

Zankel Todd  
 Form 4  
 September 04, 2012

**FORM 4** UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287  
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 Zankel Todd

2. Issuer Name and Ticker or Trading Symbol  
 Raptor Pharmaceutical Corp [RPTP]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction  
 (Month/Day/Year)

\_\_\_ Director \_\_\_ 10% Owner  
 Officer (give title below) \_\_\_ Other (specify below)

C/O RAPTOR  
 PHARMACEUTICAL CORP., 9  
 COMMERCIAL BLVD., SUITE 200

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 \_\_\_ Form filed by More than One Reporting Person

(Street)

NOVATO, CA 94949

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	08/30/2012 <sup>(1)</sup>		S		2,648	D	\$ 5 <u>(3)</u>
Common Stock	08/31/2012 <sup>(1)</sup>		M		3,642	A	\$ 2.83
Common Stock	08/31/2012 <sup>(1)</sup>		S		3,642	D	\$ 5 <u>(3)</u>
Common Stock	08/31/2012 <sup>(1)</sup>		S		3,858	D	\$ 5 <u>(3)</u>

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	Amount or Number of Shares
Stock options (right to buy)	\$ 2.83	08/31/2012 <sup>(1)</sup>		M	3,642	11/25/2006 <sup>(2)</sup> 05/25/2016	Common Stock	3,642

## Reporting Owners

**Reporting Owner Name / Address**

**Relationships**

Director    10% Owner    Officer    Other

Zankel Todd  
C/O RAPTOR PHARMACEUTICAL CORP.  
9 COMMERCIAL BLVD., SUITE 200  
NOVATO, CA 94949

Chief Scientific Officer

## Signatures

/s/ Kim R. Tsuchimoto, CFO, Raptor Pharmaceutical Corp.,  
Attorney-in-fact

09/04/2012

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Transaction made pursuant to a Rule 10b5-1 trading plan executed on January 9, 2012.

(2) Original option grant vests 6/36ths on November 25, 2006 and 1/36th per month thereafter.

This transaction was executed in multiple trades at prices ranging from \$5.00 to \$5.03. The price reported above reflects the weighted average sale price. The reporting person hereby undertakes to provide, upon request, to the SEC staff, the issuer or a security holder of the issuer full information regarding the number of shares and prices at which the transaction was effected.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

## Edgar Filing: Zankel Todd - Form 4

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. e:10pt;">\$

593,000

\$

560,341

\$

358,768

See accompanying notes.

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KB HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Operations. KB Home is a builder of attached and detached single-family residential homes, townhomes and condominiums. As of November 30, 2016, we conducted ongoing operations in Arizona, California, Colorado, Florida, Nevada, North Carolina and Texas. We also offer property and casualty insurance and, in certain instances, earthquake, flood and personal property insurance to our homebuyers in the same markets where we build homes, and provide title services in the majority of our markets located within our Central and Southeast homebuilding reporting segments. Until October 2016, we provided mortgage banking services, including mortgage loan originations, to our homebuyers indirectly through HCM, a joint venture of a subsidiary of ours and a subsidiary of Nationstar. HCM is accounted for as an unconsolidated joint venture within our financial services reporting segment.

Basis of Presentation. Our consolidated financial statements have been prepared in accordance with GAAP and include our accounts and those of the consolidated subsidiaries in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated in consolidation. Investments in unconsolidated joint ventures in which we have less than a controlling financial interest are accounted for using the equity method.

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 and Restricted Cash. 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 \$396.1 million at November 30, 2016 and \$342.3 million at November 30, 2015. At November 30, 2016, the majority of our cash and cash equivalents was invested in interest-bearing bank deposit accounts. At November 30, 2015, the majority of our cash and cash equivalents was invested in money market funds and interest-bearing bank deposit accounts.

Restricted cash at November 30, 2015 consisted of cash deposited with various financial institutions as required collateral for our LOC Facility.

Receivables. Receivables are evaluated for collectibility at least quarterly, and allowances for potential losses are established or maintained on applicable receivables when collection is considered doubtful, taking into account historical experience, prevailing economic conditions and other relevant information.

Property and Equipment and Depreciation. Property and equipment are recorded at cost and are depreciated over their estimated useful lives, which generally range from two to 10 years, using the straight-line method. Repair and maintenance costs are expensed as incurred. Property and equipment totaled \$14.2 million, net of accumulated depreciation of \$18.2 million, at November 30, 2016, and \$13.1 million, net of accumulated depreciation of \$15.3 million, at November 30, 2015. Depreciation expense totaled \$3.6 million in 2016, \$3.4 million in 2015 and \$2.4 million in 2014.

Homebuilding Operations. Revenues from housing and other real estate sales are recognized when sales are closed and title passes to the buyer. Sales are closed when all of the following conditions are met: a sale is consummated, a sufficient down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured. Concurrent with the recognition of revenues in our consolidated statements of operations, sales incentives in the form of price concessions on the selling price of a home are recorded as a reduction of revenues, while the costs of sales incentives in the form of free or discounted products or services to homebuyers, including option upgrades and closing cost allowances used to cover a portion of the fees and costs charged to a homebuyer, are reflected as construction and land costs.

Construction and land costs are comprised of direct and allocated costs, including estimated future costs for the limited warranty we provide on our homes and certain amenities within a community. Land acquisition, land development and other common costs are generally allocated on a relative fair value basis to the homes or lots within the applicable community or land parcel. Land acquisition and land development costs include related interest and real estate taxes.

Housing and land inventories are stated at cost, unless the carrying value is determined not to be recoverable, in which case the affected inventories are written down to fair value or fair value less associated costs to sell. Real estate

assets, such as our housing and land inventories, are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by comparing the carrying value of an asset to the undiscounted future net cash flows expected to be generated by the asset. These impairment evaluations are significantly impacted by estimates for the amounts and timing of future revenues, costs and expenses, and other factors. If the carrying value of a real estate asset is

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determined not to be recoverable, the impairment charge to be recognized is measured by the amount by which the carrying value of the affected asset exceeds its estimated fair value. For land held for sale, if the fair value less associated costs to sell exceeds the asset's carrying value, no impairment charge is recognized.

**Capitalized Interest.** 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). For land held for future development or sale, applicable interest is expensed as incurred.

**Fair Value Measurements.** Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate that their carrying value is not recoverable. For these real estate assets, fair value is determined based on the estimated future net cash flows discounted for inherent risk associated with each such asset, or other valuation techniques.

Our financial instruments consist of cash and cash equivalents, restricted cash, senior notes, convertible senior notes, and mortgages and land contracts due to land sellers and other loans. Fair value measurements of financial instruments are determined by various market data and other valuation techniques as appropriate. When available, we use quoted market prices in active markets to determine fair value.

**Financial Services Operations.** Our financial services reporting segment generates revenues primarily from insurance commissions and title services. These operations also earned marketing services fees, pursuant to a marketing services agreement with a preferred lender, until July 2014. Marketing services fees were recognized when earned. Insurance commissions are recognized when policies are issued. Title services revenues are recorded when closing services are rendered and title insurance policies are issued, both of which generally occur at the time each applicable home is closed.

**Warranty Costs.** We provide a limited warranty on all of our homes. 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 and adjust the amount as necessary based on our assessment.

**Self-Insurance.** We self-insure a portion of our overall risk through the use of a captive insurance subsidiary. We also maintain certain other insurance policies. We record liabilities based on the estimated costs required to cover reported claims, claims incurred but not yet reported, and claim adjustment expenses. These estimated costs are based on an actuarial analysis of our historical claims and expense data, as well as industry data. Our self-insurance liabilities are 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. Estimates of insurance recoveries and amounts we have paid on behalf of other parties, if any, are recorded as receivables when such recoveries are considered probable.

**Advertising Costs.** We expense advertising costs as incurred. We incurred advertising costs of \$32.7 million in 2016, \$33.4 million in 2015 and \$30.2 million in 2014.

**Legal Fees.** Legal fees associated with litigation and similar proceedings that are not expected to provide a benefit in future periods are generally expensed as incurred. Legal fees associated with land acquisition and development and other activities that are expected to provide a benefit in future periods are capitalized to inventories in our consolidated balance sheets as incurred. We expensed legal fees of \$13.6 million in 2016, \$11.7 million in 2015 and \$10.9 million in 2014.

**Stock-Based Compensation.** We measure and recognize compensation expense associated with our grant of equity-based awards at an amount equal to the fair value of share-based payments granted under compensation arrangements over the vesting period. We estimate the fair value of stock options, SARs and Director Plan SARs granted using the Black-Scholes option-pricing model with assumptions based primarily on historical data. We report the tax benefit resulting from tax deductions in excess of the compensation expense recognized for stock options and SARs in our consolidated statements of cash flows as an operating cash outflow and a financing cash inflow.

Income Taxes. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. This evaluation is 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. 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 in our consolidated balance sheets depends on applicable income tax rates.

**Accumulated Other Comprehensive Loss.** The accumulated balances of other comprehensive loss in the consolidated balance sheets as of November 30, 2016 and 2015 were comprised solely of adjustments recorded directly to accumulated other comprehensive loss related to our benefit plan obligations. Such adjustments are made annually as of November 30, when our benefit plan obligations are remeasured.

**Earnings Per Share.** 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 November 30, 2016, 2015 or 2014.

**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 beginning December 1, 2018 (with early adoption permitted beginning in our 2018 fiscal year) and allows for full retrospective or modified retrospective methods of adoption. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements, as well as the method we will use to adopt the new guidance, and have been involved in industry-specific discussions with the FASB on the treatment of certain items. We do not believe the adoption of ASU 2014-09 will have a material impact on the amount or timing of our homebuilding revenues.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a lessee will be required to recognize assets and liabilities for leases with 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). ASU 2016-02 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 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.

Adoption of New Accounting Pronouncement. In April 2015, the FASB issued Accounting Standards Update No. 2015-03, “Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is to be applied on a retrospective basis and represents a change in accounting principle. In August 2015, the FASB issued Accounting Standards Update

No. 2015-15, "Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting" ("ASU 2015-15"), which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. In particular, ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We elected to early adopt ASU 2015-03 effective November 30, 2016. The adoption of ASU 2015-03 resulted in the reclassification of unamortized debt issuance costs related to senior notes from other assets to notes payable in our consolidated balance sheets in the amount of \$18.3 million at November 30, 2016 and \$23.8 million at November 30, 2015. As permitted by ASU 2015-15, we elected not to reclassify unamortized debt issuance costs associated with our Credit Facility and continue to present such capitalized costs in other assets.

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

#### Note 2. Segment Information

We have identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment. As of November 30, 2016, 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.

In the 2016 second quarter, we announced that we had begun a transition out of the Metro Washington, D.C. market that is expected to be completed in 2017. Our operations in the Metro Washington, D.C. market consisted of communities in Maryland and Virginia, which are included in our Southeast homebuilding reporting segment, and represented 2% of our consolidated homebuilding revenues for the year ended November 30, 2016. We are constructing and delivering homes in our remaining communities in this market. We also have other land interests in this market that we intend to build out or sell. As described in Note 7 – Inventory Impairments and Land Option Contract Abandonments, we recorded inventory impairment and land option contract abandonment charges related to this transition during the year ended November 30, 2016.

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 the provision of title services. Prior to July 2014, this segment also earned revenues pursuant to the terms of a marketing services agreement with Nationstar, under which Nationstar was our preferred mortgage lender and offered mortgage banking services, including mortgage loan originations, to our homebuyers who elected to use the lender. From July 2014 until October 2016, we provided mortgage banking services, including mortgage loan originations, to our homebuyers indirectly through HCM, a joint venture of a subsidiary of ours and a subsidiary of 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.

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 a mortgage banking joint venture in which we each have a 50.0% ownership interest. The unconsolidated joint venture, which had no impact on our consolidated statement of operations for the year ended November 30, 2016, is expected to begin offering services, including mortgage loan originations, to our homebuyers in most of our served markets by the end of our 2017 second quarter,

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subject to obtaining all requisite regulatory approvals and clearances. Our financial services reporting segment is separately reported in our consolidated financial statements.

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

Our segments follow the same accounting policies used for our consolidated financial statements as described in Note 1 – Summary of Significant Accounting Policies. 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):

	Years Ended November 30,			
	2016	2015	2014	
Revenues:				
West Coast	\$1,638,078	\$1,402,264	\$1,089,857	
Southwest	447,473	398,242	199,504	
Central	1,018,535	809,738	698,429	
Southeast	478,857	410,743	401,853	
Total	\$3,582,943	\$3,020,987	\$2,389,643	
Pretax income (loss):				
West Coast		\$148,014	\$127,946	\$116,325
Southwest		38,807	31,718	6,015
Central		85,924	70,959	47,214
Southeast		(29,385 )	(22,758 )	(11,158 )
Corporate and other		(98,511 )	(92,446 )	(71,993 )
Total		\$144,849	\$115,419	\$86,403
Equity in income (loss) of unconsolidated joint ventures:				
West Coast		\$(1,561 )	\$(1,106 )	\$(374 )
Southwest		(618 )	(696 )	(2,176 )
Central		—	—	—
Southeast		(2 )	(2 )	3,291
Total		\$(2,181 )	\$(1,804 )	\$741
Inventory impairment charges:				
West Coast		\$8,209	\$645	\$27,285
Southwest		3,191	3,253	6,392
Central		10,633	—	—
Southeast		27,547	4,132	3,951
Total		\$49,580	\$8,030	\$37,628

	Years Ended		
	November 30,		
	2016	2015	2014
Land option contract abandonments:			
West Coast	\$769	\$352	\$554
Southwest	253	—	—
Central	460	225	995
Southeast	1,750	984	254
Total	\$3,232	\$1,561	\$1,803
		November 30,	
		2016	2015
Inventories:			
Homes under construction			
West Coast		\$695,742	\$535,795
Southwest		130,886	112,032
Central		297,290	263,345
Southeast		122,020	120,184
Subtotal		1,245,938	1,031,356
Land under development			
West Coast		820,088	788,607
Southwest		268,507	317,331
Central		456,508	421,783
Southeast		182,554	238,324
Subtotal		1,727,657	1,766,045
Land held for future development or sale			
West Coast		210,910	277,954
Southwest		122,927	104,677
Central		15,439	22,082
Southeast		80,357	111,633
Subtotal		429,633	516,346
Total		\$3,403,228	\$3,313,747
Investments in unconsolidated joint ventures:			
West Coast		\$51,612	\$54,360
Southwest		9,905	14,697
Central		—	—
Southeast		2,499	2,501
Total		\$64,016	\$71,558
Assets:			
West Coast		\$1,847,279	\$1,740,299
Southwest		564,636	582,030
Central		909,497	829,811
Southeast		414,730	507,844
Corporate and other		1,384,983	1,412,893
Total		\$5,121,125	\$5,072,877

## Note 3. Financial Services

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

	Years Ended November 30,		
	2016	2015	2014
<b>Revenues</b>			
Insurance commissions	\$6,728	\$7,137	\$6,566
Title services	4,975	3,905	3,593
Marketing services fees	—	—	1,147
Interest income	—	1	—
<b>Total</b>	<b>11,703</b>	<b>11,043</b>	<b>11,306</b>
<b>Expenses</b>			
General and administrative	(3,817 )	(3,711 )	(3,446 )
Operating income	7,886	7,332	7,860
Equity in income (loss) of unconsolidated joint ventures	(3,420 )	4,292	686
<b>Pretax income</b>	<b>\$4,466</b>	<b>\$11,624</b>	<b>\$8,546</b>

	November 30,	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$914	\$1,299
Receivables	1,764	2,245
Investments in unconsolidated joint ventures	7,771	10,440
Other assets	50	44
<b>Total assets</b>	<b>\$10,499</b>	<b>\$14,028</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$2,003	\$1,817
<b>Total liabilities</b>	<b>\$2,003</b>	<b>\$1,817</b>

The equity in loss of unconsolidated joint ventures in 2016 reflected fewer loan originations and higher overhead costs as well as the wind down of HCM, and included 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, 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.

Although KB HOME Mortgage Company, which is 100% owned by us, ceased originating and selling mortgage loans in September 2005, it may be required to repurchase, or provide indemnification with respect to, an individual loan that it funded on or before August 31, 2005 and sold to an investor if the representations or warranties that it made in connection with the sale of the loan are breached, in the event of an early payment default, if the loan does not comply with the underwriting standards or other requirements of the ultimate investor or an applicable insurer, or due to a delinquency or other matters arising in connection with the loan. KB HOME Mortgage Company was not required to repurchase any loans in the past few years.

## Note 4. Earnings Per Share

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

	Years Ended November 30,		
	2016	2015	2014
Numerator:			
Net income	\$ 105,615	\$ 84,643	\$ 918,349
Less: Distributed earnings allocated to nonvested restricted stock	(45 )	(33 )	(26 )
Less: Undistributed earnings allocated to nonvested restricted stock	(508 )	(273 )	(2,667 )
Numerator for basic earnings per share	105,062	84,337	915,656
Effect of dilutive securities:			
Interest expense and amortization of debt issuance costs associated with convertible senior notes, net of taxes	2,667	2,667	2,667
Add: Undistributed earnings allocated to nonvested restricted stock	508	273	2,667
Less: Undistributed earnings reallocated to nonvested restricted stock	(453 )	(244 )	(2,398 )
Numerator for diluted earnings per share	\$ 107,784	\$ 87,033	\$ 918,592
Denominator:			
Weighted average shares outstanding — basic	85,706	92,054	89,265
Effect of dilutive securities:			
Share-based payments	2,170	2,401	1,647
Convertible senior notes	8,402	8,402	8,402
Weighted average shares outstanding — diluted	96,278	102,857	99,314
Basic earnings per share	\$ 1.23	\$ .92	\$ 10.26
Diluted earnings per share	\$ 1.12	\$ .85	\$ 9.25

As discussed in Note 13 – Notes Payable, in 2013, we issued the 1.375% Convertible Senior Notes due 2019 that, from issuance, have been convertible into shares of our common stock at a conversion rate of 36.5297 shares for each \$1,000 principal amount of the notes. Outstanding stock options to purchase 7.3 million, 8.0 million and 5.2 million shares of common stock were excluded from the diluted earnings per share calculations for 2016, 2015 and 2014, respectively, because the effect of their inclusion would be antidilutive. Contingently issuable shares associated with outstanding PSUs were not included in the basic earnings per share calculations for the periods presented, as the applicable vesting conditions had not been satisfied.

## Note 5. Receivables

Receivables consisted of the following (in thousands):

	November 30,	
	2016	2015
Due from utility companies, improvement districts and municipalities (a)	\$ 102,780	\$ 92,082
Recoveries related to self-insurance claims (b)	84,476	95,316
Recoveries related to warranty and other claims (b)	14,609	23,836
Refundable deposits and bonds	13,665	12,355
Other	28,745	36,626
Subtotal	244,275	260,215
	(12,610 )	(12,217 )

Explanation of Responses:

Allowance for  
doubtful accounts

Total	\$	231,665	\$	247,998
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- These receivables typically relate to infrastructure improvements we make with respect to our communities. We are generally reimbursed for the cost of such improvements when they are accepted by the utility company,
- (a) improvement district or municipality, or after certain events occur, depending on the terms of the applicable agreements. These events may include, but are not limited to, the connection of utilities or the issuance of bonds by the respective improvement districts or municipalities.
- (b) As described in Note 15 – Commitments and Contingencies, in 2016, we reclassified estimated probable insurance and other recoveries from our self-insurance liability to receivables for all years presented.

#### Note 6. Inventories

Inventories consisted of the following (in thousands):

	November 30,	
	2016	2015
Homes under construction	\$1,245,938	\$1,031,356
Land under development	1,727,657	1,766,045
Land held for future development or sale (a)	429,633	516,346
Total	\$3,403,228	\$3,313,747

(a) Land held for sale totaled \$63.4 million at November 30, 2016 and \$5.7 million at November 30, 2015.

Homes under construction is comprised of costs associated with homes in various stages of construction and includes direct construction and related land acquisition and land development costs. Land under development primarily consists of land acquisition and land development costs. Land development costs also include capitalized interest and real estate taxes. When home construction begins, the associated land acquisition and land development costs are included in homes under construction. Land held for future development principally reflects land acquisition and land development costs related to land where development activity has been suspended or has not yet begun but is expected to occur in the future. These assets held for future development are located in various submarkets where conditions do not presently support further investment or development, or are subject to a building permit moratorium or regulatory restrictions, or are portions of larger land parcels that we plan to build out over several years and/or that have not yet been entitled. We may also suspend development activity if we believe it will result in greater returns and/or maximize the economic performance of a particular community by delaying improvements for a period of time to, for instance, allow earlier phases of a long-term, multi-phase community or a neighboring community to generate or extend sales momentum or for market conditions to improve. In some instances, we may activate or resume development activity for such inventory to accelerate sales and/or our return on investment. We have activated assets previously held for future development in certain markets as part of our strategic growth initiatives in 2016 and 2015. Land is generally considered held for sale when management commits to a plan to sell the land; the land is available for immediate sale in its present condition; an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; the sale of the land is expected to be completed within one year; the land is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made. Interest and real estate taxes are not capitalized on land held for future development or sale.

In the 2016 fourth quarter, we changed our strategy related to certain land parcels that were either held for future development or under development and decided to monetize these assets through land sales, rather than build and sell homes on these parcels as previously intended. These parcels, which were classified as land held for sale at November 30, 2016, included land in excess of our near-term requirements; land where we now believe the necessary incremental investment in development is not justified; land located in areas outside of our served markets; and/or land entitled for certain product types that are not aligned with our primary product offerings. The majority of these land parcels are located in our Southeast homebuilding reporting segment. As discussed in Note 7 – Inventory Impairments and Land Option Contract Abandonments, we recognized inventory impairment charges to reduce the carrying values of these land parcels to their estimated fair values, less associated costs to sell.

Our interest costs were as follows (in thousands):



	Years Ended November 30,		
	2016	2015	2014
Capitalized interest at beginning of year	\$288,442	\$266,668	\$216,681
Interest incurred	185,466	186,885	171,541
Interest expensed	(5,900 )	(21,856 )	(30,750 )
Interest amortized to construction and land costs (a)	(161,285 )	(143,255 )	(90,804 )
Capitalized interest at end of year (b)	\$306,723	\$288,442	\$266,668

(a) Interest amortized to construction and land costs for the years ended November 30, 2016 and 2015 included \$.7 million and \$16.4 million, respectively, related to land sales during the periods.

(b) 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.

#### Note 7. Inventory Impairments and Land Option Contract Abandonments

Each community or land parcel in our owned inventory is assessed to determine if indicators of potential impairment exist. Impairment indicators are assessed separately for each community or land parcel on a quarterly basis and include, but are not limited to, the following: significant decreases in net orders, average selling prices, volume of homes delivered, gross profit margins on homes delivered or projected gross profit margins on homes in backlog or future deliveries; significant increases in budgeted land development and home construction costs or cancellation rates; or projected losses on expected future land sales. If indicators of potential impairment exist for a community or land parcel, the identified asset is evaluated for recoverability. We evaluated 68, 35 and 32 communities or land parcels for recoverability during the years ended November 30, 2016, 2015 and 2014, respectively. The carrying value of those communities or land parcels evaluated was \$423.1 million, \$286.3 million and \$266.9 million during the years ended November 30, 2016, 2015 and 2014, respectively. The year-over-year increase in the number and carrying value of communities evaluated for impairment in 2016 reflected our decisions to make changes in our operational strategies for specific communities or land parcels aimed at more quickly monetizing our investment in those inventories, as discussed further below. As impairment indicators are assessed on a quarterly basis, some of the communities or land parcels evaluated during these years were evaluated in more than one quarterly period.

Communities or land parcels evaluated for recoverability in more than one quarterly period are counted only once for each applicable year. In some cases, we have recognized inventory impairment charges for particular communities or land parcels in multiple years. Inventory impairment charges are included in construction and land costs in our consolidated statements of operations.

When an indicator of potential impairment is identified for a community or land parcel, we test the asset for recoverability by comparing the carrying value of the asset to the undiscounted future net cash flows expected to be generated by the asset. The undiscounted future net cash flows are impacted by then-current conditions and trends in the market in which the asset is located as well as factors known to us at the time the cash flows are calculated. These factors may include recent trends in our orders, backlog, cancellation rates and volume of homes delivered, as well as our expectations related to the following: product offerings; market supply and demand, including estimated average selling prices and related price appreciation; and land development, home construction and overhead costs to be incurred and related cost inflation. With respect to the years ended November 30, 2016 and 2015, these expectations reflected our experience that, notwithstanding fluctuations in our company-wide net orders, backlog levels, homes delivered and housing gross profit margin, on a year-over-year basis, conditions in the markets where assessed assets were located have been generally stable or improved, with no significant deterioration identified or projected, as to revenue and cost drivers that would prevent or otherwise impact recoverability. Based on this experience, and taking into account the generally healthy conditions in many of our served markets for new home sales, excluding the Metro Washington, D.C. market, where we began a wind down of our operations in 2016, our inventory assessments as of November 30, 2016 considered an expected steady overall sales pace and average selling price performance for 2017 and beyond relative to the pace and performance in recent quarters.

Given the inherent challenges and uncertainties in forecasting future results, our inventory assessments at the time they are made take into consideration whether a community or land parcel is active, meaning whether it is open for sales and/or undergoing development, or whether it is being held for future development or held for sale. Due to the

short-term nature of active communities and land held for sale, as compared to land held for future development, our inventory assessments generally assume the continuation of then-current market conditions, subject to identifying information suggesting significant sustained changes in such conditions. Our assessments of active communities, at the time made, generally anticipate net orders, average selling prices, volume of homes delivered and costs for land development and home construction to continue at or near then-current levels through the particular asset's estimated remaining life. Inventory assessments for our land held for future development consider then-current market

conditions as well as subjective forecasts regarding the timing and costs of land development and home construction and related cost inflation; the product(s) to be offered; and the net orders, volume of homes delivered, and selling prices and related price appreciation of the offered product(s) when an associated community is anticipated to open for sales. We evaluate various factors to develop these forecasts, including the availability of and demand for homes and finished lots within the relevant marketplace; historical, current and expected future sales trends for the marketplace; and third-party data, if available. The estimates, expectations and assumptions used in each of our inventory assessments are specific to each community or land parcel based on what we believe are reasonable forecasts for their particular performance, and may vary among communities or land parcels and may vary over time.

We record an inventory impairment charge on a community or land parcel that is active or held for future development when its carrying value 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.

Inputs used in our calculation of estimated discounted future net cash flows are specific to each affected real estate asset and are based on our expectations for each such asset as of the applicable measurement date, including, among others, expectations related to average selling prices and volume of homes delivered. The discount rates we used were impacted by one or more of the following at the time the calculation was made: the risk-free rate of return; expected risk premium based on estimated land development, home construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to land development or home construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located.

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.

The following table summarizes ranges for significant quantitative unobservable inputs we utilized in our fair value measurements with respect to impaired communities, other than land held for sale, written down to fair value during the years presented:

Unobservable Input (a)	Years Ended November 30,		
	2016	2015	2014
Average selling price	\$216,200 - \$977,400	\$178,100 - \$509,400	\$216,100 - \$316,800
Deliveries per month	1 - 4	2 - 4	1 - 4
Discount rate	17% - 20%	17% - 20%	17% - 19%

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

Based on the results of our evaluations, we recognized inventory impairment charges of \$49.6 million in 2016 related to 30 communities or land parcels with a post-impairment fair value of \$39.5 million that reflected our decisions to make changes in our operational strategies for specific communities or land parcels aimed at more quickly monetizing our investment in those inventories. Of these inventory impairment charges, \$36.7 million related to certain land previously held for future development that we decided in the 2016 fourth quarter to monetize through land sales as discussed in Note 6 – Inventories; land that we are planning to sell in connection with the wind down of our Metro Washington, D.C. operations; 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 remaining \$12.9 million of inventory impairment charges reflected our decision to activate and thereby accelerate the overall timing for selling, building and delivering homes in certain of our California, Arizona and Florida communities that were previously held for future development, and to accelerate the overall pace for selling, building and delivering homes, primarily through lowering selling prices, at other communities in California and Metro Washington, D.C. If we change our strategy for any given asset, it is possible that we may recognize additional inventory impairment charges in the future.

In 2015, we recognized inventory impairment charges of \$8.0 million related to four communities with a post-impairment fair value of \$12.0 million. We decided to change our operational strategy for these communities in order to monetize our investment more quickly primarily through lowering home selling prices or by accelerating the

overall timing and pace for selling, building and delivering homes on land that had been held for future development. In 2014, we recognized inventory impairment charges of \$37.6 million associated with eight communities or land parcels with a post-impairment fair value of \$30.6 million. Of these charges, \$26.6 million related to two properties, located in inland southern California and Atlanta, Georgia, where we decided to change our strategy and monetize our investment through land sales rather than build and sell homes on the parcels as previously intended. The remaining \$11.0 million related to six communities primarily located in inland California and Arizona, reflecting

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decisions we made to monetize our investment in these land positions sooner by accelerating the overall timing and pace for selling, building and delivering homes on land that had been held for future development, and/or then-softening conditions in the relevant submarkets.

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. As of November 30, 2015, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$254.2 million, representing 28 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed to determine whether it continues to meet our investment return standards. Assessments are made separately for each optioned land parcel on a quarterly basis and are affected by the following factors relative to the market in which the asset is located, among others: current and/or anticipated net orders, average selling prices and volume of homes delivered; estimated land development and home construction costs; and projected profitability on expected future housing or land sales. 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 \$3.2 million corresponding to 744 lots in 2016, \$1.6 million corresponding to 1,166 lots in 2015 and \$1.8 million corresponding to 1,306 lots in 2014. Of the land option contract abandonment charges recognized for 2016, \$1.4 million related to the wind down of our Metro Washington, D.C. operations. Land option contract abandonment charges are included in construction and land costs in our consolidated statements of operations.

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 inventory balance as of November 30, 2016 within five years.

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 inventory balances, particularly as to land held for future development, it is possible that actual results could differ substantially from those estimated.

#### Note 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 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 analysis, we determined that one of our joint ventures at November 30, 2016 was a VIE, but we were not the primary beneficiary of the VIE. At November 30, 2015, we determined that none of our joint ventures were VIEs. All of our joint ventures at November 30, 2016 and 2015 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. The use of these contracts generally allows us to reduce the market risks associated with direct land ownership and development, and reduce our capital and financial commitments, including interest and other carrying costs. 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 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. In determining whether we are the primary

beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. As a result of our analyses, we determined that as of November 30, 2016 and 2015, 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.

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

	November 30, 2016		November 30, 2015	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	\$24,910	\$641,642	\$32,436	\$611,567
Other land option contracts and other similar contracts	17,919	431,954	22,101	576,140
Total	\$42,829	\$1,073,596	\$54,537	\$1,187,707

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 \$56.0 million at November 30, 2016 and \$65.6 million at November 30, 2015. 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 on our consolidated balance sheet with a corresponding financing obligation if we determine that we are effectively compelled to exercise the option under the land option contract and purchase the optioned land parcel(s). In making this determination with respect to a land option 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 \$50.5 million at November 30, 2016 and \$110.0 million at November 30, 2015.

#### Note 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. Our partners in these unconsolidated joint ventures are unrelated homebuilders, and/or land developers and other real estate entities, or commercial enterprises. These investments are designed primarily to reduce market and development risks and to increase the number of lots we own or control. In some instances, participating in unconsolidated joint ventures has enabled us to acquire and develop land that we might not otherwise have had access to due to a project's size, financing needs, duration of development or other circumstances. While we consider our participation in unconsolidated joint ventures as potentially beneficial to our homebuilding activities, we do not view such participation as essential.

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):

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	Years Ended November 30,		
	2016	2015	2014
Revenues	\$46,389	\$15,322	\$12,538
Construction and land costs	(50,566 )	(23,123 )	(10,790 )
Other expenses, net	(4,465 )	(3,360 )	(1,476 )
Income (loss)	\$(8,642 )	\$(11,161 )	\$272

For the years ended November 30, 2016, 2015 and 2014, combined revenues and construction and land costs were generated primarily from land sales.

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

	November 30,	
	2016	2015
Assets		
Cash	\$31,928	\$23,309
Receivables	882	7,546
Inventories	165,385	175,196
Other assets	629	910
Total assets	\$198,824	\$206,961
Liabilities and equity		
Accounts payable and other liabilities	\$19,880	\$17,108
Notes payable (a)	44,381	39,064
Equity	134,563	150,789
Total liabilities and equity	\$198,824	\$206,961

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 (a) 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 November 30, 2016 or 2015.

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

	November 30,	
	2016	2015
Number of investments in unconsolidated joint ventures	7	7
Investments in unconsolidated joint ventures	\$64,016	\$71,558
Number of unconsolidated joint venture lots controlled under land option contracts and other similar contracts	471	677

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 under the construction loan agreement. 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 November 30, 2016, 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 contracts and other similar contracts at November 30, 2016, we are committed to purchase 121 lots from one of our unconsolidated joint ventures in quarterly takedowns over the next four years for an aggregate purchase price of \$53.0 million under agreements that we entered into with the unconsolidated joint venture in 2016.

#### Note 10. Other Assets

Other assets consisted of the following (in thousands):

	November 30,	
	2016	2015
Cash surrender value of insurance contracts	\$70,829	\$67,786
Property and equipment, net	14,240	13,100
Prepaid expenses	4,894	6,480
Debt issuance costs (a)	1,182	1,626
Total	\$91,145	\$88,992

As described in Note 1 – Summary of Significant Accounting Policies, in connection with our adoption of ASU 2015-03 effective November 30, 2016, unamortized debt issuance costs associated with our senior notes were (a) retrospectively reclassified from other assets to notes payable in our consolidated balance sheets. The debt issuance costs reflected are associated with our Credit Facility.

#### Note 11. Accrued Expenses and Other Liabilities

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

	November 30,	
	2016	2015
Self-insurance and other litigation liabilities (a)	\$170,988	\$191,812
Employee compensation and related benefits	130,352	114,456
Inventory-related obligations (b)	82,682	148,887
Accrued interest payable	67,411	62,645
Warranty liability	56,682	49,085
Customer deposits	18,175	14,563
Real estate and business taxes	14,370	14,255
Other	10,336	13,027
Total	\$550,996	\$608,730

As described in Note 15 – Commitments and Contingencies, in 2016, we reclassified estimated probable insurance and other recoveries from our self-insurance liability to receivables for all years presented.

Represents liabilities for inventory not owned associated with financing arrangements discussed in Note 8 – Variable Interest Entities, as well as liabilities for fixed or determinable amounts associated with TIFE (b) assessments. As homes are delivered, the 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.

## Note 12. Income Taxes

Income Tax Benefit (Expense). The components of the income tax benefit (expense) in our consolidated statements of operations are as follows (in thousands):

	Federal	State	Total
2016			
Current	\$(1,900 )	\$(1,000 )	\$(2,900 )
Deferred	(28,700 )	(12,100 )	(40,800 )
Income tax expense	\$(30,600 )	\$(13,100 )	\$(43,700 )

2015			
Current	\$(1,400 )	\$(2,000 )	\$(3,400 )
Deferred	(35,900 )	(3,100 )	(39,000 )
Income tax expense	\$(37,300 )	\$(5,100 )	\$(42,400 )

2014			
Current	\$100	\$(1,900 )	\$(1,800 )
Deferred	646,000	179,200	825,200
Income tax benefit	\$646,100	\$177,300	\$823,400

Our income tax expense for 2016 and 2015 reflected the favorable net impact of \$15.2 million and \$5.6 million, respectively, of federal energy tax credits we earned from building energy-efficient homes, resulting in effective tax rates of 29.3% for 2016 and 33.4% for 2015. The income tax benefit in 2014 was primarily due to the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014. Due to the effects of our deferred tax asset valuation allowance and changes in our unrecognized tax benefits, our effective tax rate in 2014 was not a meaningful item as our income tax amount was not directly correlated to our pretax income for that period. The majority of the federal energy tax credits for 2016 resulted from legislation enacted on December 18, 2015. Among other things, this legislation extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2016. Prior to this legislation, the tax credit expired on December 31, 2014. The federal energy tax credits for 2015 were earned primarily from building energy-efficient homes in prior periods based on legislation enacted on December 19, 2014, which permitted retroactive application of the credits.

Deferred Tax Assets, Net. Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities. Significant components of our deferred tax liabilities and assets are as follows (in thousands):

	November 30,	
	2016	2015
Deferred tax liabilities:		
Capitalized expenses	\$116,551	\$110,408
State taxes	65,766	68,866
Other	286	196
Total	\$182,603	\$179,470

	November 30,	
	2016	2015
Deferred tax assets:		
NOLs from 2006 through 2016	\$350,329	\$423,274
Tax credits	197,766	186,169
Inventory impairment and land option contract abandonment charges	176,555	179,828
Employee benefits	102,321	93,395
Warranty, legal and other accruals	51,448	49,655
Capitalized expenses	36,950	34,887
Partnerships and joint ventures	16,293	18,557
Depreciation and amortization	8,530	9,146
Other	6,196	4,537
Total	946,388	999,448
Valuation allowance	(24,800 )	(37,782 )
Total	921,588	961,666
Deferred tax assets, net	\$738,985	\$782,196

Reconciliation of Expected Income Tax Benefit (Expense). The income tax benefit (expense) computed at the statutory U.S. federal income tax rate and the income tax benefit (expense) provided in our consolidated statements of operations differ as follows (dollars in thousands):

	Years Ended November 30,					
	2016		2015		2014	
	\$	%	\$	%	\$	%
Income tax expense computed at statutory rate	\$(52,260)	(35.0)%	\$(44,462)	(35.0)%	\$(33,232)	(35.0)%
Valuation allowance for deferred tax assets	12,982	8.7	3,356	2.6	825,232	869.1
Tax credits	4,447	3.0	6,926	5.5	1,875	2.0
Depreciation and amortization	1,842	1.2	3,183	2.5	15,765	16.6
Basis in unconsolidated joint ventures	(86 )	(0.1 )	1,617	1.3	10,441	11.0
NOL reconciliation	(3,691 )	(2.5 )	(3,379 )	(2.7 )	12,973	13.7
State taxes, net of federal income tax benefit	(7,511 )	(5.0 )	(5,155 )	(4.1 )	(13,907 )	(14.7 )
Other, net	577	.4	(4,486 )	(3.5 )	4,253	4.5
Income tax benefit (expense)	\$(43,700)	(29.3)%	\$(42,400)	(33.4)%	\$823,400	867.2 %

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. In our evaluation, we give more significant weight to evidence that is objective in nature as compared to subjective evidence. Also, more significant weight is given to evidence that directly relates to our then-current financial performance as compared to indirect or less current evidence. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets in our consolidated balance sheets depends on applicable income tax rates.

Our deferred tax assets of \$763.8 million at November 30, 2016 and \$820.0 million at November 30, 2015 were partially offset by valuation allowances of \$24.8 million and \$37.8 million, respectively. The deferred tax asset valuation allowance at November 30, 2016 was primarily related to certain state NOLs that had not met the “more likely than not” realization standard at that date. The valuation allowance at November 30, 2015 was mainly related to foreign tax credits and certain state NOLs that had not met the “more likely than not” realization standard as of that date. As of November 30, 2016, we needed to generate



approximately \$1.8 billion of pretax income in future periods before 2036 to realize our deferred tax assets. Based on the evaluation of our deferred tax assets as of November 30, 2016, we determined that most of our deferred tax assets would be realized. In 2016, we reduced our valuation allowance by \$13.0 million, which reflected the expiration of foreign tax credits and the release of a valuation allowance associated with state NOLs that met the “more likely than not” realization standard, partly offset by the establishment of a valuation allowance for state NOLs related to the wind down of our Metro Washington, D.C. operations. In 2015, the valuation allowance was reduced by \$3.4 million to account for the expiration of foreign tax credits and state NOLs that were not utilized.

At November 30, 2014, we determined through our evaluation process that it was more likely than not that most of our deferred tax assets would be realized. As a result, we recognized an \$824.2 million income tax benefit in the 2014 fourth quarter, which included the reversal of all but \$41.2 million of our deferred tax asset valuation allowance. The principal positive evidence that led us to determine at November 30, 2014 that most of our deferred tax asset valuation allowance could be reversed included our emergence from a three-year cumulative pretax loss position in 2014 as well as the underlying momentum in our business and generally improved housing market and broader economic conditions that had enabled us to achieve and maintain a three-year cumulative pretax income position as of and after the 2014 third quarter; the significant pretax income we generated during 2014 and 2013, including six consecutive quarters of pretax income as of November 30, 2014; improvement in key financial metrics in 2014 when compared to the previous year (including in our revenues; housing gross profits; selling, general and administrative expenses as a percentage of housing revenues; net orders and backlog); our expectation of future profitability; our strong financial position; significant evidence that conditions in the U.S. housing industry at the time were more favorable than they had been in the then-recent past and our belief that such conditions would continue to be favorable over the long term; and our belief that we would be able to make operational adjustments to address any potential changes in market conditions to maintain long-term profitability and realize our deferred tax assets.

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

The majority of the tax benefits associated with our NOLs can be carried forward for 20 years (as we did not have taxable income in the allowable two-year carryback period) and applied to offset future taxable income. The federal NOL carryforwards of \$204.2 million, if not utilized, will begin to expire in 2030 through 2033. Depending on their applicable statutory period, the state NOL carryforwards of \$146.1 million, if not utilized, will begin to expire between 2017 and 2036. State NOL carryforwards of \$.5 million and \$1.7 million expired in 2016 and 2015, respectively.

In addition, \$104.9 million of our tax credits, if not utilized, will begin to expire in 2026 through 2036. Included in the \$104.9 million are \$3.2 million of investment tax credits, of which \$2.4 million and \$.8 million will expire in 2026 and 2027, respectively.

**Unrecognized Tax Benefits.** Gross unrecognized tax benefits are the differences between a tax position taken or expected to be taken in a tax return, and the benefit recognized for accounting purposes. A reconciliation of the beginning and ending balances of gross unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

	Years Ended		
	November 30,		
	2016	2015	2014
Balance at beginning of year	\$56	\$206	\$206
Reductions due to lapse of statute of limitations	—	(150)	—
Balance at end of year	\$56	\$56	\$206

We recognize accrued interest and penalties related to unrecognized tax benefits in our consolidated financial statements as a component of the provision for or benefit from income taxes. As of each of November 30, 2016, 2015 and 2014, there was a balance of \$.1 million of gross unrecognized tax benefits (including interest and penalties) that,



if recognized, would affect our annual effective tax rate. Our liabilities for unrecognized tax benefits at November 30, 2016 and 2015 are included in accrued expenses and other liabilities in our consolidated balance sheets.

As of November 30, 2016 and 2015, there were no tax positions for which the ultimate deductibility is highly certain but the timing of such deductibility is uncertain. Our total accrued interest and penalties related to unrecognized income tax benefits was zero at both November 30, 2016 and 2015. Because of the impact of deferred tax accounting, other than interest and penalties,

the disallowance of the shorter deductibility period would not affect our annual effective tax rate, but would accelerate the payment of cash to a tax authority to an earlier period.

As of November 30, 2016, our gross unrecognized tax benefits (including interest and penalties) totaled \$.1 million. 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 due to the expiration of the applicable statute of limitations. The fiscal years ending 2013 and later remain open to federal examinations, while 2012 and later remain open to state examinations.

Notwithstanding the reversal of a substantial portion of our deferred tax asset valuation allowance at November 30, 2014, the benefits of our deferred tax assets, including our NOLs, built-in losses and tax credits would be reduced or potentially eliminated if we experienced an “ownership change” under Section 382. Based on our analysis performed as of November 30, 2016, we do not believe that we have experienced an ownership change as defined by Section 382, and, therefore, the NOLs, built-in losses and tax credits we have generated should not be subject to a Section 382 limitation as of this reporting date.

#### Note 13. Notes Payable

Notes payable consisted of the following (in thousands):

	November 30,	
	2016	2015
Mortgages and land contracts due to land sellers and other loans (at interest rates of 1% to 7% at November 30, 2016 and 4% to 7% at November 30, 2015)	\$66,927	\$35,664
9.10% Senior notes due September 15, 2017	263,932	262,570
7 1/4% Senior notes due June 15, 2018	299,647	299,431
4.75% Senior notes due May 15, 2019	397,364	396,309
8.00% Senior notes due March 15, 2020	344,811	343,327
7.00% Senior notes due December 15, 2021	445,911	445,079
7.50% Senior notes due September 15, 2022	346,774	346,204
7.625% Senior notes due May 15, 2023	247,404	247,000
1.375% Convertible senior notes due February 1, 2019	227,379	226,170
Total	\$2,640,149	\$2,601,754

The senior note and convertible senior note balances in the table above reflect our adoption of ASU 2015-03, as described in Note 1 – Summary of Significant Accounting Policies. Debt issuance costs that were deducted from the carrying amounts of the applicable senior notes totaled \$18.3 million at November 30, 2016 and \$23.8 million at November 30, 2015. The carrying amounts of the senior notes listed above are also net of any unamortized discounts. Unsecured Revolving Credit Facility. We have a \$275.0 million Credit Facility that will mature on August 7, 2019. The Credit Facility contains an uncommitted accordion feature under which its 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, the 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 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 an Interest Coverage Ratio or a 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 November 30, 2016, we had no cash borrowings and \$31.0 million of letters of credit outstanding under the Credit Facility. Therefore, as of November 30, 2016, we had \$244.0 million available for cash borrowings under the Credit Facility, with up to \$106.5 million of that amount available for the issuance of additional letters of credit.

LOC Facility. We maintain the LOC Facility with a financial institution to obtain letters of credit from time to time in the ordinary course of operating our business. We had no letters of credit outstanding under the LOC Facility at

November 30, 2016 and \$9.1 million outstanding at November 30, 2015. The LOC Facility requires us to deposit and maintain cash with the issuing financial institution as collateral for our letters of credit outstanding.

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Mortgages and Land Contracts Due to Land Sellers and Other Loans. As of November 30, 2016, inventories having a carrying value of \$181.8 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

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 our senior notes outstanding at November 30, 2016 and 2015 represent senior unsecured obligations and rank equally in right of payment with all of our existing and future indebtedness. All of our outstanding senior notes were issued in underwritten public offerings.

The key terms of each of our senior notes outstanding as of November 30, 2016 were as follows (dollars in thousands):

Notes Payable	Principal	Issuance Date	Maturity Date	Redeemable Prior to Maturity	Effective Interest Rate
9.10% Senior notes	\$ 265,000	July 30, 2009	September 15, 2017	Yes (a)	9.6 %
7 1/4% Senior notes	300,000	April 3, 2006	June 15, 2018	Yes (a)	7.3
4.75% Senior notes	400,000	March 25, 2014	May 15, 2019	Yes (b)	5.0
8.00% Senior notes	350,000	February 7, 2012	March 15, 2020	Yes (a)	8.5
7.00% Senior notes	450,000	October 29, 2013	December 15, 2021	Yes (b)	7.2
7.50% Senior notes	350,000	July 31, 2012	September 15, 2022	Yes (a)	7.7
7.625% Senior notes	250,000	February 17, 2015	May 15, 2023	Yes (b)	7.8
1.375% Convertible senior notes	230,000	January 29, 2013	February 1, 2019	Yes (c)	1.9

At our option, these notes may be redeemed, in whole at any time or from time to time in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed and (ii) the sum of the (a) present values of the remaining scheduled payments of principal and interest on the notes being redeemed (exclusive of interest accrued to the applicable redemption date), discounted to the redemption date at a defined rate, plus, in each case, accrued and unpaid interest on the notes being redeemed to the applicable redemption date.

At our option, these notes may be redeemed, in whole at any time or from time to time in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (exclusive of interest accrued to the applicable redemption date), discounted to the redemption date at a defined (b) rate, plus, in each case, accrued and unpaid interest on the notes being redeemed to, but excluding, the applicable redemption date, except that three months prior to the stated maturity dates for the 4.75% Senior Notes due 2019 and the 7.00% Senior Notes due 2021 and until their respective maturity, and six months prior to the stated maturity date for the 7.625% Senior Notes due 2023 and until their maturity, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus, in each case, accrued and unpaid interest on the notes being redeemed to, but excluding, the applicable redemption date.

We may not redeem the notes prior to November 6, 2018. On or after November 6, 2018, and prior to the stated maturity date, we may, at our option, redeem all or part of the notes at a redemption price equal to 100% of the (c) principal amount of the notes being redeemed plus accrued and unpaid interest to, but excluding the redemption date.

If a change in control occurs as defined in the instruments governing our senior notes, we would be required to offer to purchase all of our outstanding senior notes (with the exception of the amount outstanding related to our 7 1/4% Senior Notes due 2018) at 101% of their principal amount, together with all accrued and unpaid interest, if any. If a fundamental change, as defined in the instruments governing the 1.375% Convertible Senior Notes due 2019, occurs prior to the stated maturity date, the holders may require us to purchase for cash all or any portion of their 1.375% Convertible Senior Notes due 2019 at 100% of the principal amount of the notes, plus accrued and unpaid interest to, but not including, the fundamental change purchase date.

In 2015, we used a portion of the total net proceeds of \$245.4 million from the issuance of the 7.625% Senior Notes due 2023 to retire the remaining \$199.9 million in aggregate principal amount of our 6 1/4% Senior Notes due 2015 at their maturity on June 15, 2015. The remainder of the net proceeds was used for general corporate purposes, including working capital, land acquisition and land development.

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In 2014, we used the \$394.6 million in total net proceeds from the issuance of the 4.75% Senior Notes due 2019 together with the total net proceeds from a concurrent underwritten public offering of our common stock, which is discussed below in Note 17 – Stockholders’ Equity, for general corporate purposes, including land acquisition and land development.

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. 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, including: subdivisions and combinations of our common stock; the issuance of stock dividends, or certain rights, options or warrants, capital stock, indebtedness, assets or cash dividends to all or substantially all holders of our common stock; and certain issuer tender or exchange offers. The conversion rate will not, however, be adjusted for other events, such as a third party tender or exchange offer or an issuance of common stock for cash or an acquisition, that may adversely affect the trading price of the notes or our common stock. On conversion, holders of the 1.375% Convertible Senior Notes due 2019 will not be entitled to receive cash in lieu of shares of our common stock, except for cash in lieu of fractional shares. We maintain 12,602,735 shares of our common stock to meet conversions if and when they occur. This represents 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. The maximum number of shares would potentially be deliverable to holders only in certain limited circumstances as set forth in the instruments governing these notes.

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 November 30, 2016, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance. There are no agreements that restrict our payment of dividends other than to maintain compliance with the financial covenant requirements under the Credit Facility, which would restrict our payment of dividends if a default under the Credit Facility exists at the time of any such payment, or if any such payment would result in such a default.

Principal payments on senior notes, mortgages and land contracts due to land sellers and other loans are due during each year ended November 30 as follows: 2017 — \$331.9 million; 2018 — \$300.0 million; 2019 — \$630.0 million; 2020 — \$350.0 million; 2021 — \$0; and thereafter — \$1.05 billion.

#### Note 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.

Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities Level or quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than 2 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 (in thousands):

Fair Value Hierarchy	For the Years Ended
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Description	November 30,	
	2016	2015
Inventories (a) Level 2	\$ 3,657	\$ —
Inventories (a) Level 3	37,329	11,988

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Amounts represent the aggregate fair value for real estate assets impacted by inventory impairment charges during the applicable period, as of the date that 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 \$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. Inventories with a carrying value of \$20.0 million were written down to their fair value of \$12.0 million during the year ended November 30, 2015, resulting in inventory impairment charges of \$8.0 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 primarily 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	November 30,			
		2016		2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Liabilities:</b>					
Senior notes (a)	Level 2	\$2,345,843	\$2,494,844	\$2,339,920	\$2,429,850
Convertible senior notes (a)	Level 2	227,379	223,675	226,170	211,313

(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, restricted cash, and mortgages and land contracts due to land sellers and other loans approximate fair values.

#### Note 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 for repairs of certain conditions or defects 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

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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 are as follows (in thousands):

	Years Ended November 30,		
	2016	2015	2014
Balance at beginning of year	\$49,085	\$45,196	\$48,704
Warranties issued	30,135	23,018	18,479
Payments (a)	(23,190 )	(26,367 )	(39,458 )
Adjustments (b)	652	7,238	17,471
Balance at end of year	\$56,682	\$49,085	\$45,196

(a) Payments for 2016, 2015 and 2014 included \$2.3 million, \$8.4 million and \$26.6 million, respectively, to repair homes affected by water intrusion-related issues in certain of our communities in central and southwest Florida.

Adjustments for 2016, 2015 and 2014 included the reclassification of certain estimated minimum probable recoveries to receivables in connection with the above-noted water intrusion-related issues. Adjustments in 2014 also included the reclassification of estimated minimum probable recoveries to establish a separate accrual for a water intrusion-related inquiry, as described below. The adjustments for each year had no impact on our consolidated statements of operations. There were no estimated minimum probable recoveries netted against our warranty liability at November 30, 2016.

Florida Attorney General's Office Inquiry. In 2013, we were notified by the Florida Attorney General's Office that it was making a preliminary inquiry into the status of our communities in Florida which were affected by water intrusion-related issues. We established an accrual for the estimated minimum probable loss with respect to this inquiry during 2014 and increased the accrual during 2015. This inquiry was resolved through an agreement with the Florida Attorney General's Office that was approved by a Florida circuit court and became effective in February 2016. The amount accrued as of November 30, 2015 was adequate based on the terms of the approved agreement. We paid a stipulated amount to the Florida Attorney General's Office under the agreement in March 2016.

Guarantees. In the normal course of our business, we issue certain representations, warranties and guarantees related to our home 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 certain construction defect, bodily injury and property damage claims and related litigation or regulatory actions, up to certain limits. Our self-insurance liability generally covers the 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.

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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 for all years without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. To facilitate this, as of November 30, 2016, we changed the presentation of estimated probable insurance and other recoveries to reflect such amounts as receivables in our consolidated balance sheets, with no impact on our consolidated statements of operations.

Previously, these amounts were presented on a net basis within our self-insurance liability. The estimated probable insurance and other recoveries that were reclassified to receivables totaled \$95.3 million at November 30, 2015 and \$124.9 million at November 30, 2014. We also reported estimated probable insurance and other recoveries of \$84.5 million as receivables at November 30, 2016. The estimated probable recoveries for all periods presented 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 year to year. 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):

	Years Ended November 30,		
	2016	2015	2014
Balance at beginning of year	\$173,011	\$205,228	\$239,067
Self-insurance expense (a)	24,808	18,590	13,491
Payments	(28,395 )	(21,201 )	(21,045 )
Reclassification of estimated probable recoveries (b)	(10,840 )	(29,606 )	(26,285 )
Balance at end of year	\$158,584	\$173,011	\$205,228

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

(b) Amount for each period represents the year-over-year change 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

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or deductibles under our general liability insurance policies. There generally is a timing difference between when we make payments for claims and related repair work and our recovery of costs from applicable insurance carriers due to the insurance carriers' lengthy claim evaluation process. 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 self-insurance matters totaled \$14.6 million at November 30, 2016 and \$23.8 million at November 30, 2015. We believe the 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 November 30, 2016, we had \$535.7 million of performance bonds and \$31.0 million of letters of credit outstanding. At November 30, 2015, we had \$565.4 million of performance bonds and \$33.4 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 is 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 business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. At November 30, 2016, we had total cash 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.

**Leases.** We lease certain property and equipment under noncancelable operating leases. Office and equipment leases are typically for terms of three to five years and generally provide renewal options for terms up to an additional five years. In most cases, we expect that leases that expire will be renewed or replaced by other leases with similar terms. The future minimum rental payments under operating leases, which primarily consist of office leases having initial or remaining noncancelable lease terms in excess of one year, are as follows (in thousands):

Years Ending November 30,	
2017	\$7,660
2018	7,218
2019	6,653
2020	4,354
2021	2,592
Thereafter	7,644
Total minimum lease payments	\$36,121

Rental expense on our noncancelable operating leases was \$7.5 million in 2016, \$8.5 million in 2015 and \$7.7 million in 2014.

#### Note 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

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unspecified punitive damages and other damages, and interest charges in excess of \$41 million (“Claimed Damages”). KB Nevada has denied the allegations, and believes it has 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. With the district court’s decisions, the only remaining claims against KB Nevada are for contract damages and rescission. In August 2013, the 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. The district court scheduled a new trial date of February 28, 2017 for all remaining claims. While the ultimate outcome is uncertain — we believe it is reasonably possible that the loss in this matter could exceed the amount accrued by a range of zero to approximately \$55 million plus prejudgment interest, which could be material to our consolidated financial statements — KB Nevada believes it will be successful in defending against the consolidated plaintiffs’ remaining claims and that the consolidated plaintiffs will not be awarded rescission or damages.

**Wage and Hour Litigation.** In May 2011, a group of current and former sales representatives filed a collective action lawsuit in the United States District Court for the Southern District of Texas, Galveston Division entitled *Edwards, K. v. KB Home*. The lawsuit alleged that we misclassified sales representatives and failed to pay minimum and overtime wages in violation of the Fair Labor Standards Act (29 U.S.C. §§ 206-07). In September 2012, the Edwards court conditionally certified a nationwide class, and in May 2015, scheduled an initial trial involving a portion of the plaintiffs for December 2015. In September 2013, some of the plaintiffs in the Edwards case filed a lawsuit in Los Angeles Superior Court entitled *Andrea L. Bejenaru, et al. v. KB Home, et al.* The lawsuit alleged violations of California laws relating to overtime, meal period and rest break pay, itemized wage statements, waiting time penalties and unfair business practices for a class of sales representatives. Although the case involved a putative class of individuals who were our sales representatives from September 2009 forward, the Bejenaru case was not certified as a class action. In the second quarter of 2015, plaintiff representatives in the Edwards and the Bejenaru cases claimed \$66 million in compensatory damages, penalties and interest, as well as injunctive relief, attorneys’ fees and costs for both matters. On November 18, 2015, we reached a tentative mediated settlement with the plaintiff representatives in both cases that remains subject to judicial approval. Under the terms of the tentative settlement, we agreed to pay \$7.5 million to a settlement administrator for distribution to individual settling plaintiffs, subject to obtaining releases from, and a specified threshold of participation by, such individuals. On May 2, 2016, after further negotiations to resolve important details related to the claims submission process for individual settling plaintiffs, we reached final settlement terms with the plaintiff representatives. The final settlement terms did not change the settlement amount, which is intended to be inclusive of all payments to settling plaintiffs and all related fees and costs, or the required threshold participation level. On May 19, 2016, the Edwards court approved the final settlement terms with respect to the Edwards case and, with the Bejenaru court’s consent, preliminarily approved the final settlement terms with respect to the Bejenaru case. On September 15, 2016, the court approved the final settlement terms with respect to the Bejenaru case. In 2015, we established an accrual for these cases in the amount of \$7.5 million, which we paid as of November 30, 2016.

**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/California during the grading of a required secondary access road for a community located in San Diego County, California, which was performed pursuant to a County-issued grading permit. In its NOV, the RWQCB requested to meet with us to discuss the alleged violations as part of its process to determine whether to bring any enforcement action, and we have met with the RWQCB in an effort to resolve the matters alleged in the NOV. An administrative hearing before the RWQCB originally scheduled for August 10, 2016 has been continued and a new hearing date has not yet been set. While the ultimate outcome is uncertain, we believe that any



penalties and related corrective measures the RWQCB may impose under the NOV could exceed \$100,000 (the threshold for the required disclosure of this type of environmental proceeding) but they are not expected to be material to our consolidated financial statements.

Other Matters. In addition to the specific proceedings described above, we are involved in other litigation and regulatory proceedings incidental to our business that are in various procedural stages. We believe that the accruals we have recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of November 30, 2016, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized or disclosed 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

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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.

#### Note 17. Stockholders' Equity

**Preferred Stock.** To help protect the benefits of our NOLs, built-in losses and tax credits from the impact of an ownership change under Section 382, on January 22, 2009, we adopted a Rights Agreement dated as of that date ("2009 Rights Agreement"), and we declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock that was payable to stockholders of record as of the close of business on March 5, 2009. Subject to the terms, provisions and conditions of the 2009 Rights Agreement, if these rights become exercisable, each right would initially represent the right to purchase from us 1/100th of a share of our Series A Participating Cumulative Preferred Stock for a purchase price of \$85.00 ("Purchase Price"). If issued, each fractional share of preferred stock would generally give a stockholder approximately the same dividend, voting and liquidation rights as does one share of our common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder, including without limitation any dividend, voting or liquidation rights. The rights will not be exercisable until the earlier of (a) 10 calendar days after a public announcement by us that a person or group has become an Acquiring Person (as defined under the 2009 Rights Agreement) and (b) 10 business days after the commencement of a tender or exchange offer by a person or group if upon consummation of the offer the person or group would beneficially own 4.9% or more of our outstanding common stock.

Until these rights become exercisable ("Distribution Date"), common stock certificates and/or book-entry shares will evidence the rights and may contain a notation to that effect. Any transfer of shares of our common stock prior to the Distribution Date will constitute a transfer of the associated rights. After the Distribution Date, the rights may be transferred other than in connection with the transfer of the underlying shares of our common stock. If there is an Acquiring Person on the Distribution Date or a person or group becomes an Acquiring Person after the Distribution Date, each holder of a right, other than rights that are or were beneficially owned by an Acquiring Person, which will be void, will thereafter have the right to receive upon exercise of a right and payment of the Purchase Price, that number of shares of our common stock having a market value of two times the Purchase Price. After the later of the Distribution Date and the time we publicly announce that an Acquiring Person has become such, our board of directors may exchange the rights, other than rights that are or were beneficially owned by an Acquiring Person, which will be void, in whole or in part, at an exchange ratio of one share of common stock per right, subject to adjustment.

At any time prior to the later of the Distribution Date and the time we publicly announce that an Acquiring Person becomes such, our board of directors may redeem all of the then-outstanding rights in whole, but not in part, at a price of \$.001 per right, subject to adjustment ("Redemption Price"). The redemption will be effective immediately upon the board of directors' action, unless the action provides that such redemption will be effective at a subsequent time or upon the occurrence or nonoccurrence of one or more specified events, in which case the redemption will be effective in accordance with the provisions of the action. Immediately upon the effectiveness of the redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the Redemption Price, with interest thereon. The rights issued pursuant to the 2009 Rights Agreement will expire on the earliest of (a) the close of business on March 5, 2019, (b) the time at which the rights are redeemed, (c) the time at which the rights are exchanged, (d) the time at which our board of directors determines that a related provision in our Restated Certificate of Incorporation is no longer necessary, and (e) the close of business on the first day of a taxable year of ours to which our board of directors determines that no tax benefits may be carried forward. At our annual meeting of stockholders on April 2, 2009, our stockholders approved the 2009 Rights Agreement.

**Common Stock.** In 2014, we issued 7,986,111 shares of our common stock, par value \$1.00 per share, in underwritten public offerings at a price of \$18.00 per share. We used shares of treasury stock for the issuance and received net proceeds of \$137.0 million after underwriting discounts, commissions and transaction expenses.

Each share of our common stock issued in the 2014 offering includes a preferred share purchase right associated with and subject to the terms of the 2009 Rights Agreement. Any shares of our common stock delivered upon conversion to holders of the 1.375% Convertible Senior Notes due 2019 will also include such preferred share purchase rights.

In 2014, our board of directors amended the Director Plan to provide directors with a one-time opportunity to irrevocably elect to receive an equivalent value of shares of our common stock in lieu of the cash payments that are otherwise due upon the respective settlement of their Director Plan SARs under the terms of the plan. Concurrent with the amendment of the Director Plan, for the purpose of effecting any such settlements, our board of directors authorized the repurchase of not more than 680,000 shares of our common stock, and also authorized potential future grants of up to 680,000 stock payment awards under the KB Home 2014 Equity Incentive Plan (“2014 Plan”), in each case solely as necessary for director elections in respect of outstanding

Director Plan SARs. The 2014 Plan, which was amended in April 2016, is discussed in Note 19 – Employee Benefit and Stock Plans. During 2014, following the amendment of the Director Plan, directors made irrevocable elections to receive an aggregate of 679,815 shares of our common stock upon the respective settlement of their outstanding Director Plan SARs. As of November 30, 2016, no Director Plan SARs had been settled. In addition, we had not repurchased any shares and no stock payment awards had been granted under the 2014 Plan, as amended, pursuant to the respective board of directors authorizations or otherwise.

The above-described director elections made in 2014 changed only the method of settlement of the outstanding Director Plan SARs, and did not change any of the other terms of these awards or impact the value to the directors. As a result of the directors' elections, the relevant outstanding Director Plan SARs were effectively converted to stock-settled awards, which are accounted for as equity awards, instead of cash-settled liability awards, thereby reducing the degree of variability in the expense associated with such awards in future quarters.

On January 12, 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. This authorization reaffirmed and incorporated the then-current balance of 4,000,000 shares that remained under a prior board-approved share repurchase program. The amount and timing of shares purchased under this 10,000,000 share repurchase program are subject to market and business conditions and other factors, and purchases may be made from time to time and at any time through open market or privately negotiated transactions. This share repurchase authorization will continue in effect until fully used or earlier terminated or suspended by the board of directors. As of November 30, 2016, we had repurchased 8,373,000 shares of our common stock pursuant to this authorization, at a total cost of \$85.9 million. All of these share repurchases were made in the 2016 first quarter. We did not repurchase any of our common stock under this program in 2015 or 2014.

Our board of directors declared four quarterly cash dividends of \$.0250 per share of common stock in 2016, 2015 and 2014. All dividends declared during 2016, 2015 and 2014 were also paid during those years.

Treasury Stock. In addition to the shares purchased in 2016 pursuant to our share repurchase program, we acquired \$2.5 million, \$.6 million and \$.5 million of our common stock in 2016, 2015 and 2014, respectively. All of the common stock acquired in 2015 and 2014 and a portion of the common stock acquired in 2016 consisted of previously issued shares delivered to us by employees to satisfy their withholding tax obligations on the vesting of restricted stock awards or of forfeitures of previous restricted stock awards. Treasury stock is recorded at cost. Differences between the cost of treasury stock and the reissuance proceeds are recorded to paid-in capital. These transactions are not considered repurchases under the 10,000,000 share repurchase program described above.

#### Note 18. Accumulated Other Comprehensive Loss

The following table presents the changes in the balances of each component of accumulated other comprehensive loss (in thousands):

	Total Accumulated Other Comprehensive Loss
Postretirement Benefit Plan Adjustments	
Balance at November 30, 2014	\$ (21,008 )
Other comprehensive income before reclassifications	3,745
Amounts reclassified from accumulated other comprehensive loss	2,404
Income tax expense related to items of other comprehensive income	(2,460 )
Other comprehensive income, net of tax	3,689
Balance at November 30, 2015	(17,319 )
Other comprehensive income before reclassifications	468
Amounts reclassified from accumulated other comprehensive loss	1,635
Income tax expense related to items of other comprehensive income	(841 )
Other comprehensive income, net of tax	1,262
Balance at November 30, 2016	\$ (16,057 )



The amounts reclassified from accumulated other comprehensive loss consisted of the following (in thousands):

Details About Accumulated Other Comprehensive Loss Components	Years Ended		
	2016	2015	2014
Postretirement benefit plan adjustments			
Amortization of net actuarial loss	\$79	\$848	\$357
Amortization of prior service cost	1,556	1,556	1,556
Total reclassifications (a)	\$1,635	\$2,404	\$1,913

(a) The accumulated other comprehensive loss components are included in the computation of net periodic benefit costs as further discussed in Note 20 – Postretirement Benefits.

The estimated net actuarial loss and prior service cost expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2017 are \$.1 million and \$1.6 million, respectively.

#### Note 19. Employee Benefit and Stock Plans

Most of our employees are eligible to participate in the KB Home 401(k) Savings Plan (“401(k) Plan”) under which we partially match employee contributions. The aggregate cost of the 401(k) Plan to us was \$5.3 million in 2016, \$4.6 million in 2015 and \$3.8 million in 2014. The assets of the 401(k) Plan are held by a third-party trustee. The 401(k) Plan participants may direct the investment of their funds among one or more of the several fund options offered by the 401(k) Plan. As of November 30, 2016, 2015 and 2014, approximately 5%, 5% and 6%, respectively, of the 401(k) Plan’s net assets were invested in our common stock.

Approval of Amended KB Home 2014 Plan. At our Annual Meeting of Stockholders held on April 7, 2016, our stockholders approved the Amended KB Home 2014 Equity Incentive Plan (“Amended 2014 Plan”), authorizing, among other things, the issuance for grants of stock-based awards to our employees, non-employee directors and consultants of up to 7,500,000 additional shares above the original 4,800,000 shares our stockholders approved under the plan (or an aggregate issuance of 12,300,000 shares), plus any shares that were available for grant as of April 7, 2014 under our 2010 Equity Incentive Plan (“2010 Plan”), and any shares subject to then-outstanding awards under the 2010 Plan that subsequently expire or are canceled, forfeited, tendered or withheld to satisfy tax withholding obligations with respect to full value awards, or settled for cash. No new awards may be made under the 2010 Plan. Therefore, the Amended 2014 Plan is our only active equity compensation plan. Under the Amended 2014 Plan, grants of stock options and other similar awards reduce the Amended 2014 Plan’s share capacity on a 1-for-1 basis, and grants of restricted stock and other similar “full value” awards reduce the Amended 2014 Plan’s share capacity on a 1.78-for-1 basis. In addition, subject to the Amended 2014 Plan’s terms and conditions, a stock-based award may also be granted under the Amended 2014 Plan to replace an outstanding award granted under another plan of ours (subject to the terms of such other plan) with terms substantially identical to those of the award being replaced.

The Amended 2014 Plan provides that stock options and SARs may be awarded for periods of up to 10 years. The Amended 2014 Plan also enables us to grant cash bonuses and other stock-based awards. As of November 30, 2016, 2015, and 2014, in addition to awards outstanding under the Amended 2014 Plan, we had awards outstanding under the 2010 Plan and our Amended and Restated 1999 Incentive Plan, both of which provided for generally the same types of awards as the Amended 2014 Plan. We also had awards outstanding under our Performance-Based Incentive Plan for Senior Management, which provided for generally the same types of awards as the Amended 2014 Plan, but stock option awards granted under this plan had terms of up to 15 years years.

Stock-Based Compensation. With the approval of the management development and compensation committee, consisting entirely of independent members of our board of directors, we have provided compensation benefits to certain of our employees in the form of stock options, restricted stock, PSUs and SARs. Certain stock-based compensation benefits are also provided to our non-employee directors pursuant to the Director Plan. Compensation expense related to equity-based awards is included in selling, general and administrative expenses in our consolidated statements of operations.

The following table presents our stock-based compensation expense (in thousands):

	Years Ended November 30,		
	2016	2015	2014
Stock options (a)	\$7,076	\$7,576	\$3,024
Restricted stock	2,630	2,499	1,750
PSUs	5,343	5,404	3,699
Director awards	1,801	1,664	(91 )
Total	\$16,850	\$17,143	\$8,382

(a) Compensation expense associated with stock options was accelerated in 2015 as a result of retirement provisions being met for certain stock option recipients.

Stock Options. Stock option transactions are summarized as follows:

	Years Ended November 30,					
	2016		2015		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	12,635,644	\$ 19.39	11,735,042	\$ 20.45	10,531,938	\$ 21.11
Granted	1,012,686	16.21	1,262,000	14.92	1,273,647	14.62
Exercised	(551,898 )	13.95	(76,164 )	9.69	(36,665 )	7.92
Cancelled	(364,887 )	34.07	(285,234 )	45.80	(33,878 )	20.25
Options outstanding at end of year	12,731,545	\$ 18.95	12,635,644	\$ 19.39	11,735,042	\$ 20.45
Options exercisable at end of year	10,506,810	\$ 19.70	10,389,722	\$ 20.35	10,103,739	\$ 21.32
Options available for grant at end of year	7,034,523		1,554,195		3,514,077	

The total intrinsic value of stock options exercised was \$1.4 million for the year ended November 30, 2016, \$0.4 million for the year ended November 30, 2015 and \$0.3 million for the year ended November 30, 2014. The aggregate intrinsic value of stock options outstanding was \$24.5 million, \$16.4 million and \$35.8 million at November 30, 2016, 2015 and 2014, respectively. The intrinsic value of stock options exercisable was \$23.3 million at November 30, 2016, \$16.4 million at November 30, 2015, and \$31.7 million at November 30, 2014. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the price of the option.

Stock options outstanding and stock options exercisable at November 30, 2016 are summarized as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$ 6.32 to \$11.06	2,771,667	\$ 8.33	4.3	2,771,667	\$ 8.33	
\$11.07 to \$14.95	2,595,011	14.60	8.1	1,370,933	14.41	
\$14.96 to \$16.69	2,668,775	15.94	6.2	1,668,118	15.78	
\$16.70 to \$28.10	2,609,550	23.24	1.2	2,609,550	23.24	
\$28.11 to \$69.63	2,086,542	36.97	1.9	2,086,542	36.97	
\$ 6.32 to \$69.63	12,731,545	\$ 18.95	4.4	10,506,810	\$ 19.70	3.5

The weighted average grant date fair value of stock options granted in 2016, 2015 and 2014 was \$5.82, \$5.49 and \$5.07, respectively. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Years Ended November 30,			
	2016	2015	2014	
Risk-free interest rate	1.3	% 1.4	% 1.6	%
Expected volatility factor	41.3	% 43.6	% 41.0	%
Expected dividend yield	.6	% .7	% .7	%
Expected term	5 years	5 years	5 years	

The risk-free interest rate assumption is determined based on observed interest rates appropriate for the stock options' expected term. The expected volatility factor is based on a combination of the historical volatility of our common stock and the implied volatility of publicly traded options on our stock. The expected dividend yield assumption is based on our history of dividend payouts. The expected term of employee stock options is estimated using historical data.

As of November 30, 2016, there was \$4.4 million of total unrecognized stock-based compensation expense related to unvested stock option awards. This expense is expected to be recognized over a weighted average period of 1.7 years. We record proceeds from the exercise of stock options as additions to common stock and paid-in capital. The tax shortfalls of \$2.2 million in 2016, \$1.7 million in 2015 and \$1.2 million in 2014 resulting from the cancellation of stock awards were reflected in paid-in capital. In both 2016 and 2015, the consolidated statement of cash flows reflected \$.2 million of excess tax benefits associated with the exercise of stock options. In 2014, the consolidated statement of cash flows reflected no excess tax benefit associated with the exercise of stock options.

**Restricted Stock.** From time to time, we grant restricted stock to various employees as a compensation benefit. During the restriction periods, these employees are entitled to vote and to receive cash dividends on such shares. The restrictions imposed with respect to the shares granted lapse in installments within, or in full at the end of, three years after their grant date if certain conditions are met.

Restricted stock transactions are summarized as follows:

	Years Ended November 30,					
	2016		2015		2014	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	416,977	\$ 15.88	355,294	\$ 15.81	219,628	\$ 16.23
Granted	453,703	15.73	285,006	15.19	219,835	15.34
Vested	(252,854)	14.78	(204,663)	14.83	(73,908)	16.52
Cancelled	(13,207 )	15.12	(18,660 )	15.45	(10,261 )	18.55
Outstanding at end of year	604,619	\$ 16.24	416,977	\$ 15.88	355,294	\$ 15.81

As of November 30, 2016, we had \$7.6 million of total unrecognized compensation cost related to restricted stock awards that will be recognized over a weighted average period of approximately three years.

**Performance-Based Restricted Stock Units.** On October 6, 2016, we granted PSUs to certain employees. Each PSU grant corresponds to a target amount of our common stock ("Award Shares"). Each PSU entitles the recipient to receive a grant of between 0% and 200% of the recipient's Award Shares, and will vest based on our achieving, over a three-year period commencing on December 1, 2016 and ending on November 30, 2019, specified levels of (a) adjusted cumulative earnings per share (b) average adjusted return on invested capital and (c) revenue growth performance relative to a peer group of high-production public homebuilding companies. The grant date fair value of each such PSU was \$16.21. On October 8, 2015, we granted PSUs to certain employees with similar terms as the 2016 PSU grants, except that the applicable performance period commenced on December 1, 2015 and ends on November 30, 2018. The grant date fair value of each such PSU was \$14.92. On October 9, 2014,





we granted PSUs to certain employees with similar terms as the 2016 PSU grants, except that the applicable performance period commenced on December 1, 2014 and ends on November 30, 2017. The grant date fair value of each such 2014 PSU was \$14.62.

PSU transactions are summarized as follows:

	Years Ended November 30,				2014	
	2016	2015	2015	2014	2014	2013
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	820,209	\$ 15.52	628,209	\$ 15.70	385,049	\$ 16.39
Granted	369,281	13.81	192,000	14.92	243,160	14.62
Vested	(374,630)	10.21	—	—	—	—
Cancelled	(5,000)	16.21	—	—	—	—
Outstanding at end of year	809,860	\$ 17.19	820,209	\$ 15.52	628,209	\$ 15.70

The number of shares of our common stock actually granted to a recipient, if any, when a PSU vests will depend on the degree of achievement of the applicable performance measures during the applicable three-year period. The shares of our common stock that were granted under the terms of PSUs that vested in 2016 included an aggregate of 147,581 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 homebuilding companies from December 1, 2012 through November 30, 2015. The PSUs do not have dividend or voting rights during the performance period. Compensation cost for PSUs is initially estimated based on target performance achievement and adjusted as appropriate throughout the performance period. Accordingly, future compensation costs associated with outstanding PSUs may increase or decrease based on the probability and extent of achievement with respect to the applicable performance measures. At November 30, 2016, we had \$11.3 million of total unrecognized compensation cost related to unvested PSUs, which is expected to be recognized over a weighted-average period of approximately three years.

**Stock Appreciation Rights.** In 2008, we granted SARs to various employees. These cash-settled awards have been accounted for as liabilities in our consolidated financial statements. Each SAR represents a right to receive a cash payment equal to the positive difference, if any, between the grant price and the market value of a share of our common stock on the date of exercise. The SARs vested in equal annual installments over three years. At November 30, 2016, 2015 and 2014, we had 29,939 SARs outstanding, which are fully vested and will expire in July 2017.

**Director Awards.** We have granted Director Plan SARs and deferred common stock awards to our non-employee directors pursuant to the terms of the Director Plan and elections made by each director. All of these awards were fully vested as of November 30, 2016. Director Plan SARs, which have not been granted since April 2014 as they ceased being a component of non-employee director compensation after that date, are stock settled, have terms of up to 15 years and may be exercised when a respective director leaves the board or earlier if applicable stock ownership requirements have been met. Deferred common stock awards will be paid out at the earlier of a change in control or the date a respective director leaves the board. All Director Plan SARs were granted at an exercise price equal to the closing price of our common stock on the date of grant. At November 30, 2016, 2015 and 2014, our non-employee directors had, in aggregate, 452,983 of outstanding Director Plan SARs, and 485,632, 419,962 and 358,404, respectively, of outstanding deferred common stock awards. In addition, beginning in 2015, we have granted common stock on an unrestricted basis to our non-employee directors on the grant date pursuant to the Director Plan and elections made by each director.

**Grantor Stock Ownership Trust.** We have a grantor stock ownership trust (“Trust”), administered by a third-party trustee, that holds and distributes the shares of common stock acquired to support certain employee compensation and

employee benefit obligations under our existing stock option plan, the 401(k) Plan and other employee benefit plans. The existence of the Trust does not impact the amount of benefits or compensation that is paid under these plans. For financial reporting purposes, the Trust is consolidated with us, and therefore any dividend transactions between us and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price on the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheets. The difference between the Trust share value and the market value on the date shares are released from the Trust is included in paid-in capital. Common stock held in the Trust is

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not considered outstanding in the computations of earnings per share. The Trust held 9,431,756 and 10,135,461 shares of common stock at November 30, 2016 and 2015, respectively. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

#### Note 20. Postretirement Benefits

We have a supplemental non-qualified, unfunded retirement plan, the KB Home Retirement Plan (“Retirement Plan”), effective as of July 11, 2002, pursuant to which we have offered to pay supplemental pension benefits to certain designated individuals (consisting of current and former employees) in connection with their retirement. The Retirement Plan was closed to new participants in 2004. We also have an unfunded death benefit plan, the KB Home Death Benefit Only Plan (“DBO Plan”), implemented on November 1, 2001, for certain designated individuals (consisting of current and former employees). The DBO Plan was closed to new participants in 2006.

In connection with these plans, we have purchased cost recovery life insurance contracts on the lives of the designated individuals. The insurance contracts associated with the plans are held by a trust. The trust is the owner and beneficiary of such insurance contracts. The amount of the insurance coverage under the contracts is designed to provide sufficient funds to cover all costs of the plans if assumptions made as to employment term, mortality experience, policy earnings and other factors, as applicable, are realized. The cash surrender value of the Retirement Plan life insurance contracts was \$44.4 million at November 30, 2016 and \$45.5 million at November 30, 2015. We recognized investment gains on the cash surrender value of the Retirement Plan life insurance contracts of \$.4 million in 2016 and \$1.8 million in 2014, and an investment loss of \$1.3 million in 2015. In 2016, 2015, and 2014, we paid \$1.4 million, \$1.4 million and \$1.2 million, respectively, in benefits under the Retirement Plan to eligible former employees. The cash surrender value of the DBO Plan life insurance contracts was \$17.0 million at November 30, 2016 and \$16.8 million at November 30, 2015. We recognized investment gains on the cash surrender value of the DBO Plan life insurance contracts of \$.2 million in 2016 and \$.7 million in 2014, and an investment loss of \$.3 million in 2015. We have not paid out any benefits under the DBO Plan.

The net periodic benefit cost of our Retirement Plan and DBO Plan consisted of the following (in thousands):

	Years Ended		
	November 30,		
	2016	2015	2014
Interest cost	\$2,285	\$2,270	\$2,456
Amortization of prior service cost	1,556	1,556	1,556
Service cost	1,045	1,142	1,184
Amortization of net actuarial loss	79	848	357
Total	\$4,965	\$5,816	\$5,553

The liabilities related to these plans were \$62.2 million at November 30, 2016 and \$60.8 million at November 30, 2015, and are included in accrued expenses and other liabilities in the consolidated balance sheets. For each of the years ended November 30, 2016 and 2015, the discount rate we used for the plans was 3.6%.

Benefit payments under our Retirement Plan and DBO Plan are expected to be paid during each year ended November 30 as follows: 2017 — \$1.8 million; 2018 — \$2.0 million; 2019 — \$2.5 million; 2020 — \$2.8 million; 2021 — \$3.5 million; and for the five years ended November 30, 2026 — \$19.7 million in the aggregate.

## Note 21. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Years Ended November 30,		
	2016	2015	2014
Summary of cash and cash equivalents at the end of the year:			
Homebuilding	\$592,086	\$559,042	\$356,366
Financial services	914	1,299	2,402
Total	\$593,000	\$560,341	\$358,768
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	\$1,134	\$22,486	\$13,037
Income taxes paid	3,307	3,612	1,619
Income taxes refunded	550	11	1,728
Supplemental disclosure of noncash activities:			
Reclassification of warranty recoveries to receivables	\$2,151	\$7,238	\$18,110
Increase (decrease) in consolidated inventories not owned	(59,413 )	106,807	(5,755 )
Increase in inventories due to distributions of land and land development from an unconsolidated joint venture	4,277	12,705	90,115
Inventories and inventory-related obligations associated with TIFE assessments tied to distribution of land from an unconsolidated joint venture	—	—	33,197
Inventories acquired through seller financing	99,108	20,291	61,553
Conversion of liability awards to equity awards	—	—	6,455

## Note 22. 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 those subsidiaries that were Guarantor Subsidiaries as of November 30, 2016.

## Condensed Consolidating Statements of Operations (in thousands)

	Year Ended November 30, 2016				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	\$—	\$3,169,545	\$ 425,101	\$ —	\$3,594,646
Homebuilding:					
Revenues	\$—	\$3,169,545	\$ 413,398	\$ —	\$3,582,943
Construction and land costs	—	(2,661,888 )	(379,213 )	—	(3,041,101 )
Selling, general and administrative expenses	(91,859 )	(251,384 )	(46,198 )	—	(389,441 )
Operating income (loss)	(91,859 )	256,273	(12,013 )	—	152,401
Interest income	470	55	4	—	529
Interest expense	(177,329 )	(3,958 )	(3,946 )	179,333	(5,900 )
Intercompany interest	301,432	(107,388 )	(14,711 )	(179,333 )	—
Equity in loss of unconsolidated joint ventures	—	(2,179 )	(2 )	—	(2,181 )
Homebuilding pretax income (loss)	32,714	142,803	(30,668 )	—	144,849
Financial services pretax income	—	—	4,466	—	4,466
Total pretax income (loss)	32,714	142,803	(26,202 )	—	149,315
Income tax benefit (expense)	17,200	(52,700 )	(8,200 )	—	(43,700 )
Equity in net income of subsidiaries	55,701	—	—	(55,701 )	—
Net income (loss)	\$105,615	\$90,103	\$ (34,402 )	\$ (55,701 )	\$105,615

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	Year Ended November 30, 2015				
	KB Home	Guarantor	Non-Guarantor	Consolidating	Total
	Corporate	Subsidiaries	Subsidiaries	Adjustments	
Revenues	\$—	\$2,640,678	\$ 391,352	\$ —	\$3,032,030
Homebuilding:					
Revenues	\$—	\$2,640,678	\$ 380,309	\$ —	\$3,020,987
Construction and land costs	—	(2,196,228 )	(343,140 )	—	(2,539,368 )
Selling, general and administrative expenses	(86,053 )	(213,292 )	(43,653 )	—	(342,998 )
Operating income (loss)	(86,053 )	231,158	(6,484 )	—	138,621
Interest income	451	6	1	—	458
Interest expense	(180,701)	(6,184 )	—	165,029	(21,856 )
Intercompany interest	289,727	(101,540 )	(23,158 )	(165,029 )	—
Equity in loss of unconsolidated joint ventures	—	(1,803 )	(1 )	—	(1,804 )
Homebuilding pretax income (loss)	23,424	121,637	(29,642 )	—	115,419
Financial services pretax income	—	—	11,624	—	11,624
Total pretax income (loss)	23,424	121,637	(18,018 )	—	127,043
Income tax benefit (expense)	2,000	(46,700 )	2,300	—	(42,400 )
Equity in net income of subsidiaries	59,219	—	—	(59,219 )	—
Net income (loss)	\$84,643	\$74,937	\$ (15,718 )	\$ (59,219 )	\$84,643
	Year Ended November 30, 2014				
	KB Home	Guarantor	Non-Guarantor	Consolidating	Total
	Corporate	Subsidiaries	Subsidiaries	Adjustments	
Revenues	\$—	\$2,017,170	\$ 383,779	\$ —	\$2,400,949
Homebuilding:					
Revenues	\$—	\$2,017,170	\$ 372,473	\$ —	\$2,389,643
Construction and land costs	—	(1,658,925 )	(326,726 )	—	(1,985,651 )
Selling, general and administrative expenses	(68,717 )	(176,795 )	(42,511 )	—	(288,023 )
Operating income (loss)	(68,717 )	181,450	3,236	—	115,969
Interest income	432	9	2	—	443
Interest expense	(165,485 )	(6,056 )	—	140,791	(30,750 )
Intercompany interest	287,017	(118,901 )	(27,325 )	(140,791 )	—
Equity in income (loss) of unconsolidated joint ventures	—	(2,549 )	3,290	—	741
Homebuilding pretax income (loss)	53,247	53,953	(20,797 )	—	86,403
Financial services pretax income	—	—	8,546	—	8,546
Total pretax income (loss)	53,247	53,953	(12,251 )	—	94,949
Income tax benefit	215,691	507,997	99,712	—	823,400
Equity in net income of subsidiaries	649,411	—	—	(649,411 )	—
Net income	\$918,349	\$561,950	\$ 87,461	\$ (649,411 )	\$918,349

## Condensed Consolidating Statements of Comprehensive Income (Loss) (in thousands)

	Year Ended November 30, 2016				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	\$105,615	\$ 90,103	\$ (34,402 )	\$ (55,701 )	\$105,615
Other comprehensive income:					
Postretirement benefit plan adjustments	2,103	—	—	—	2,103
Other comprehensive income before tax	2,103	—	—	—	2,103
Income tax expense related to items of other comprehensive income	(841 )	—	—	—	(841 )
Other comprehensive income, net of tax	1,262	—	—	—	1,262
Comprehensive income (loss)	\$106,877	\$ 90,103	\$ (34,402 )	\$ (55,701 )	\$106,877
	Year Ended November 30, 2015				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	\$84,643	\$ 74,937	\$ (15,718 )	\$ (59,219 )	\$84,643
Other comprehensive income:					
Postretirement benefit plan adjustments	6,149	—	—	—	6,149
Other comprehensive income before tax	6,149	—	—	—	6,149
Income tax expense related to items of other comprehensive income	(2,460 )	—	—	—	(2,460 )
Other comprehensive income, net of tax	3,689	—	—	—	3,689
Comprehensive income (loss)	\$88,332	\$ 74,937	\$ (15,718 )	\$ (59,219 )	\$88,332
	Year Ended November 30, 2014				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income	\$918,349	\$ 561,950	\$ 87,461	\$ (649,411 )	\$918,349
Other comprehensive loss:					
Postretirement benefit plan adjustments	(1,888 )	—	—	—	(1,888 )
Other comprehensive loss before tax	(1,888 )	—	—	—	(1,888 )
Income tax expense related to items of other comprehensive income	(1,604 )	—	—	—	(1,604 )
Other comprehensive loss, net of tax	(3,492 )	—	—	—	(3,492 )
Comprehensive income	\$914,857	\$ 561,950	\$ 87,461	\$ (649,411 )	\$914,857



## Condensed Consolidating Balance Sheets (in thousands)

	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
Restricted cash	—	—	—	—	—
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

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	November 30, 2015				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	\$444,850	\$96,741	\$ 17,451	\$—	\$559,042
Restricted cash	9,344	—	—	—	9,344
Receivables	39	145,022	102,937	—	247,998
Inventories	—	2,900,202	413,545	—	3,313,747
Investments in unconsolidated joint ventures	—	69,057	2,501	—	71,558
Deferred tax assets, net	190,770	465,105	126,321	—	782,196
Other assets	73,808	11,198	3,986	—	88,992
	718,811	3,687,325	666,741	—	5,072,877
Financial services	—	—	14,028	—	14,028
Intercompany receivables	3,627,150	—	102,103	(3,729,253 )	—
Investments in subsidiaries	39,383	—	—	(39,383 )	—
Total assets	\$4,385,344	\$3,687,325	\$ 782,872	\$(3,768,636 )	\$5,086,905
Liabilities and stockholders' equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	\$136,352	\$417,315	\$ 238,833	\$—	\$792,500
Notes payable	2,540,980	35,664	25,110	—	2,601,754
	2,677,332	452,979	263,943	—	3,394,254
Financial services	—	—	1,817	—	1,817
Intercompany payables	17,178	3,234,346	477,729	(3,729,253 )	—
Stockholders' equity	1,690,834	—	39,383	(39,383 )	1,690,834
Total liabilities and stockholders' equity	\$4,385,344	\$3,687,325	\$ 782,872	\$(3,768,636 )	\$5,086,905

## Condensed Consolidating Statements of Cash Flows (in thousands)

	Year Ended November 30, 2016				Consolidating Total
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments	
Net cash provided by (used in) operating activities	\$(40,277 )	\$ 188,372	\$ 40,560	\$ —	\$ 188,655
Cash flows from investing activities:					
Contributions to unconsolidated joint ventures	—	(4,852 )	(750 )	—	(5,602 )
Return of investments in unconsolidated joint ventures	—	4,307	—	—	4,307
Purchases of property and equipment, net	(4,052 )	(555 )	(177 )	—	(4,784 )
Intercompany	144,651	—	—	(144,651 )	—
Net cash provided by (used in) investing activities	140,599	(1,100 )	(927 )	(144,651 )	(6,079 )
Cash flows from financing activities:					
Change in restricted cash	9,344	—	—	—	9,344
Payments on mortgages and land contracts due to land sellers and other loans	—	(67,845 )	—	—	(67,845 )
Issuance of common stock under employee stock plans	5,343	—	—	—	5,343
Excess tax benefits from stock-based compensation	186	—	—	—	186
Payments of cash dividends	(8,586 )	—	—	—	(8,586 )
Stock repurchases	(88,359 )	—	—	—	(88,359 )
Intercompany	—	(115,729 )	(28,922 )	144,651	—
Net cash used in financing activities	(82,072 )	(183,574 )	(28,922 )	144,651	(149,917 )
Net increase in cash and cash equivalents	18,250	3,698	10,711	—	32,659
Cash and cash equivalents at beginning of year	444,850	96,741	18,750	—	560,341
Cash and cash equivalents at end of year	\$ 463,100	\$ 100,439	\$ 29,461	\$ —	\$ 593,000

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	Year Ended November 30, 2015				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	\$44,422	\$ 110,688	\$ 26,075	\$ —	\$ 181,185
Cash flows from investing activities:					
Contributions to unconsolidated joint ventures	—	(20,625 )	(1 )	—	(20,626 )
Return of investments in unconsolidated joint ventures	—	14,000	—	—	14,000
Purchases of property and equipment, net	(2,890 )	(1,271 )	(516 )	—	(4,677 )
Intercompany	45,470	—	—	(45,470)	—
Net cash provided by (used in) investing activities	42,580	(7,896 )	(517 )	(45,470)	(11,303 )
Cash flows from financing activities:					
Change in restricted cash	17,891	—	—	—	17,891
Proceeds from issuance of debt	250,000	—	—	—	250,000
Payment of debt issuance costs	(4,561 )	—	—	—	(4,561 )
Repayment of senior notes	(199,906 )	—	—	—	(199,906 )
Payments on mortgages and land contracts due to land sellers and other loans	—	(22,877 )	—	—	(22,877 )
Issuance of common stock under employee stock plans	740	—	—	—	740
Excess tax benefits from stock-based compensation	157	—	—	—	157
Payments of cash dividends	(9,186 )	—	—	—	(9,186 )
Stock repurchases	(567 )	—	—	—	(567 )
Intercompany	—	(19,586 )	(25,884 )	45,470	—
Net cash provided by (used in) financing activities	54,568	(42,463 )	(25,884 )	45,470	31,691
Net increase (decrease) in cash and cash equivalents	141,570	60,329	(326 )	—	201,573
Cash and cash equivalents at beginning of year	303,280	36,412	19,076	—	358,768
Cash and cash equivalents at end of year	\$444,850	\$96,741	\$ 18,750	\$ —	\$560,341

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	Year Ended November 30, 2014				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	\$82,629	\$(641,728)	\$(71,592)	\$ —	\$(630,691)
Cash flows from investing activities:					
Contributions to unconsolidated joint ventures	—	(48,846)	(251)	—	(49,097)
Proceeds from sale of investment in unconsolidated joint venture	—	—	10,110	—	10,110
Purchases of property and equipment, net	(208)	(4,145)	(1,442)	—	(5,795)
Intercompany	(794,624)	—	—	794,624	—
Net cash provided by (used in) investing activities	(794,832)	(52,991)	8,417	794,624	(44,782)
Cash flows from financing activities:					
Change in restricted cash	14,671	—	—	—	14,671
Proceeds from issuance of debt	400,000	—	—	—	400,000
Payment of debt issuance costs	(5,448)	—	—	—	(5,448)
Payments on mortgages and land contracts due to land sellers and other loans	—	(36,918)	—	—	(36,918)
Proceeds from issuance of common stock, net	137,045	—	—	—	137,045
Issuance of common stock under employee stock plans	1,896	—	—	—	1,896
Payments of cash dividends	(8,982)	—	—	—	(8,982)
Stock repurchases	(546)	—	—	—	(546)
Intercompany	—	730,719	63,905	(794,624)	—
Net cash provided by financing activities	538,636	693,801	63,905	(794,624)	501,718
Net increase (decrease) in cash and cash equivalents	(173,567)	(918)	730	—	(173,755)
Cash and cash equivalents at beginning of year	476,847	37,330	18,346	—	532,523
Cash and cash equivalents at end of year	\$303,280	\$36,412	\$19,076	\$ —	\$358,768

## Note 23. Quarterly Results (unaudited)

The following tables present our consolidated quarterly results for the years ended November 30, 2016 and 2015 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
Revenues	\$678,371	\$811,050	\$913,283	\$1,191,942
Gross profits	108,694	121,465	151,902	167,667
Inventory impairment and land option contract abandonment charges	1,966	11,740	3,052	36,054
Pretax income	16,027	24,797	53,463	55,028
Net income	13,127	15,597	39,363	37,528
Earnings per share:				
Basic	\$.15	\$.18	\$.46	\$.44
Diluted	.14	.17	.42	.40
2015				
Revenues	\$580,121	\$622,969	\$843,157	\$985,783
Gross profits	86,739	97,631	133,099	171,482
Inventory impairment and land option contract abandonment charges	448	536	3,532	5,075
Pretax income	10,499	12,673	33,954	69,917
Net income	7,799	9,573	23,254	44,017
Earnings per share:				
Basic	\$.08	\$.10	\$.25	\$.48
Diluted	.08	.10	.23	.43

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

## Note 24. Subsequent Event

On December 14, 2016, we elected to exercise our optional redemption rights under the terms of our 9.10% Senior Notes due 2017, which mature on September 15, 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. Upon this redemption, \$165.0 million in aggregate principal amount of the notes remained outstanding. In connection with this early extinguishment of debt, we will recognize a charge of approximately \$5.4 million in the 2017 first quarter. Additional information about the redemption is set forth in our Current Report on Form 8-K dated December 15, 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of KB Home:

We have audited the accompanying consolidated balance sheets of KB Home as of November 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KB Home at November 30, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KB Home's internal control over financial reporting as of November 30, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated January 27, 2017 expressed an unqualified opinion thereon.

As discussed in Note 1 to the Consolidated Financial Statements in this report, the Company changed its presentation of debt issuance costs as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, "Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," effective November 30, 2016.

/s/ Ernst & Young LLP  
Los Angeles, California  
January 27, 2017

Item CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL  
9. DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure 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 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 November 30, 2016.

Internal Control Over Financial Reporting

(a) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the Internal Control — Integrated Framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of November 30, 2016.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report, has issued its report on the effectiveness of our internal control over financial reporting as of November 30, 2016, which is presented below.

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of KB Home:

We have audited KB Home’s internal control over financial reporting as of November 30, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). KB Home’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally



accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KB Home maintained, in all material respects, effective internal control over financial reporting as of November 30, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KB Home as of November 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2016 of KB Home and our report dated January 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 27, 2017

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended November 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information for this item for executive officers is provided above in the "Executive Officers of the Registrant" section in this report. Except as stated below, the other information for this item will be provided to the extent applicable in the "Corporate Governance and Board Matters," "Election of Directors," "Ownership of KB Home Securities" and "Annual Meeting, Voting and Other Information" sections in our Proxy Statement for our 2017 Annual Meeting of Stockholders ("2017 Proxy Statement") and is incorporated herein by this reference.

Ethics Policy

We have adopted an ethics policy for our directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees. The ethics policy is available on our investor relations website at <http://investor.kbhome.com>. Stockholders may request a free copy of the ethics policy from:

KB Home  
Attention: Investor Relations

10990 Wilshire Boulevard

Los Angeles, California 90024

(310) 231-4000

[investorrelations@kbhome.com](mailto:investorrelations@kbhome.com)

Within the time period required by the SEC and the New York Stock Exchange, we will post on our investor relations website any amendment to our ethics policy and any waiver applicable to our principal executive officer, principal financial officer or principal accounting officer, or persons performing similar functions, and our other executive officers or directors.

Corporate Governance Principles

We have adopted corporate governance principles, which are available on our investor relations website. Stockholders may request a free copy of the corporate governance principles from the address, phone number and e-mail address stated above under "Ethics Policy."

## Item 11. EXECUTIVE COMPENSATION

The information for this item will be provided in the “Corporate Governance and Board Matters” and “Compensation Discussion and Analysis” sections in our 2017 Proxy Statement and is incorporated herein by this reference.

Item SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

Except as provided below, the information for this item will be provided in the “Ownership of KB Home Securities” section in our 2017 Proxy Statement and is incorporated herein by this reference.

The following table presents information as of November 30, 2016 with respect to shares of our common stock that may be issued under our existing equity compensation plans:

## Equity Compensation Plan Information

Plan category	Number of common shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of common shares remaining available for future issuance under equity compensation plans (excluding common shares reflected in column(a)) (c)
Equity compensation plans approved by stockholders	12,731,545	\$ 18.95	7,034,523
Equity compensation plans not approved by stockholders	—	—	—
Total	12,731,545	\$ 18.95	7,034,523

Represents a prior non-employee directors compensation plan under which our non-employee directors received Director Plan SARs, which were initially granted as cash-settled instruments. As discussed in Note 17 – Stockholders’ Equity in the Notes to Consolidated Financial Statements in this report, all non-employee directors serving on our board of directors have elected to receive shares of our common stock in settlement of their Director Plan SARs under the terms of the plan. We consider this non-employee director compensation plan as having no available capacity to issue shares of our common stock. (1)

## Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information for this item will be provided in the “Corporate Governance and Board Matters” section in our 2017 Proxy Statement and is incorporated herein by this reference.

## Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information for this item will be provided in the “Independent Auditor Fees and Services” section in our 2017 Proxy Statement and is incorporated herein by this reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

Reference is made to the index set forth on page 46 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or the required information is provided in the consolidated financial statements or notes thereto.

3. Exhibits

Exhibit Number	Description
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3.1	Restated Certificate of Incorporation, as amended, filed as an exhibit to our Current Report on Form 8-K dated April 7, 2009 (File No. 001-09195), is incorporated by reference herein.
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3.2	Amended and Restated By-Laws of KB Home, filed as an exhibit to our Current Report on Form 8-K dated July 18, 2014 (File No. 001-09195), is incorporated by reference herein.
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4.1	Rights Agreement between us and Mellon Investor Services LLC, as rights agent, dated January 22, 2009, filed as an exhibit to our Current Report on Form 8-K/A dated January 28, 2009 (File No. 001-09195), is incorporated by reference herein.
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4.2	Indenture relating to our Senior Notes among us, the Guarantors party thereto and Sun Trust Bank, Atlanta, dated January 28, 2004, filed as an exhibit to our Registration Statement No. 333-114761 on Form S-4, is incorporated by reference herein.
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4.3	Fifth Supplemental Indenture, dated August 17, 2007, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated August 22, 2007 (File No. 001-09195), is incorporated by reference herein.
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4.4	Sixth Supplemental Indenture, dated as of January 30, 2012, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated February 2, 2012 (File No. 001-09195), is incorporated by reference herein.
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4.5	Seventh Supplemental Indenture, dated as of January 11, 2013, relating to our Senior Notes by and among us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated January 11, 2013 (File No. 001-09195), is incorporated by reference herein.
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4.6	Specimen of 7 1/4% Senior Notes due 2018, filed as an exhibit to our Current Report on Form 8-K dated April 3, 2006 (File No. 001-09195), is incorporated by reference herein.
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4.7	Form of officers' certificates and guarantors' certificates establishing the terms of the 7 1/4% Senior Notes due 2018, filed as an exhibit to our Current Report on Form 8-K dated April 3, 2006 (File No. 001-09195), is incorporated by reference herein.
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4.8	Specimen of 9.100% Senior Notes due 2017, filed as an exhibit to our Current Report on Form 8-K dated July 30, 2009 (File No. 001-09195), is incorporated by reference herein.
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4.9	Form of officers' certificates and guarantors' certificates establishing the terms of the 9.100% Senior Notes due 2017, filed as an exhibit to our Current Report on Form 8-K dated July 30, 2009 (File No. 001-09195), is incorporated by reference herein.
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incorporated by reference herein.

4.10 Specimen of 8.00% Senior Notes due 2020, filed as an exhibit to our Current Report on Form 8-K dated February 7, 2012 (File No. 001-09195), is incorporated by reference herein.

4.11 Form of officers' certificates and guarantors' certificates establishing the terms of the 8.00% Senior Notes due 2020, filed as an exhibit to our Current Report on Form 8-K dated February 7, 2012 (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description
4.12	Specimen of 7.50% Senior Notes due 2022, filed as an exhibit to our Current Report on Form 8-K dated July 31, 2012 (File No. 001-09195), is incorporated by reference herein.
4.13	Form of officers' certificates and guarantors' certificates establishing the terms of the 7.50% Senior Notes due 2022, filed as an exhibit to our Current Report on Form 8-K dated July 31, 2012 (File No. 001-09195), is incorporated by reference herein.
4.14	Form of officers' certificate and guarantors' officers' certificates establishing the form and terms of the 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated January 29, 2013 (File No. 001-09195), is incorporated by reference herein.
4.15	Form of 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated January 29, 2013 (File No. 001-09195), is incorporated by reference herein.
4.16	Form of supplemental officers' certificate and guarantors' officers' certificates establishing the form and terms of the 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2013 (File No. 001-09195), is incorporated by reference herein.
4.17	Eighth Supplemental Indenture, dated as of March 12, 2013, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2013 (File No. 001-09195), is incorporated by reference herein.
4.18	Specimen of 7.00% Senior Notes due 2021, filed as an exhibit to our Current Report on Form 8-K dated October 29, 2013 (File No. 001-09195), is incorporated by reference herein.
4.19	Form of officers' certificates and guarantors' certificates establishing the terms of the 7.00% Senior Notes due 2021, filed as an exhibit to our Current Report on Form 8-K dated October 29, 2013 (File No. 001-09195), is incorporated by reference herein.
4.20	Ninth Supplemental Indenture, dated as of February 28, 2014, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Post-Effective Amendment No. 4 to Form S-3 Registration Statement (No. 333-176930), is incorporated by reference herein.
4.21	Specimen of 4.75% Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated March 25, 2014 (File No. 001-09195), is incorporated by reference herein.
4.22	Form of officers' certificates and guarantors' certificates establishing the terms of the 4.75% Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated March 25, 2014 (File No. 001-09195), is incorporated by reference herein.
4.23	Form of 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 17, 2015 (File No. 001-09195), is incorporated by reference herein.
4.24	

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Form of officers' certificates and guarantors' certificates establishing the terms of the 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 17, 2015 (File No. 001-09195), is incorporated by reference herein.

- 10.1\* Kaufman and Broad, Inc. Executive Deferred Compensation Plan, effective as of July 11, 1985, filed as an exhibit to our 2007 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
- 10.2\* Amendment to Kaufman and Broad, Inc. Executive Deferred Compensation Plan for amounts earned or vested on or after January 1, 2005, effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
- 10.3\* KB Home 1988 Employee Stock Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
- 10.4\* KB Home Performance-Based Incentive Plan for Senior Management, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description
10.5*	Form of Stock Option Agreement under KB Home Performance-Based Incentive Plan for Senior Management, filed as an exhibit to our 1995 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.6	KB Home Directors' Legacy Program, as amended January 1, 1999, filed as an exhibit to our 1998 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.7	Trust Agreement between Kaufman and Broad Home Corporation and Wachovia Bank, N.A. as Trustee, dated as of August 27, 1999, filed as an exhibit to our 1999 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.8*	Amended and Restated KB Home 1999 Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.9*	Form of Non-Qualified Stock Option Agreement under our Amended and Restated 1999 Incentive Plan, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.10*	KB Home 2001 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.11*	Form of Stock Option Agreement under our 2001 Stock Incentive Plan, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.12*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals prior to January 1, 2005, effective March 1, 2001, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.13*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals on and after January 1, 2005, effective January 1, 2009 (File No. 001-09195), filed as an exhibit to our 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.14*	KB Home Change in Control Severance Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.15*	KB Home Death Benefit Only Plan, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.16*	Amendment No. 1 to the KB Home Death Benefit Only Plan, effective as of January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.17*	KB Home Retirement Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.18*	

Explanation of Responses:



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Employment Agreement of Jeffrey T. Mezger, dated February 28, 2007, filed as an exhibit to our Current Report on Form 8-K dated March 6, 2007 (File No. 001-09195), is incorporated by reference herein.

10.19\* Amendment to the Employment Agreement of Jeffrey T. Mezger, dated December 24, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

10.20\* Form of Stock Option Agreement under the Employment Agreement between us and Jeffrey T. Mezger dated as of February 28, 2007, filed as an exhibit to our Current Report on Form 8-K dated July 18, 2007 (File No. 001-09195), is incorporated by reference herein.

10.21\* Form of Stock Option Agreement under the Amended and Restated 1999 Incentive Plan for stock option grant to Jeffrey T. Mezger, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2007 (File No. 001-09195), is incorporated by reference herein.

10.22\* Policy Regarding Stockholder Approval of Certain Severance Payments, adopted July 10, 2008, filed as an exhibit to our Current Report on Form 8-K dated July 15, 2008 (File No. 001-09195), is incorporated by reference herein.

10.23\* KB Home Executive Severance Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2008 (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description
10.24	Amendment to Trust Agreement by and between KB Home and Wachovia Bank, N.A., dated August 24, 2009, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2009 (File No. 001-09195), is incorporated by reference herein.
10.25	Form of Indemnification Agreement, filed as an exhibit to our Current Report on Form 8-K dated April 2, 2010 (File No. 001-09195), is incorporated by reference herein.
10.26*	KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 (File No. 001-09195), is incorporated by reference herein.
10.27*	Form of Stock Option Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated July 20, 2010 (File No. 001-09195), is incorporated by reference herein.
10.28*	Form of Restricted Stock Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated July 20, 2010 (File No. 001-09195), is incorporated by reference herein.
10.29*	KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger, filed as an exhibit to our 2010 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.30*	Amendment to the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.
10.31*	Executive Severance Benefit Decisions, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.
10.32	Consensual agreement effective June 10, 2011, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2011 (File No. 001-09195), is incorporated by reference herein.
10.33*	KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.34*	Form of KB Home 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.35*	KB Home 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement for performance-based restricted stock unit award to Jeffrey T. Mezger, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.36*	Form of KB Home 2010 Equity Incentive Plan Restricted Stock Unit Award Agreement, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

- 10.37\* KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2014 (File No. 001-09195), is incorporated by reference herein.
- 10.38\* Amendment to Amended and Restated KB Home 1999 Incentive Plan Non-Qualified Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.
- 10.39\* Amendment to KB Home 2001 Stock Incentive Plan Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.
- 10.40\* Amendment to KB Home Performance Based Incentive Plan for Senior Management Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.
- 10.41\* Form of Stock Option Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.
- 10.42\* Form of Performance-Based Restricted Stock Unit Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.

Exhibit Number	Description
10.43*	Form of Performance Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.
10.44*	Form of Restricted Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.
10.45	Fourth Amended and Restated KB Home Non-Employee Directors Compensation Plan, effective as of October 9, 2014, filed as an exhibit to our 2014 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.46	Amended and Restated Revolving Loan Agreement, dated as of August 7, 2015, among us, the banks party thereto, and Citibank, N.A., as Administrative Agent, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2015 (File No. 001-09195), is incorporated by reference herein.
10.47*	Form of Restricted Stock Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our 2015 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.48*	Amended KB Home 2014 Equity Incentive Plan, effective April 7, 2016, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2016 (File No. 001-09195), is incorporated by reference herein.
12.1†	Computation of Ratio of Earnings to Fixed Charges.
21†	Subsidiaries of the Registrant.
23†	Consent of Independent Registered Public Accounting Firm.
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 Annual Report on Form 10-K for the year ended November 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Statements of Operations for the years ended November 30, 2016, 2015 and 2014, (b) Consolidated Statements of Comprehensive Income for the years ended November 30, 2016, 2015 and 2014, (c) Consolidated Balance Sheets as of November 30, 2016 and 2015, (d) Consolidated Statements of Stockholders' Equity for the years

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ended November 30, 2016, 2015 and 2014, (e) Consolidated Statements of Cash Flows for the years ended November 30, 2016, 2015 and 2014, and (f) the Notes to Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement in which executive officers are eligible to participate.

† Document filed with this Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /S/ JEFF J. KAMINSKI

Jeff J. Kaminski

Executive Vice President and Chief Financial Officer

Date: January 27, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/S/ JEFFREY T. MEZGER Jeffrey T. Mezger	Chairman, President and Chief Executive Officer (Principal Executive Officer)	January 27, 2017
/S/ JEFF J. KAMINSKI Jeff J. Kaminski	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	January 27, 2017
/S/ WILLIAM R. HOLLINGER William R. Hollinger	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	January 27, 2017
/S/ TIMOTHY W. FINCHEM Timothy W. Finchem	Director	January 27, 2017
/S/ STUART A. GABRIEL Stuart A. Gabriel	Director	January 27, 2017
/S/ THOMAS W. GILLIGAN Thomas W. Gilligan	Director	January 27, 2017
/S/ KENNETH M. JASTROW, II Kenneth M. Jastrow, II	Director	January 27, 2017
/S/ ROBERT L. JOHNSON Robert L. Johnson	Director	January 27, 2017
/S/ MELISSA LORA Melissa Lora	Director	January 27, 2017
/s/ ROBERT L. PATTON, JR. Robert L. Patton, Jr.	Director	January 27, 2017
/S/ MICHAEL M. WOOD Michael M. Wood	Director	January 27, 2017

Explanation of Responses:



LIST OF EXHIBITS FILED

Exhibit Number	Description	Sequential Page Number
3.1	Restated Certificate of Incorporation, as amended, filed as an exhibit to our Current Report on Form 8-K dated April 7, 2009 (File No. 001-09195), is incorporated by reference herein.	
3.2	Amended and Restated By-Laws of KB Home, filed as an exhibit to our Current Report on Form 8-K dated July 18, 2014 (File No. 001-09195), is incorporated by reference herein.	
4.1	Rights Agreement between us and Mellon Investor Services LLC, as rights agent, dated January 22, 2009, filed as an exhibit to our Current Report on Form 8-K/A dated January 28, 2009 (File No. 001-09195), is incorporated by reference herein.	
4.2	Indenture relating to our Senior Notes among us, the Guarantors party thereto and Sun Trust Bank, Atlanta, dated January 28, 2004, filed as an exhibit to our Registration Statement No. 333-114761 on Form S-4, is incorporated by reference herein.	
4.3	Fifth Supplemental Indenture, dated August 17, 2007, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated August 22, 2007 (File No. 001-09195), is incorporated by reference herein.	
4.4	Sixth Supplemental Indenture, dated as of January 30, 2012, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated February 2, 2012 (File No. 001-09195), is incorporated by reference herein.	
4.5	Seventh Supplemental Indenture, dated as of January 11, 2013, relating to our Senior Notes by and among us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated January 11, 2013 (File No. 001-09195), is incorporated by reference herein.	
4.6	Specimen of 7 1/4% Senior Notes due 2018, filed as an exhibit to our Current Report on Form 8-K dated April 3, 2006 (File No. 001-09195), is incorporated by reference herein.	
4.7	Form of officers' certificates and guarantors' certificates establishing the terms of the 7 1/4% Senior Notes due 2018, filed as an exhibit to our Current Report on Form 8-K dated April 3, 2006 (File No. 001-09195), is incorporated by reference herein.	
4.8	Specimen of 9.100% Senior Notes due 2017, filed as an exhibit to our Current Report on Form 8-K dated July 30, 2009 (File No. 001-09195), is incorporated by reference herein.	
4.9	Form of officers' certificates and guarantors' certificates establishing the terms of the 9.100% Senior Notes due 2017, filed as an exhibit to our Current Report on Form 8-K dated July 30, 2009 (File No. 001-09195), is incorporated by reference herein.	
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Explanation of Responses:



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Specimen of 8.00% Senior Notes due 2020, filed as an exhibit to our Current Report on Form 8-K dated February 7, 2012 (File No. 001-09195), is incorporated by reference herein.

4.11 Form of officers' certificates and guarantors' certificates establishing the terms of the 8.00% Senior Notes due 2020, filed as an exhibit to our Current Report on Form 8-K dated February 7, 2012 (File No. 001-09195), is incorporated by reference herein.

4.12 Specimen of 7.50% Senior Notes due 2022, filed as an exhibit to our Current Report on Form 8-K dated July 31, 2012 (File No. 001-09195), is incorporated by reference herein.

4.13 Form of officers' certificates and guarantors' certificates establishing the terms of the 7.50% Senior Notes due 2022, filed as an exhibit to our Current Report on Form 8-K dated July 31, 2012 (File No. 001-09195), is incorporated by reference herein.

4.14 Form of officers' certificate and guarantors' officers' certificates establishing the form and terms of the 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated January 29, 2013 (File No. 001-09195), is incorporated by reference herein.

4.15 Form of 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated January 29, 2013 (File No. 001-09195), is incorporated by reference herein.

4.16 Form of supplemental officers' certificate and guarantors' officers' certificates establishing the form and terms of the 1.375% Convertible Senior Notes due 2019, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2013 (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description	Sequential Page Number
4.17	Eighth Supplemental Indenture, dated as of March 12, 2013, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2013 (File No. 001-09195), is incorporated by reference herein.	
4.18	Specimen of 7.00% Senior Notes due 2021, filed as an exhibit to our Current Report on Form 8-K dated October 29, 2013 (File No. 001-09195), is incorporated by reference herein.	
4.19	Form of officers' certificates and guarantors' certificates establishing the terms of the 7.00% Senior Notes due 2021, filed as an exhibit to our Current Report on Form 8-K dated October 29, 2013 (File No. 001-09195), is incorporated by reference herein.	
4.20	Ninth Supplemental Indenture, dated as of February 28, 2014, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Post-Effective Amendment No. 4 to Form S-3 Registration Statement (No. 333-176930), is incorporated by reference herein.	
4.21	Specimen of 4.75% Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated March 25, 2014 (File No. 001-09195), is incorporated by reference herein.	
4.22	Form of officers' certificates and guarantors' certificates establishing the terms of the 4.75% Senior Notes due 2019, filed as an exhibit to our Current Report on Form 8-K dated March 25, 2014 (File No. 001-09195), is incorporated by reference herein.	
4.23	Form of 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 17, 2015 (File No. 001-09195), is incorporated by reference herein.	
4.24	Form of officers' certificates and guarantors' certificates establishing the terms of the 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 17, 2015 (File No. 001-09195), is incorporated by reference herein.	
10.1*	Kaufman and Broad, Inc. Executive Deferred Compensation Plan, effective as of July 11, 1985, filed as an exhibit to our 2007 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.2*	Amendment to Kaufman and Broad, Inc. Executive Deferred Compensation Plan for amounts earned or vested on or after January 1, 2005, effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.3*	KB Home 1988 Employee Stock Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.4*	KB Home Performance-Based Incentive Plan for Senior Management, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No.	

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001-09195), is incorporated by reference herein.

10.5\* Form of Stock Option Agreement under KB Home Performance-Based Incentive Plan for Senior Management, filed as an exhibit to our 1995 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

10.6 KB Home Directors' Legacy Program, as amended January 1, 1999, filed as an exhibit to our 1998 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

10.7 Trust Agreement between Kaufman and Broad Home Corporation and Wachovia Bank, N.A. as Trustee, dated as of August 27, 1999, filed as an exhibit to our 1999 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

10.8\* Amended and Restated KB Home 1999 Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

10.9\* Form of Non-Qualified Stock Option Agreement under our Amended and Restated 1999 Incentive Plan, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description	Sequential Page Number
10.10*	KB Home 2001 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.11*	Form of Stock Option Agreement under our 2001 Stock Incentive Plan, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.12*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals prior to January 1, 2005, effective March 1, 2001, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.13*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals on and after January 1, 2005, effective January 1, 2009 (File No. 001-09195), filed as an exhibit to our 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.14*	KB Home Change in Control Severance Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.15*	KB Home Death Benefit Only Plan, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.16*	Amendment No. 1 to the KB Home Death Benefit Only Plan, effective as of January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.17*	KB Home Retirement Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.18*	Employment Agreement of Jeffrey T. Mezger, dated February 28, 2007, filed as an exhibit to our Current Report on Form 8-K dated March 6, 2007 (File No. 001-09195), is incorporated by reference herein.	
10.19*	Amendment to the Employment Agreement of Jeffrey T. Mezger, dated December 24, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.20*	Form of Stock Option Agreement under the Employment Agreement between us and Jeffrey T. Mezger dated as of February 28, 2007, filed as an exhibit to our Current Report on Form 8-K dated July 18, 2007 (File No. 001-09195), is incorporated by reference herein.	
10.21*	Form of Stock Option Agreement under the Amended and Restated 1999 Incentive Plan for stock option grant to Jeffrey T. Mezger, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2007 (File No. 001-09195), is incorporated by reference herein.	

- 10.22\* Policy Regarding Stockholder Approval of Certain Severance Payments, adopted July 10, 2008, filed as an exhibit to our Current Report on Form 8-K dated July 15, 2008 (File No. 001-09195), is incorporated by reference herein.
- 10.23\* KB Home Executive Severance Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2008 (File No. 001-09195), is incorporated by reference herein.
- 10.24 Amendment to Trust Agreement by and between KB Home and Wachovia Bank, N.A., dated August 24, 2009, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2009 (File No. 001-09195), is incorporated by reference herein.
- 10.25 Form of Indemnification Agreement, filed as an exhibit to our Current Report on Form 8-K dated April 2, 2010 (File No. 001-09195), is incorporated by reference herein.
- 10.26\* KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 (File No. 001-09195), is incorporated by reference herein.
- 10.27\* Form of Stock Option Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated July 20, 2010 (File No. 001-09195), is incorporated by reference herein.

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Exhibit Number	Description	Sequential Page Number
10.28*	Form of Restricted Stock Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated July 20, 2010 (File No. 001-09195), is incorporated by reference herein.	
10.29*	KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger, filed as an exhibit to our 2010 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.30*	Amendment to the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.	
10.31*	Executive Severance Benefit Decisions, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.	
10.32	Consensual agreement effective June 10, 2011, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2011 (File No. 001-09195), is incorporated by reference herein.	
10.33*	KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.34*	Form of KB Home 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.35*	KB Home 2010 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement for performance-based restricted stock unit award to Jeffrey T. Mezger, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.36*	Form of KB Home 2010 Equity Incentive Plan Restricted Stock Unit Award Agreement, filed as an exhibit to our 2012 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.37*	KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2014 (File No. 001-09195), is incorporated by reference herein.	
10.38*	Amendment to Amended and Restated KB Home 1999 Incentive Plan Non-Qualified Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.	

Explanation of Responses:

10.39\* Amendment to KB Home 2001 Stock Incentive Plan Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.

10.40\* Amendment to KB Home Performance Based Incentive Plan for Senior Management Stock Option Agreement, effective July 17, 2014, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2014 (File No. 001-09195), is incorporated by reference herein.

10.41\* Form of Stock Option Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.

10.42\* Form of Performance-Based Restricted Stock Unit Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.

10.43\* Form of Performance Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.

10.44\* Form of Restricted Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.

Exhibit Number	Description	Sequential Page Number
10.45	Fourth Amended and Restated KB Home Non-Employee Directors Compensation Plan, effective as of October 9, 2014, filed as an exhibit to our 2014 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.46	Amended and Restated Revolving Loan Agreement, dated as of August 7, 2015, among us, the banks party thereto, and Citibank, N.A., as Administrative Agent, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2015 (File No. 001-09195), is incorporated by reference herein.	
10.47*	Form of Restricted Stock Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our 2015 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.	
10.48*	Amended KB Home 2014 Equity Incentive Plan, effective April 7, 2016, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2016 (File No. 001-09195), is incorporated by reference herein.	
12.1†	Computation of Ratio of Earnings to Fixed Charges.	
21†	Subsidiaries of the Registrant.	
23†	Consent of Independent Registered Public Accounting Firm.	
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 Annual Report on Form 10-K for the year ended November 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Statements of Operations for the years ended November 30, 2016, 2015 and 2014, (b) Consolidated Statements of Comprehensive Income for the years ended November 30, 2016, 2015 and 2014, (c) Consolidated Balance Sheets as of November 30, 2016 and 2015, (d) Consolidated Statements of Stockholders' Equity for the years ended November 30, 2016, 2015 and 2014, (e) Consolidated Statements of Cash Flows for the years ended November 30, 2016, 2015 and 2014, and (f) the Notes to Consolidated Financial Statements.	



\* Management contract or compensatory plan or arrangement in which executive officers are eligible to participate.  
† Document filed with this Form 10-K.

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