurred. Options which become fully exercisable by reason of events specified in clauses (1) or (2) shall remain exercisable for 90 days following the date on which they become so exercisable, after which they will revert to being exercisable in accordance with their original terms, provided, however, that no Option which has previously been exercised or has expired or otherwise terminated shall become exercisable by virtue of this Section nor shall this Section permit exercise of any option during the portion, if any, of such 90 day period which follows the termination or expiration of any such Option.

(b) For purposes of this Plan and any Option or Award hereunder, termination of employment shall not be deemed to occur upon the transfer of any optionee from the employ of the Company to the employ of any Subsidiary or affiliate. For purposes of this Plan, “affiliate” means (1) any entity 50% or more of the voting interest in which is owned, directly or indirectly, by an entity which owns, directly or indirectly, 50% or more of the voting interest in the Company and (2) any entity which owns, directly or indirectly, 50% or more of the voting interest in the Company.

(c) Either at the time an Award is granted or by subsequent action, the Committee may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by a Participant of any shares issued under an Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participants, and (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

(d) The existence of outstanding Awards (including any Options) shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, exchanges, or other changes in the Company’s capital structure or its business, or any merger or consolidation of the Company, or any issuance of shares or other securities or subscription rights thereto, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the shares or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. Further, except as herein expressly provided, (i) the issuance by the Company of shares of stock or any class of securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon

conversion of shares or obligations of the Company convertible into such shares or other securities, (ii) the payment of a dividend in property other than Common Stock, or (iii) the occurrence of any similar transaction, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares subject to Options theretofore granted or the purchase price per share, unless the Committee shall determine in its sole discretion that an adjustment is necessary to provide equitable treatment to Participant.

SECTION 10. *Delivery of Shares.* No shares of Common Stock shall be delivered pursuant to an Award or any exercise of an Option until the requirements of such laws and regulations as may be deemed by the Committee to be applicable thereto are satisfied.

SECTION 11. *Financing and Withholding.*

(a) *Withholding of Taxes.* As a condition to the making of an Award, to the lapse of the restrictions pertaining to an Award, to the transfer of shares issued under an Award or to the delivery of shares in connection with the exercise of an Option, the Company may require the Participant to pay to the Company, or make arrangements satisfactory to the Committee regarding payment of, any taxes of any kind required by law to be withheld with respect to such shares of Common Stock.

(b) *Financing.* If requested by a Participant who exercises an Option or who has received shares of Common Stock pursuant to an Award, the Committee may in its discretion provide financing to the Participant in a principal amount sufficient for the purchase of shares of Common Stock pursuant to such Option exercise or under such Award, and/or to pay the amount of taxes required by law to be withheld with respect to such Option exercise or such receipt of shares of Common Stock. Any such loan shall be subject to all legal requirements, and restrictions pertinent thereto, including if applicable, Regulation G promulgated by the Federal Reserve Board. The grant of an Option or Award shall in no way obligate the Company or the Committee to provide any financing whatsoever upon the lapse of restrictions on shares or the exercise of such Option.

(c) *Withholding of Shares.*

(1) If requested by a Participant who acquires shares of Common Stock upon the exercise of an Option or who has received Common Stock pursuant to an Award with respect to which the restrictions shall have lapsed, the Committee may in its discretion permit the Participant to satisfy any tax withholding obligations, in whole or in part, by having the Company withhold a portion of such shares with a value equal to the amount of taxes required by law to be withheld, based on the applicable minimum statutory withholding rates (or such other rate that will not create an adverse accounting cost or consequence).

(2) Requests by a Participant to have shares of Common Stock withheld shall be (i) made prior to the Tax Date and (ii) irrevocable.

SECTION 12. *Amendments, Suspension or Discontinuance.* The Board of Directors may

amend, suspend or discontinue the Plan or any Option or Award granted under the Plan. Notwithstanding the foregoing, except as permitted by Section 4(c), the Board may not, without prior approval of the shareholders of the Company, make any amendment which operates (a) to reduce the exercise price of outstanding Options or amend the provisions of Section 6(c)(2) relating to repricing Options, (b) to materially increase the total number of shares of Common Stock which may be delivered in respect of Awards or on exercise of Options granted under the Plan, (c) to extend the maximum option period or the period which Options or Awards may be granted under the Plan or (d) to reduce the minimum permissible Option exercise price.

SECTION 13. *Term of Plan.*

(a) *Effective Date.* The Plan became effective on February 1, 2001, the date the Plan was approved and adopted by the Board (the “Effective Date”), and was subsequently approved by the Company’s shareholders. This amendment and restatement shall be effective as of the Amendment Date as defined herein.

(b) *Expiration Date.* The Plan will expire on, and no Option or Award shall be granted under the Plan after, the date that is ten (10) years after the date on which the Plan was approved by the Company’s shareholders or after such earlier date as the Committee may decide, in its sole discretion.

SECTION 14. *Option Grants by Subsidiaries.* In the case of a grant of an option to any Participant by a Subsidiary, such grant may, if the Committee so directs, be implemented by the Company issuing any subject shares to the Subsidiary, for such lawful consideration as the Committee may determine, upon the condition or understanding that the Subsidiary will transfer the shares to the optionholder in accordance with the terms of the option specified by the Committee pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such option may be issued by and in the name of the Subsidiary and shall be deemed granted on such date as the Committee shall determine.

SECTION 15. *Liability of the Company.* The Company and any Affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant, an Eligible Person or other persons as to:

(a) *The Non-Issuance of Shares.* The non-issuance or sale of shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any shares hereunder; and

(b) *Tax Consequences.* Any tax consequence expected, but not realized, by any Participant, Eligible Person or other person due to the receipt, exercise or settlement of any option or other Award granted hereunder.

SECTION 16. *Non-Exclusivity of the Plan.* Neither the adoption of the Plan by the Board nor the submission of the Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such

other incentive arrangements as it or they may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

SECTION 17. *Section 409A.*

(a) To the extent that the Committee determines that any Option or Award granted under the Plan is subject to Section 409A, the award agreement evidencing such Option or Award shall comply with the requirements of Section 409A. To the extent applicable, the Plan and award agreements shall be interpreted in accordance with Section 409A, including without limitation any Treasury Regulations or other Department of Treasury guidance that may be issued or amended after the Effective Date or the Amendment Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Option or Award may be subject to Section 409A, including such Department of Treasury guidance as may be issued after the Effective Date or the Amendment Date, the Committee may adopt such amendments to the Plan and the applicable award agreement or adopt other policies and procedures (including amendments, policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions that the Committee determines are necessary or appropriate to (i) exempt the Option or Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Option or Award, or (ii) comply with the requirements of Section 409A.

(b) If, at the time of a Participant's "separation from service" (within the meaning of Section 409A), (i) such Participant is a "specified employee" (within the meaning of Section 409A as determined annually by the Committee in accordance with the methodology specified by resolution of the Board or the Committee and in accordance with Section 1.409A-1(i) of the Treasury Regulations) and (ii) the Company shall make a good-faith determination that an amount payable pursuant to an Option or Award constitutes "deferred compensation" (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A in order to preserve the tax treatment intended for such payment or to avoid additional tax, interest, or penalties under Section 409A, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it on the first business day after such six-month period. Such amount shall be paid without interest, unless otherwise determined by the Committee, in its sole discretion, or as otherwise provided in any applicable agreement between the Company and the relevant Participant.

(c) For purposes of this Plan, whether a "separation from service" within the meaning of Section 409A has occurred shall be determined in accordance with Section 1.409A-1(h) of the Treasury Regulations. Without limiting the foregoing, (i) for a Participant who provides services to the Company as an employee, a separation from service shall be deemed to occur when a Participant has experienced a termination of employment with the Company, and the facts and circumstances indicate that the Participant and the Company reasonably anticipate that either (A) no further services will be performed for the Company after a certain date or (B) the level of bona fide services the Participant will perform for the Company after such date (whether as an employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed (whether as an employee or an independent

contractor) over the immediately preceding 36-month period (or the full period of services to the Company if the Participant has been providing services to the Company less than 36 months); and (ii) for a Participant who provides services to the Company as an independent contractor, a separation from service shall be deemed to occur upon expiration of all contracts under which services are performed for the Company, provided that such expiration constitutes a good-faith and complete termination of the contractual relationship between the Participant and the Company, and provided, further, that for a Participant who provides services to the Company as both an employee and an independent contractor, a separation from service shall generally not occur until the Participant has ceased providing services for such Company as both an employee and an independent contractor pursuant to clauses (i) and (ii) of this sentence. For purposes of determining whether a separation from service has occurred, services performed for the Company shall include services performed both for the Company and for any other corporation that is a member of the same “controlled group” of corporations as the Company under Section 414(b) of the Code or any other trade or business (such as a partnership) that is under common control with the Company as determined under Section 414(c) of the Code, in each case as modified by Section 1.409A-1(h)(3) of the Treasury Regulations and substituting “at least 50 percent” for “at least 80 percent” each place it appears in Section 1563(a) of the Code or Section 1.414(c)-2 of the Treasury Regulations.

(d) A Participant shall be solely responsible and liable for the satisfaction of all taxes, interest, and penalties that may be imposed on such Participant or for such Participant’s account in connection with an Option or Award (including any taxes, interest, and penalties under Section 409A), and neither the Company nor its affiliates shall have any obligation to indemnify or otherwise hold such Participant harmless from any or all of such taxes, interest, or penalties.

**AMENDED KB HOME
2010 EQUITY INCENTIVE PLAN
(as amended on April 13, 2017)**

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**AMENDED KB HOME
2010 EQUITY INCENTIVE PLAN**
(as amended on April 13, 2017)

**ARTICLE 1 .
PURPOSE**

The purpose of the KB Home 2010 Equity Incentive Plan (the “*Plan*”) is to attract, motivate and retain the services of Employees, Non-Employee Directors and Consultants by enabling them to participate in the growth and financial success of KB Home (the “*Company*”) and to align their individual interests to those of the Company’s stockholders.

**ARTICLE 2 .
DEFINITIONS AND CONSTRUCTION**

Wherever the following terms are used in the Plan they shall have the meanings specified below:

1. “*Affiliate*” shall mean a person or entity that directly or indirectly controls or is controlled by, or is under common control with, the Company.
2. “*Award*” shall mean, as the case may be, a grant under the Plan of Options, Restricted Stock, Restricted Stock Units, Performance Awards, Stock Payments or Stock Appreciation Rights.
3. “*Award Agreement*” shall mean any written notice, terms and conditions, contract or other instrument or document evidencing an Award, including in electronic form, which shall contain any terms and conditions with respect to the Award as the Committee shall determine consistent with the Plan and any applicable Program.
4. “*Award Limit*” shall mean with respect to Awards payable in Shares or in cash, as the case may be, the respective limit set forth in Section 4.5.
5. “*Board*” shall mean the Board of Directors of the Company.
6. A “*Change of Ownership*” shall be deemed to have occurred if any of the following has occurred: (a) any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, as determined in accordance with Section 1.409A-3(i)(5)(v) of the Treasury Regulations; *provided*, that if a person or group is considered either to own more than 50% of the total fair market value or total voting power of the stock of the Company, or to own more than the market value or total voting power specified in (b) below, and such person or group acquires additional stock of the Company, the acquisition of additional stock by such person or group shall not be considered to cause a “Change of Ownership”; (b) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company, as

determined in accordance with Section 1.409A-3(i)(5)(vi) of the Treasury Regulations; *provided*, that if a person or group is considered to possess 30% or more of the total voting power of the stock of the Company, and such person or group acquires additional stock of the Company, the acquisition of additional stock by such person or group shall not be considered to cause a “Change of Ownership”; (c) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election, as determined in accordance with Section 1.409A-3(i)(5)(vi) of the Treasury Regulations; or (d) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions, as determined in accordance with Section 1.409A-3(i)(5)(vii) of the Treasury Regulations; *provided*, that a transfer of assets shall not be treated as a “Change of Ownership” when such transfer is made to an entity that is controlled by the stockholders of the Company, as determined in accordance with Section 1.409A-3(i)(5)(vii)(B) of the Treasury Regulations.

7. “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time, together with the Treasury Regulations and official guidance promulgated by the U.S. Department of Treasury.

8. “*Committee*” shall mean the Management Development and Compensation Committee of the Board or another committee of the Board designated by the Board that consists solely of Directors meeting the qualifications described in Section 12.1.

9. “*Common Stock*” shall mean the common stock of the Company, par value \$1.00 per share.

10. “*Company Stock Administrator*” shall mean the stock administrator of the Company, or such other person or entity designated by the Committee, or his, her or its office, as applicable, whether or not employed by the Company.

11. “*Consultant*” shall mean any consultant or advisor engaged to provide services to the Company or any Affiliate that qualifies as a consultant or advisor under the instructions for use of a Form S-8 Registration Statement.

12. “*Covered Employee*” shall mean any Employee who is, or who the Committee believes may become, a “covered employee” within the meaning of Section 162(m) of the Code.

13. “*Director*” shall mean a member of the Board.

14. “*Effective Date*” shall mean the date the Plan is first approved by the Company’s stockholders in accordance with the requirements of the Company’s by-laws, the applicable Securities Exchange and Sections 162(m) and 422 of the Code.

15. “*Eligible Individual*” shall mean any person who is an Employee, a Consultant or a Non-Employee Director, as determined by the Committee or the Board.

16. “*Employee*” shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code) of the Company or of any Affiliate.

17. “*Equity Restructuring*” shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the Shares (or other securities of the Company) or the Share price (or the price of other securities), and results upon its implementation in a change in the per-Share value of the Shares underlying outstanding Awards.

18. “*Exchange Act*” shall mean the Securities Exchange Act of 1934.

19. “*Fair Market Value*” shall mean, as of any given date, the value of a Share determined as follows:

(1) If the Common Stock is listed on any Securities Exchange, its Fair Market Value shall be the closing sales price for a Share as quoted on such Securities Exchange for such date or, if there is no closing sales price for a Share on the date in question, the closing sales price for a Share on the last preceding date for which such quotation exists, as reported by *The Wall Street Journal* or such other source (whether in print or electronic) as the Committee deems reliable;

(2) If the Common Stock is not listed on any Securities Exchange, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a Share on such date, the high bid and low asked prices for a Share on the last preceding date for which such information exists, as reported by *The Wall Street Journal* or such other source (whether in print or electronic) as the Committee deems reliable; or

(3) If the Common Stock is neither listed on any Securities Exchange nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Committee in good faith.

20. “*Full Value Award*” shall mean any Award other than (i) an Option, (ii) a Stock Appreciation Right or (iii) any other Award for which the Holder must pay the intrinsic value existing as of the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Affiliate) as a condition to exercising or receiving payment under it.

21. “*Greater Than 10% Stockholder*” shall mean an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary corporation (as defined in Section 424(f) of the Code) or parent corporation (as defined in Section 424(e) of the Code) thereof.

22. “*Holder*” shall mean a person who has been granted an Award.

23. “*Incentive Stock Option*” shall mean an Option that is intended to qualify as an incentive stock option and conforms to the applicable provisions of Section 422 of the Code.

24. “ *Non-Employee Director* ” shall mean a Director of the Company who is not an Employee.
25. “ *Non-Qualified Stock Option* ” shall mean an Option that is not an Incentive Stock Option.
26. “ *Option* ” shall mean a right to purchase Shares at a specified exercise price, granted under Article 6. An Option shall be either a Non-Qualified Stock Option or an Incentive Stock Option; *provided, however*, that Options granted to Non-Employee Directors and Consultants shall only be Non-Qualified Stock Options.
27. “ *Performance Award* ” shall mean a cash bonus award, stock bonus award, performance award or incentive award that is paid in cash, Shares or a combination of both, awarded under Section 9.1.
28. “ *Performance-Based Compensation* ” shall mean any compensation that is intended to qualify as “performance-based compensation” as described in Section 162(m)(4)(C) of the Code.
29. “ *Performance Criteria* ” shall mean the criteria that the Committee selects for an Award for purposes of establishing the Performance Goal or Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish Performance Goals are limited to the following: (i) **income/loss** (e.g., operating income/loss, EBIT or similar measures, net income/loss, earnings/loss per share, residual or economic earnings), (ii) **cash flow** (e.g., operating cash flow, total cash flow, EBITDA, cash flow in excess of cost of capital or residual cash flow, cash flow return on investment and cash flow sufficient to achieve financial ratios or a specified cash balance), (iii) **returns** (e.g., on revenues, investments, assets, capital and equity), (iv) **working capital** (e.g., working capital divided by revenues), (v) **margins** (e.g., variable margin, profits divided by revenues, gross margins and margins divided by revenues), (vi) **liquidity** (e.g., total or net debt, debt reduction, debt-to-capital, debt-to-EBITDA and other liquidity ratios), (vii) **revenues, cost initiative and stock price metrics** (e.g., revenues, stock price, total shareholder return, expenses, cost structure improvements and costs divided by revenues or other metrics) and (viii) **strategic metrics** (e.g., market share, customer satisfaction, employee satisfaction, service quality, unit volume, orders, backlog, traffic, deliveries, cancellation rates, productivity, operating efficiency, inventory management, community count, goals related to acquisitions, divestitures or other transactions and goals related to KBNxt operational business model principles, including goals based on a per-employee, per-delivery or other basis).
30. “ *Performance Goals* ” shall mean, for a Performance Period, one or more goals established in writing by the Committee for the Performance Period based upon one or more Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance, either independently or as compared to one or more companies, performance of specific subsidiaries or business units, either independently or as compared to one or more companies’ subsidiaries or business units, or otherwise as determined by the Committee. If the Committee believes, in its sole discretion, that an equitable adjustment to any Performance Goal is advisable

in light of new developments or circumstances, the Committee may provide for one or more objectively determinable adjustments. Such adjustments may include or arise from one or more of the following: (i) items related to a change in accounting principle; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (vii) items related to the disposal of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the Performance Period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company's core, on-going business activities; (xiv) items related to acquired in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual or nonrecurring events or changes in applicable laws or business conditions. For all Awards intended to qualify as Performance-Based Compensation, such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

31. “ *Performance Period* ” shall mean one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Holder's right to, and the payment of, a Performance Award.

32. “ *Permitted Transferee* ” shall mean, with respect to a Holder, any person entitled to use a Form S-8 Registration Statement to exercise Awards originally granted to the Holder and to sell Shares issued pursuant to Awards originally granted to the Holder.

33. “ *Program* ” shall mean any program adopted by the Committee pursuant to the Plan containing terms and conditions intended to govern one or more specific types of Awards and/or the manner in which they may be granted.

34. “ *QDRO* ” shall mean a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended from time to time, or the regulations or official guidance promulgated thereunder.

35. “ *Restricted Stock* ” shall mean Shares awarded under Article 8 that are subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

36. “ *Restricted Stock Units* ” shall mean the right to receive Shares or the value of Shares awarded under Section 9.3.

37. “ *Retirement* ” shall mean an Employee's severance from employment with the Company and its Affiliates for any reason other than a leave of absence, termination for cause,

death or disability, at such time as the Employee's age and years of service with the Company and its Affiliates equals at least 65 or more, provided that the Employee is then at least 55 years of age. The Company shall have the sole right to determine whether an Employee's severance from employment constitutes a Retirement.

38. "*Securities Act*" shall mean the Securities Act of 1933.

39. "*Securities Exchange*" shall mean the New York Stock Exchange or any other securities exchange, national market system or automated quotation system on which the Shares are listed, quoted or traded.

40. "*Shares*" shall mean shares of Common Stock.

41. "*Stock Appreciation Right*" shall mean a stock appreciation right as described and granted under Article 10.

42. "*Stock Payment*" shall mean (a) a payment in the form of Shares or (b) a right to purchase Shares, however denominated or described, as part of a bonus, deferred compensation or other arrangement, in any such case awarded under Section 9.2.

43. "*Substitute Award*" shall mean an Award granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity, in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; *provided, however*, that in no event shall the term "Substitute Award" be construed to refer to an Award made in connection with the cancellation and repricing of an Option or Stock Appreciation Right.

44. "Termination of Service" shall mean,

(1) As to a Consultant, the time when the engagement of a Holder as a Consultant to the Company or an Affiliate is terminated for any reason, with or without cause, including, without limitation, by resignation, discharge, death or retirement, but excluding terminations where the Consultant simultaneously commences or remains in employment or service with the Company or any Affiliate.

(2) As to a Non-Employee Director, the time when a Holder who is a Non-Employee Director ceases to be a Director for any reason, with or without cause, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Holder simultaneously commences employment or service with the Company or any Affiliate.

(3) As to an Employee, the time when the employee-employer relationship between a Holder and the Company or any Affiliate is terminated for any reason, with or without cause, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Holder simultaneously commences or remains in employment or service with the Company or any Affiliate.

The Committee, in its sole discretion, shall determine the effect of all matters and questions relating to Terminations of Service, including, without limitation, the question of whether a Termination of Service resulted from a discharge for cause and all questions of whether particular leaves of absence constitute a Termination of Service; *provided, however*, that, with respect to Incentive Stock Options, unless the Committee otherwise provides in the terms of the Program, Award Agreement or otherwise, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Service only if and to the extent that any such event interrupts employment for the purposes of Section 422(a)(2) of the Code. For purposes of the Plan, a Holder's employee-employer relationship or consultancy relationship shall be deemed to be terminated in the event that the Affiliate employing or contracting with such Holder ceases to remain an Affiliate following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off).

Notwithstanding the foregoing, with respect to any Award that constitutes "deferred compensation" subject to the requirements of Section 409A of the Code, a Termination of Service shall not be deemed to have occurred until there also has been a "separation from service" within the meaning of Section 409A of the Code, as determined in accordance with Section 1.409A-1(h) of the Treasury Regulations; provided that (i) for a Holder who provides services to the Company as an Employee, a separation from service shall be deemed to occur when the Holder has experienced a termination of employment with the Company and the facts and circumstances indicate that the Holder and the Company reasonably anticipate that either (A) no further services will be performed by the Holder for the Company after a certain date or (B) the level of bona fide services the Holder will perform for the Company after a certain date (whether as an Employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed by the Holder (whether as an Employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Company if the Holder has been performing services for less than 36 months); and (ii) for a Holder who provides services to the Company as an independent contractor, a separation from service shall be deemed to occur upon expiration or termination of all contracts under which services are performed by the Holder for the Company, provided that such expiration or termination constitutes a good-faith and complete severing of the contractual relationship between the Holder and the Company, and provided, further, that for a Holder who provides services to the Company as both an Employee and an independent contractor, a separation from service shall generally not occur until the Holder has ceased providing services for the Company as both an Employee and an independent contractor pursuant to clauses (i) and (ii) of this sentence. For purposes of determining whether a separation from service has occurred, services performed for the Company shall include services performed both for the Company and for any other corporation that is a member of the same "controlled group" as the Company under Section 414(b) of the Code or any other trade or business (such as a partnership) that is under common control with the Company as determined under Section 414(c) of the Code, in each case as modified by Section 1.409A-1(h)(3) of the Treasury Regulations and substituting "at least 50 percent" for "at least 80 percent" each place it appears in Section 1563(a) of the Code or Section 1.414(c)-2 of the Treasury Regulations.

45. “ *Treasury Regulations* ” shall mean the final, temporary and proposed regulations promulgated by the U.S. Department of the Treasury under the Code, as such regulations may be amended from time to time.

ARTICLE 3.
SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares* .

(a) Subject to adjustment as provided in Section 3.1(b) and Section 13.2, a total of Seven Million Five Hundred Thousand (7,500,000) Shares shall be authorized for grant under the Plan. This limit includes Shares that were authorized for grant under the Company’s 2001 Stock Incentive Plan but that were not issued or subject to outstanding awards as of the Effective Date. Any Share that is subject to an Award that could be settled with Shares and is not a Full Value Award shall be deducted from this limit at the ratio of one (1) Share for every one (1) Share subject to the Award. Any Share that is subject to a Full Value Award that could be settled with Shares shall be deducted from this limit at the ratio of 1.78 Shares for every one (1) Share subject to the Award. After the Effective Date, no new awards may be granted under the 2001 Stock Incentive Plan, but any awards under the 2001 Stock Incentive Plan that are outstanding as of the Effective Date shall continue to be subject to the terms and conditions of the 2001 Stock Incentive Plan.

(b) If an Award expires or is canceled, forfeited or settled for cash (in whole or in part), the Shares subject to such Award shall, to the extent of such expiration, cancellation, forfeiture or cash settlement, again be available as Shares authorized for grant under the Plan, in accordance with Section 3.1(d) below. Notwithstanding anything to the contrary contained herein, Shares tendered by a Holder or withheld by the Company in payment of the exercise price of an Award or to satisfy any tax withholding obligation with respect to an Award shall not be available as Shares authorized for grant under the Plan.

(c) Substitute Awards shall not reduce the Shares authorized for grant under the Plan. Additionally, in the event that a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan; *provided* , that Awards using such available shares shall not be made after the date awards could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Affiliates immediately prior to such acquisition or combination.

(d) Each Share that again becomes available for grant pursuant to this Section 3.1 shall be added back as (i) one (1) Share if such Share was subject to an Award other than a Full Value Award, and (ii) as 1.78 Share if such Share was subject to a Full Value Award.

3.2 *Stock Distributed* . Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Common Stock, treasury Common Stock or Common Stock purchased on the open market.

ARTICLE 4. GRANTING OF AWARDS

4.1 *Participation*. The Committee may, from time to time, select from among all Eligible Individuals, those to whom an Award shall be granted.

4.2 *Award Agreement* . Each Award shall be evidenced by an Award Agreement. Award Agreements shall contain such terms and conditions as may be determined by the Committee that are not inconsistent with the Plan, including any terms and conditions that are necessary for Awards to comply with, or be exempt from, the requirements of Section 409A of the Code. Award Agreements evidencing Awards intended to qualify as Performance-Based Compensation shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

4.3 *Programs* . The Board or the Committee may from time to time establish Programs pursuant to the Plan. An Award Agreement evidencing an Award granted pursuant to any Program shall comply with the terms and conditions of such Program and the Plan.

4.4 *Limitations Applicable to Section 16 Persons* . Notwithstanding any other provision of the Plan, the Plan, any Award granted to any individual who is then subject to Section 16 of the Exchange Act, and any applicable Program, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including Rule 16b-3 of the Exchange Act and any amendments thereto) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and each Program and Award shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

4.5 *Fiscal Year Award Limit*. Notwithstanding any provision in the Plan to the contrary, and subject to Section 13.2, the maximum aggregate number of Shares with respect to one or more Awards that may be granted to any one person during any fiscal year of the Company shall be One Million (1,000,000) and the maximum aggregate amount of cash that may be paid to any one person during any fiscal year of the Company with respect to one or more Performance Awards payable in cash shall be Five Million Dollars (\$5,000,000). To the extent required by Section 162(m) of the Code, Shares subject to Awards that are canceled shall continue to be counted against the Award Limit specified in the preceding sentence.

4.6 *Minimum Vesting* . The minimum time-based vesting period for an Award that is subject to the satisfaction of one or more Performance Goals or other performance-based criteria shall be one (1) year. With the exception of Stock Payments that are not subject to vesting, each other Award shall be subject to a minimum three (3) year time-based vesting period; *provided, however*, the Committee may provide for (a) an equal portion of each such Award to vest in

annual installments during such three (3) year period, (b) a longer (but not shorter) time-based vesting period for an Award so long as the vesting schedule is not more favorable to the Holder than the default schedule specified above or (c) the acceleration of vesting to the extent permitted by Section 11.8.

4.7 *At-Will Employment* . Nothing in the Plan, any Program or any Award Agreement shall confer upon any Holder any right to be employed by or to serve as a Director or Consultant for the Company or any Affiliate, or to continue in such employment or service, or shall interfere with or restrict in any way the rights of the Company and any Affiliate, which rights are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without cause, and with or without notice, or to terminate or change all other terms and conditions of employment or engagement, except to the extent expressly provided otherwise in a written agreement between the Holder and the Company or any Affiliate.

4.8 *Stand-Alone and Tandem Awards* . Awards granted pursuant to the Plan may, in the sole discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or (subject to the requirements of Section 409A of the Code) at a different time from the grant of such other Awards.

ARTICLE 5. PERFORMANCE-BASED COMPENSATION

5.1 *Purpose* . The Committee, in its sole discretion, may determine at the time an Award is granted whether such Award is intended to qualify as Performance-Based Compensation. If the Committee, in its sole discretion, decides to grant such an Award to an Eligible Individual that is intended to qualify as Performance-Based Compensation, then the provisions of this Article 5 shall control over any contrary provision contained in the Plan. The Committee may in its sole discretion grant Awards to other Eligible Individuals that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 5 and that are not intended to qualify as Performance-Based Compensation.

5.2 *Applicability* . The grant of an Award to an Eligible Individual for a particular Performance Period shall not require the grant of an Award to such Eligible Individual in any subsequent Performance Period (or entitle such Eligible Individual to any such grant) and the grant of an Award to any one Eligible Individual shall not require the grant of an Award to any other Eligible Individual in such period or in any other period (or entitle any such other Eligible Individual to any such grant).

5.3 *Types of Awards* . Notwithstanding anything in the Plan to the contrary, the Committee may grant any Award to a Covered Employee in a manner intended to qualify as Performance-Based Compensation, including, without limitation, Restricted Stock for which the restrictions lapse upon the attainment of specified Performance Goals, and any Performance Awards described in Article 9 that vest or become exercisable or payable upon the attainment of one or more specified Performance Goals.

5.4 *Procedures with Respect to Performance-Based Awards* . To the extent necessary to comply with the requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted one or more Covered Employees and that is intended to qualify as Performance-Based Compensation, no later than 90 days following the commencement of any Performance Period (or such earlier time as may be required under Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Eligible Individuals, (b) select the Performance Criteria applicable to the Performance Period, (c) establish objective Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period based on the Performance Criteria, and (d) specify an objective relationship between the Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether and the extent to which the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned or payable under such Awards, to the extent provided under any applicable Program or Award Agreement, the Committee shall have the right to reduce or eliminate (but not to increase) the amount earned or payable at a given level of performance to take into account additional factors that the Committee may deem relevant, including, without limitation, the assessment of individual or Company performance for the Performance Period.

5.5 *Payment of Performance-Based Awards* . Unless otherwise provided in the applicable Program or Award Agreement, as to an Award that is intended to qualify as Performance-Based Compensation, the Holder must be employed by the Company or an Affiliate throughout the Performance Period. Unless otherwise provided in the applicable Performance Goals, Program or Award Agreement, a Holder shall be eligible to receive payment pursuant to such Awards for a Performance Period only if and to the extent the Performance Goals for such period are achieved.

5.6 *Additional Limitations* . Notwithstanding any other provision of the Plan and except as otherwise determined by the Committee, any Award that is granted to a Covered Employee and is intended to qualify as Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code that are requirements for qualification as Performance-Based Compensation, and the Plan, any applicable Program and the Award Agreement shall be deemed amended to the extent necessary to conform to such requirements.

ARTICLE 6. GRANTING OF OPTIONS

6.1 *Granting of Options to Eligible Individuals* . The Committee is authorized to grant Options to Eligible Individuals on such terms and conditions as it may determine that are not inconsistent with the Plan; *provided, however* , that no Option shall be granted to any Employee or Consultant of an Affiliate unless the Company is an “eligible issuer of service recipient stock” with respect to such person within the meaning of Section 409A of the Code.

6.2 *Qualification of Incentive Stock Options* . No Incentive Stock Option shall be granted to any person who is not an Employee of the Company or any subsidiary corporation of the Company (as defined in Section 424(f) of the Code). No person who is a Greater Than 10%

Stockholder may be granted an Incentive Stock Option unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code. Any Incentive Stock Option granted under the Plan may be modified by the Committee, with the consent of the Holder, to disqualify such Option from treatment as an “incentive stock option” under Section 422 of the Code. To the extent that the aggregate Fair Market Value of Shares with respect to which “incentive stock options” (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Holder during any calendar year under the Plan, and all other plans of the Company and any subsidiary or parent corporation thereof (each as defined in Section 424(f) and (e) of the Code, respectively), exceeds \$100,000, the Options shall be treated as Non-Qualified Stock Options to the extent required by Section 422 of the Code. The requirements set forth in the preceding sentence shall be applied by taking Options and other “incentive stock options” into account in the order in which they were granted and the Fair Market Value of Shares shall be determined as of the time the respective instruments were granted. Subject to adjustment as provided in Section 3.1(b) and Section 13.2, no more than One Million Seven Hundred and Fifty Thousand (1,750,000) Shares may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan.

6.3 *Option Exercise Price* . The exercise price per Share subject to each Option shall be set by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted (or on the date the Option is modified, extended or renewed for purposes of Section 409A of the Code or, as to an Incentive Stock Option, Section 424(h) of the Code). In addition, in the case of Incentive Stock Options granted to a Greater Than 10% Stockholder, such price shall not be less than 110% of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

6.4 *Option Term* . The term of each Option shall be set by the Committee in its sole discretion; *provided, however* , that the term shall not be more than ten (10) years from the date the Option is granted, or five (5) years from the date an Incentive Stock Option is granted to a Greater Than 10% Stockholder. The Committee shall determine the time period, including the time period following a Termination of Service, during which a Holder has the right to exercise the vested Options, which time period may not extend beyond the term of the Option.

6.5 *Option Vesting*. Subject to Section 4.6, the Committee shall determine the period of time and other conditions that must be satisfied before the Holder’s right to exercise an Option, in whole or in part, shall vest. Such vesting may be based on service with the Company or an Affiliate, any of the Performance Criteria, or any other criterion or condition determined by the Committee. No portion of an Option that cannot be exercised at the Holder’s Termination of Service shall thereafter become exercisable.

6.6 *Substitute Awards* . Notwithstanding the foregoing provisions of this Article 6 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant; *provided* , that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate Fair Market Value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such Fair Market

Value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares, and that the grant of the Substitute Award otherwise satisfies the requirements of Section 1.409A-1(b)(5)(v)(D) of the Treasury Regulations or, in the case of an Incentive Stock Option, Section 1.424-1(a) of the Treasury Regulations.

6.7 *Substitution of Stock Appreciation Rights* . The Committee may provide in the applicable Program or the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; *provided*, that such Stock Appreciation Right shall be exercisable with respect to the same number of Shares for which such substituted Option would have been exercisable and such Stock Appreciation Right shall have the same exercise price and the same remaining vesting schedule and term as such Option.

ARTICLE 7. EXERCISE OF OPTIONS

7.1 *Partial Exercise* . An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Committee may require that, by the terms of the Option, a partial exercise must be with respect to a minimum number of Shares.

7.2 *Manner of Exercise* . All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Company Stock Administrator:

(a) A written or electronic notice complying with the applicable rules established by the Company Stock Administrator stating that the Option, or a portion thereof, is exercised. The notice must be signed in writing or electronically by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Company Stock Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable laws and regulations, and the rules of any applicable Securities Exchange. The Company Stock Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised by any person other than the Holder who is permitted to exercise the Option in accordance with Section 11.3, appropriate proof of the right of such person to exercise the Option, as determined in the sole discretion of the Company Stock Administrator; and

(d) Full payment of the exercise price and applicable withholding taxes to the Company for the Shares with respect to which the Option, or portion thereof, is exercised, in a manner permitted by Section 11.1 and 11.2.

7.3 *Notification Regarding Disposition* . The Holder shall give the Company Stock Administrator prompt written or electronic notice of any disposition of Shares acquired by

exercise of an Incentive Stock Option which occurs within (a) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Holder, or (b) one year after the transfer of such shares to such Holder.

ARTICLE 8.
AWARD OF RESTRICTED STOCK

8.1 *Award of Restricted Stock* .

(a) The Committee is authorized to grant Restricted Stock to Eligible Individuals, and shall determine such terms and conditions, including the restrictions applicable to each Award of Restricted Stock, that are not inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock, as it deems appropriate.

(b) The Committee shall establish the purchase price, if any, and form of payment for Restricted Stock; *provided* , *however* , that if a purchase price is charged, such purchase price shall be no less than the par value of the Shares to be purchased, unless otherwise permitted by applicable state law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

8.2 *Rights as Stockholders* . Subject to Section 8.4, upon the grant of a Restricted Stock Award, the Holder shall have, unless otherwise provided in the terms of the applicable Award Agreement, all the rights of a stockholder with respect to the Shares subject to the Award, subject to the restrictions in the applicable Program or in his or her Award Agreement, including the right to receive all dividends and other distributions paid or made with respect to the Shares; *provided* , *however* , that if the lifting or lapsing of the restrictions on an Award of Restricted Stock is subject to satisfaction of one or more Performance Goals, the Holder shall not be entitled to receive dividends or other distributions with respect to the Shares subject to the Award unless and until each of the applicable Performance Goals has been satisfied, at which time declared and accrued but unpaid dividends and distributions from and after the date of grant of the Award shall become payable to the Holder as soon as practicable. Notwithstanding anything in the foregoing to the contrary, dividends and other distributions made with respect to the Shares subject to an Award shall only be payable to the Holder of the Award to the extent provided by the Committee under the applicable Program or Award Agreement.

8.3 *Restrictions* . All Shares of Restricted Stock (including any Shares received by Holders thereof with respect to Shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, under the terms of the applicable Program or Award Agreement, be subject to such restrictions and vesting requirements as the Committee shall provide. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Committee, including, without limitation, criteria based on the Holder's duration of employment or service with the Company or its Affiliates, applicable Performance Criteria, Company performance or individual performance. Restricted Stock may not be sold or encumbered until all applicable restrictions are satisfied, terminated or expire.

8.4 *Repurchase or Forfeiture of Restricted Stock* . If no purchase price was paid by a Holder in cash or property for a grant of Restricted Stock, upon a Termination of Service the Holder's rights in any Shares of Restricted Stock then subject to restrictions shall terminate, and such Shares of Restricted Stock shall be surrendered to the Company and cancelled without consideration. If a purchase price was paid by a Holder in cash or property for a grant of Restricted Stock, upon a Termination of Service the Company shall have the right to repurchase from the Holder the Shares of Restricted Stock then subject to restrictions at a cash price per Share equal to the purchase price paid by the Holder in cash or property for such Shares of Restricted Stock or such other amount as may be specified under the applicable Program or in the applicable Award Agreement.

8.5 *Certificates for Restricted Stock* . Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Company Stock Administrator shall determine. Certificates, book entries or electronic registration evidencing shares of Restricted Stock must include an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its sole discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse.

8.6 *Section 83(b) Election* . If a Holder makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Holder would otherwise be taxable under Section 83(a) of the Code, the Holder shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

ARTICLE 9.
AWARD OF PERFORMANCE AWARDS, STOCK
PAYMENTS AND RESTRICTED STOCK UNITS

9.1 *Performance Awards* .

(a) The Committee is authorized to grant Performance Awards to any Eligible Individual and to determine whether such Performance Awards shall be Performance-Based Compensation. The number of Shares subject to a Performance Award and the value of a Performance Award may be linked to any one or more of the Performance Criteria or other specific criteria determined by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Performance Awards may be paid in cash, Shares, or both, as determined by the Committee.

(b) Without limiting Section 9.1(a), the Committee may grant Performance Awards to any Eligible Individual in the form of a cash bonus payable upon the attainment of objective Performance Goals, or such other criteria, whether or not objective, which are established by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Any such bonuses paid to a Holder that are intended to be Performance-Based Compensation shall be based upon objectively determinable bonus formulas established in accordance with the provisions of Article 5.

9.2 *Stock Payments* . The Committee is authorized to make Stock Payments to any Eligible Individual. The number or value of Shares of any Stock Payment shall be determined by the Committee and may be based upon one or more Performance Criteria or any other specific criteria, including service to the Company or any Affiliate, determined by the Committee. Shares underlying a Stock Payment that is subject to a vesting schedule or other restrictions, conditions or criteria set by the Committee will not be issued until the restrictions, conditions or criteria have been satisfied. Unless otherwise provided in the applicable Award Agreement, a Holder of a Stock Payment shall have no rights as a Company stockholder with respect to such Stock Payment until such time as the Stock Payment has vested and the Shares underlying the Award have been issued to the Holder. Stock Payments may, but are not required to, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to such Eligible Individual.

9.3 *Restricted Stock Units* . The Committee is authorized to grant Restricted Stock Units to any Eligible Individual. The number and terms and conditions of Restricted Stock Units shall be determined by the Committee. The Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such vesting restrictions, conditions or criteria as it deems appropriate, including, without limitation, conditions based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, in each case on a specified date or dates or over any period or periods, as the Committee determines. The Company Stock Administrator shall specify, or permit the Holder to elect, the conditions and dates upon which the Shares underlying the Restricted Stock Units that shall be issued, if applicable, subject to the requirements of Section 409A of the Code. Restricted Stock Units may be paid in cash, Shares, or both, as determined by the Committee. On the distribution dates, the Company shall issue to the Holder one unrestricted, fully transferable Share (or the Fair Market Value of one such Share in cash) for each vested and nonforfeitable Restricted Stock Unit.

9.4 *Term* . The term of a Performance Award, Stock Payment award and/or Restricted Stock Unit award shall be set by the Committee in its sole discretion.

9.5 *Exercise or Purchase Price* . The Committee may establish an exercise or purchase price for a Performance Award, Shares distributed as a part of a Stock Payment or Shares distributed pursuant to a Restricted Stock Unit Award.

ARTICLE 10. AWARD OF STOCK APPRECIATION RIGHTS

10.1 *Grant of Stock Appreciation Rights* .

(a) The Committee is authorized to grant Stock Appreciation Rights to Eligible Individuals on such terms and conditions as it may determine that are not inconsistent with the Plan; *provided, however* , that no Stock Appreciation Right shall be granted to any Employee or Consultant of an Affiliate unless the Company is an “eligible issuer of service recipient stock” with respect to such person within the meaning of Section 409A of the Code.

(b) A Stock Appreciation Right shall entitle the Holder (or other person entitled to exercise the Stock Appreciation Right) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price of the Stock Appreciation Right from the Fair Market Value of a Share on the date of exercise of the Stock Appreciation Right, and multiplying the difference, if positive, by the number of Shares with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Committee may impose. Except as described in Section 10.1(c) below, the exercise price of each Stock Appreciation Right shall be set by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date the Stock Appreciation Right is granted (or on the date the Stock Appreciation Right is modified, extended or renewed for purposes of Section 409A of the Code).

(c) Notwithstanding the foregoing provisions of Section 10.1(b) to the contrary, in the case of a Stock Appreciation Right that is a Substitute Award, the exercise price of such Stock Appreciation Right may be less than 100% of the Fair Market Value of a Share on the date of grant; *provided*, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the Shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares, and that the grant of the Substitute Award otherwise satisfies the requirements of Section 1.409A-1(b)(5)(v)(D) of the Treasury Regulations.

10.2 *Stock Appreciation Right Term*. The term of each Stock Appreciation Right shall be set by the Committee in its sole discretion; *provided, however*, that the term shall not be more than ten (10) years from the date the Stock Appreciation Right is granted. The Committee shall determine the time period, including the time period following a Termination of Service, during which the Holder has the right to exercise a vested Stock Appreciation Right, which time period may not extend beyond the term of the Stock Appreciation Right.

10.3 *Stock Appreciation Right Vesting*. Subject to Section 4.6, the Committee shall determine the period of time and other conditions that must be satisfied before the Holder's right to exercise a Stock Appreciation Right, in whole or in part, shall vest. Such vesting may be based on service with the Company or an Affiliate, any of the Performance Criteria, or any other criterion or condition determined by the Committee. No portion of a Stock Appreciation Right that cannot be exercised at the Holder's Termination of Service shall thereafter become exercisable.

10.4 *Manner of Exercise*. All or a portion of an exercisable Stock Appreciation Right shall be deemed exercised upon delivery of all of the following to the Company Stock Administrator, or such other person or entity designated by the Committee, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Company Stock Administrator stating that the Stock Appreciation Right, or a

portion thereof, is exercised. The notice must be signed in writing or electronically by the Holder or other person then entitled to exercise the Stock Appreciation Right or such portion of the Stock Appreciation Right;

(b) Such representations and documents as the Company Stock Administrator, in its sole discretion, deems necessary or advisable to effect compliance with applicable laws and regulations. The Company Stock Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance; and

(c) In the event that the Stock Appreciation Right shall be exercised pursuant to this Section 10.4 by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Stock Appreciation Right.

10.5 *Payment* . Payment of the amounts payable with respect to Stock Appreciation Rights pursuant to this Article 10 shall be in cash, Shares (based on their Fair Market Value as of the date the Stock Appreciation Right is exercised), or a combination of both, as determined by the Committee.

ARTICLE 11. ADDITIONAL TERMS OF AWARDS

11.1 *Payment* . The Committee shall determine the methods by which payments by any Holder with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) cash or check, (b) Shares (including, in the case of payment of the exercise price of an Award, Shares issuable pursuant to the exercise of the Award) or Shares not subject to any pledge or security interest and held for such period of time as may be required by the Committee, in each case, having a Fair Market Value on the date of delivery equal to the aggregate payments required, (c) delivery of a written or electronic notice that the Holder has placed a market sell order with a broker with respect to Shares then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; *provided* , that payment of such proceeds is then made to the Company upon settlement of such sale, or (d) other property or legal consideration acceptable to the Committee. The Committee shall also determine the methods by which Shares shall be delivered or deemed to be delivered to Holders. Notwithstanding any other provision of the Plan to the contrary, no Holder who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment, with a loan from the Company or a loan arranged by the Company to the extent it would violate Section 13(k) of the Exchange Act.

11.2 *Tax Withholding* . The Company and any Affiliate shall have the authority and the right to deduct or withhold, or require a Holder to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Holder’s FICA or employment tax obligation) required by law to be withheld with respect to any taxable event concerning a Holder arising as a result of the Plan. The Committee may, in its sole discretion and in satisfaction of the foregoing requirement, allow a Holder to elect to have the Company withhold Shares

otherwise issuable under an Award (or allow the surrender of Shares). The number of Shares which may be so withheld or surrendered shall be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities not to exceed the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income (or such other rate that will not create an adverse accounting cost or consequence). The Company Stock Administrator shall determine the Fair Market Value of the Shares, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option exercise or a Stock Appreciation Right exercise involving the sale of Shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

11.3 *Transferability of Awards* .

(a) Except as otherwise provided in Section 11.3(b):

(i) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than to a Permitted Transferee by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a QDRO, unless and until and to the extent such Award has been exercised, or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed;

(ii) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or the Holder's successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted imposition of liability thereon or disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted hereunder; and

(iii) During the lifetime of the Holder, only the Holder (or the personal representative of an incompetent Holder) may exercise an Award (or any portion thereof) granted to such Holder under the Plan, unless it has been disposed of pursuant to a QDRO, in which case the beneficiary of the QDRO may exercise the Award; after the death of the Holder, any exercisable portion of an Award may be exercised by a Permitted Transferee, but only prior to the time when such portion expires or becomes unexercisable under the Plan or the applicable Program or Award Agreement.

(b) Notwithstanding Section 11.3(a), the Committee, in its sole discretion and subject to such terms and conditions as it may impose, may permit a Holder to transfer an Award other than an Incentive Stock Option to any one or more Permitted Transferees, subject to any state, federal, local or foreign tax and securities laws applicable to transferable Awards.

(c) A Holder may, in the manner determined by the Committee, designate a Permitted Transferee to exercise the rights of the Holder as his or her beneficiary and to receive any distribution with respect to any Award upon the Holder's death. Such person shall be subject

to all terms and conditions of the Plan and any Program or Award Agreement applicable to the Holder, except to the extent the Plan, the Program, the Award Agreement or applicable law otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Holder is married and resides in a community property state, a designation of a person other than the Holder's spouse as his or her beneficiary with respect to more than 50% of the Holder's interest in the Award shall not be effective without the prior written or electronic consent of the Holder's spouse. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Holder at any time provided the change or revocation is filed with the Committee prior to the Holder's death. If no beneficiary has been designated in this manner or the beneficiary does not survive the Holder, the rights of the Holder shall be exercisable by the Holder's executor or administrator.

11.4 *Conditions to Issuance of Shares* .

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates or make any book entries evidencing Shares pursuant to the exercise or vesting of any Award, unless and until the Board or the Committee has determined, with advice of counsel, that the issuance of such Shares is in compliance with all applicable laws and regulations and, if applicable, the requirements of any Securities Exchange, and the Shares are covered by an effective registration statement or applicable exemption from registration. In addition to the terms and conditions provided herein, the Board or the Committee may require that a Holder make such reasonable covenants, agreements, and representations as the Board or the Committee, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

(b) All certificates evidencing Shares delivered pursuant to the Plan and all Shares issued pursuant to book entry procedures are subject to any stop-transfer orders and other restrictions as the Committee or the Company Stock Administrator deems necessary or advisable to comply with applicable laws and regulations and the rules of any Securities Exchange.

(c) The Company Stock Administrator shall have the right to require any Holder to comply with any timing or other restrictions with respect to the settlement, vesting, distribution or exercise of any Award, including a window-period limitation, as may be imposed in the sole discretion of the Company Stock Administrator, or because of any other requirement arising from compliance with any applicable laws or regulations, as determined by the Company Stock Administrator, in its sole discretion.

(d) No fractional Shares shall be issued and the Company Stock Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding.

(e) Notwithstanding any other provision of the Plan, unless otherwise determined by the Company Stock Administrator or required by any applicable laws or regulations, the Company shall not deliver to any Holder certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded in the books of the Company (or, as applicable, its transfer agent or the Company Stock Administrator).

11.5 *Forfeiture Provisions* . Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Committee shall have the right to provide, in the terms or conditions of Programs or Awards made under the Plan or in any policy with respect to the recovery or recoupment of compensation or benefits in the event of financial restatements or the occurrence of other events that are inconsistent with the payment of compensation, as determined by the Committee, or to require a Holder to agree by separate written or electronic instrument, that: (a)(i) any proceeds, gains or other economic benefit actually or constructively received by the Holder upon any receipt or exercise of the Award, or upon the receipt or resale of any Shares underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (b)(i) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, (ii) the Holder at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Committee, (iii) the Holder incurs a Termination of Service for “cause” (as such term is defined in the sole discretion of the Committee, or as set forth in a written agreement relating to such Award between the Company and the Holder) or (iv) the Company’s financial results are restated and such proceeds, gains or other economic benefit actually or constructively received by the Holder would have been lower had they been calculated based on such restated results.

11.6 *Prohibition on Repricing* . Except as provided in Section 13.2, the Committee shall not, without the approval of the stockholders of the Company, (i) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its exercise price, except with respect to any Substitute Award, or (ii) cancel any outstanding Option or Stock Appreciation Right in exchange for cash or another Award that has a lower exercise price or that provides additional value to the Holder, except with respect to any Substitute Award.

11.7 *Permitted Replacement Awards* . The Committee shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding Award (or any award granted under another Company plan, subject to the terms of such other plan) to increase the exercise price or to cancel and replace an Award (or any award granted under another Company plan, subject to the terms of such other plan) with the grant of an Award having an exercise price that is greater than or equal to the original price per share and having vesting schedule and term equal to the remaining vesting schedule and term of the Award (or award granted under another Company plan) being replaced.

11.8 *Shareholder Approval of Certain Accelerations* . The Committee shall not, without the approval of the stockholders of the Company, accelerate the vesting of any Awards except (a) in connection with the death or disability of a Holder or the Retirement of a Holder who is an Employee, or (b) in accordance with Section 13.2(h).

ARTICLE 12. ADMINISTRATION

12.1 *Committee* . The Committee shall administer the Plan (except as otherwise permitted herein) and shall consist solely of two or more Non-Employee Directors appointed by and holding office at the pleasure of the Board, each of whom is intended to qualify as a “non-

employee director” as defined by Rule 16b-3 of the Exchange Act or any successor rule, an “outside director” for purposes of Section 162(m) of the Code and an “independent director” under the rules of any Securities Exchange; *provided*, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee.

12.2 *Duties and Powers of Committee*. It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions, subject to the Committee’s power to delegate duties under Section 12.6. The Committee shall have the power to interpret the Plan, the Program and any Award Agreement, and to adopt such rules for the administration, interpretation and application of the Plan as are not inconsistent therewith, to interpret, amend or revoke any such rules and to amend any Program or Award Agreement in any manner not inconsistent with the Plan; *provided* that the rights of the Holder of an Award that is the subject of any such Program or Award Agreement are not affected adversely by such amendment, unless the consent of the Holder is obtained or such amendment is otherwise permitted under Section 13.9. Any such Award under the Plan need not be the same with respect to each Holder. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act, Section 162(m) of the Code or the rules of any Securities Exchange require otherwise.

12.3 *Action by the Committee*. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee for purposes of the Plan. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company’s independent certified public accountants, or any compensation consultant, attorney or other professional retained by the Company to assist in the administration of the Plan.

12.4 *Authority of Committee*. Subject to any specific designation in the Plan or any applicable Program, the Committee has the exclusive power, authority and sole discretion to:

- (a) Designate Eligible Individuals to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Eligible Individual;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to: the exercise price, grant price, or purchase price; any Performance Criteria; any restrictions or limitations on the Award; any schedule for vesting;

lapse of forfeiture restrictions or restrictions on the exercisability of an Award and accelerations or waivers thereof; and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;

- (e) Determine whether, to what extent, and pursuant to what circumstances (i) an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, other Awards, or other property (subject to the requirements of Section 409A of the Code), or (ii) an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Holder;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan, any Program or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

12.5 *Decisions Binding* . The Committee’s interpretation of the Plan, any Awards granted pursuant to the Plan, any Program, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

12.6 *Delegation of Authority* . The Board or Committee may from time to time delegate (a) to a committee of one or more members of the Board the authority to grant or amend Awards and (b) to a committee of one or more members of the Board or to one or more officers of the Company the authority to take administrative actions pursuant to Article 12; *provided* that any delegation of authority shall only be permitted to the extent it is permissible under Section 162(m) of the Code, applicable securities laws, the rules of any applicable Securities Exchange and any Company policy governing the grant of equity-based awards. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation, and the Board may at any time rescind the authority so delegated or appoint a new delegate. At all times, the delegatee appointed under this Section 12.6 shall serve in such capacity at the pleasure of the Board and the Committee.

ARTICLE 13. MISCELLANEOUS PROVISIONS

13.1 *Amendment, Suspension or Termination of the Plan* . Except as otherwise provided in this Section 13.1, the Plan and any Award Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the

Board or the Committee. However, without approval of the Company's stockholders, no action of the Committee may, except as provided in Section 13.2, (i) increase the limits imposed in Section 3.1 on the maximum number of Shares that may be issued under the Plan, (ii) take any action described in Section 11.6 above, (iii) materially modify the requirements for eligibility to participate in the Plan, (iv) materially increase the benefits accruing to participants in the Plan, or (v) take any other action that requires the approval of the Company's stockholders under the rules of any applicable Securities Exchange. Except as provided in Section 13.9, no amendment, suspension or termination of the Plan shall, without the consent of the Holder, adversely affect the rights of the Holder under any Award theretofore granted to such Holder, unless the Award itself otherwise expressly so provides.

13.2 *Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.*

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the Shares or the Share price other than an Equity Restructuring, the Committee shall make equitable adjustments, if any, to reflect such change with respect to (i) the aggregate number and kind of securities that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 on the maximum number and kind of securities that may be issued under the Plan, adjustments of the Award Limit, and adjustments of the manner in which securities subject to Full Value Awards will be counted); (ii) the number and kind of securities (or other property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iv) the grant or exercise price per share for any outstanding Awards under the Plan.

(b) In the event of any transaction or event described in Section 13.2(a) or any unusual or nonrecurring transactions or events affecting the Company, any Affiliate of the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Holder's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13.2 the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Holder's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion having an aggregate value not exceeding the

amount that could have been attained upon the exercise of such Award or realization of the Holder's rights had such Award been currently exercisable or payable or fully vested;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of securities (or other property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Program or Award Agreement; and/or

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 13.2(a) and 13.2(b):

(i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, shall be equitably adjusted; and/or

(ii) The number and kind of securities that may be issued under the Plan pursuant to new Awards shall be equitably adjusted.

(d) The Committee may, in its sole discretion, include such further provisions and limitations in any Award, Program, Award Agreement or certificate or book-entry evidencing Shares, as it may deem equitable and in the best interests of the Company that are not inconsistent with the provisions of the Plan.

(e) No adjustment or action described in this Section 13.2 or in any other provision of the Plan, any applicable Program or the Award Agreement shall be authorized to the extent that such adjustment or action would cause such Award to violate the requirements of Section 409A of the Code. With respect to any Award which is granted to a Covered Employee and is intended to qualify as Performance-Based Compensation, no adjustment or action described in this Section 13.2 or in any other provision of the Plan, any applicable Program or the Award Agreement shall be authorized to the extent that such adjustment or action would cause such Award to fail to so qualify as Performance-Based Compensation, unless the Committee determines that the Award should not so qualify. No adjustment or action described in this Section 13.2 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code, unless the Committee determines that Options granted under the Plan are not to qualify as "incentive

stock options". Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action could result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Committee determines that the Award is not to comply with such exemptive conditions.

(f) The existence of the Plan, any Program, any Award Agreement and any Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(g) In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the Shares or the Share price, including any Equity Restructuring, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of thirty (30) days prior to the consummation of any such transaction.

(h) Without limiting the generality of the foregoing, the vesting of an Award will not automatically accelerate upon the occurrence of a Change of Ownership; *provided, however*, the Committee may determine that upon the occurrence of a Change of Ownership, (i) the acquirer or surviving entity shall be required to assume an Award or substitute a comparable award with respect to the equity of the acquirer or surviving entity, (ii) the vesting of all or any portion of the Award will accelerate to the time immediately prior to the consummation of the Change of Ownership, or, in the case of an Option or Stock Appreciation Right, all or any portion of the Award shall become immediately exercisable so that the Holder will have the opportunity to exercise the Award (or portion thereof) immediately prior to consummation of the Change of Ownership, and/or (iii) all or any portion of the Award, including any unvested portion should the Committee so determine, shall be purchased for (x) in the case of an Option or Stock Appreciation Right, cash in an amount equal to the excess of the aggregate Fair Market Value of the Shares subject to the Award to be purchased over the aggregate exercise price for such Shares, net of tax withholding, and (y) in the case of any other Award, such consideration as the Committee may in good faith determine to be equitable under the circumstances; *provided, further*, that any determination of the Committee in this regard shall comply with Sections 409A and 424 of the Code.

13.3 *No Stockholder Rights* . Except as otherwise provided herein, a Holder shall have none of the rights of a stockholder with respect to Shares subject to any Award until the Holder becomes the record owner of such Shares.

13.4 *Paperless Administration* . In the event that the Company Stock Administrator establishes, for the Company or using the services of a third party, an automated system for the

documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Holder may be permitted through the use of such an automated system.

13.5 *Effect of Plan upon Other Compensation Plans* . The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Affiliate, except as described in Section 3.1(a) above with respect to the Company's 2001 Stock Incentive Plan. Nothing in the Plan shall be construed to limit the right of the Company or any Affiliate: (a) to establish any other forms of incentives or compensation for Employees, Directors or Consultants of the Company or any Affiliate, or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including without limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

13.6 *Compliance with Laws* . The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of Shares and the payment of money under the Plan or under Awards granted or awarded under the Plan are subject to compliance with all applicable laws and regulations, the rules of any Securities Exchange, and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan, any Program and any Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

13.7 *Titles and Headings, References to Sections of the Code, the Securities Act or Exchange Act* . The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code, the Securities Act or the Exchange Act shall include any amendment or successor thereto.

13.8 *Governing Law* . The Plan, any Program and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

13.9 *Section 409A* .

(a) To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Program pursuant to which such Award is granted and the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan, the Program and any Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding any provision of the Plan or the applicable Program or Award Agreement to the contrary, in the event that following the Effective Date the Committee

determines that any Award may be subject to Section 409A of the Code, the Committee may adopt such amendments to the Plan and the applicable Program and Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

(b) If, at the time of a Holder's "separation from service" (within the meaning of Section 409A of the Code), (i) such Holder is a "specified employee" (within the meaning of Section 409A of the Code as determined annually by the Committee in accordance with the methodology specified by resolution of the Board or the Committee and in accordance with Section 1.409A-1(i) of the Treasury Regulations) and (ii) the Committee shall make a good-faith determination that an amount payable pursuant to an Option or Award constitutes "deferred compensation" (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to preserve the tax treatment intended for such payment or to avoid additional tax, interest, or penalties under Section 409A of the Code, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it on the first business day after such six-month period. Such amount shall be paid without interest, unless otherwise determined by the Committee, in its sole discretion, or as otherwise provided in any applicable agreement between the Company and the relevant Holder.

(c) The Holder shall be solely responsible and liable for the satisfaction of all taxes, interest, and penalties that may be imposed on such Holder or for such Holder's account in connection with any Award (including any taxes, interest, and penalties under Section 409A of the Code), and neither the Company nor its Affiliates shall have any obligation to reimburse, indemnify or otherwise hold such Holder harmless from any or all of such taxes, interest, or penalties.

13.10 *No Rights to Awards* . No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Holders or any other persons uniformly.

13.11 *Unfunded Status of Awards* . The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Holder pursuant to an Award, nothing contained in the Plan or any Program or Award Agreement shall give the Holder any rights that are greater than those of a general creditor of the Company or any Affiliate.

13.12 *Indemnification* . To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her. The

foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.13 *Term* . The ability to grant new awards under this Plan shall terminate on the tenth (10th) anniversary of the Effective Date.

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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 July 7, 2017

/s/ JEFFREY T. MEZGER

Jeffrey T. Mezger

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

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 July 7, 2017

/s/ JEFF J. KAMINSKI

Jeff J. Kaminski

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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 May 31, 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

July 7, 2017

/s/ JEFFREY T. MEZGER

Jeffrey T. Mezger

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

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 May 31, 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 July 7, 2017

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