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Form 10-Q
April 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended February 28, 2013.
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from [ ] to [ ].
Commission File No. 001-09195
KB HOME
(Exact name of registrant as specified in its charter)

Delaware	95-3666267
(State of incorporation)	(IRS employer identification number)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of February 28, 2013.
There were 83,549,685 shares of the registrant’s common stock, par value $1.00 per share, outstanding on February 28, 2013. The registrant’s grantor stock ownership trust held an additional 10,613,034 shares of the registrant’s common stock on that date.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
KB HOME
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts – Unaudited)

	Three Months Ended	
	February 28, 2013	February 29, 2012
Total revenues	$405,219	$254,558
Homebuilding:		
Revenues	$402,816	$251,895
Construction and land costs	(343,265)	(231,832)
Selling, general and administrative expenses	(59,097)	(51,212)
Operating income (loss)	454	(31,149)
Interest income	204	135
Interest expense	(15,240)	(16,286)
Equity in loss of unconsolidated joint ventures	(435)	(72)
Homebuilding pretax loss	(15,017)	(47,372)
Financial services:		
Revenues	2,403	2,663
Expenses	(835)	(835)
Equity in income of unconsolidated joint venture	1,091	142
Financial services pretax income	2,659	1,970
Total pretax loss	(12,358)	(45,402)
Income tax expense	(100)	(400)
Net loss	$(12,458)	$(45,802)
Basic and diluted loss per share	$(.16)	$(.59)
Basic and diluted average shares outstanding	79,401	77,090
Cash dividends declared per common share	$.0250	$.0625

See accompanying notes.

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CONSOLIDATED BALANCE SHEETS
(In Thousands – Unaudited)

	February 28, 2013	November 30, 2012
Assets		
Homebuilding:		
Cash and cash equivalents	$624,044	$524,765
Restricted cash	44,619	42,362
Receivables	65,630	64,821
Inventories	1,937,774	1,706,571
Investments in unconsolidated joint ventures	123,210	123,674
Other assets	102,578	95,050
	2,897,855	2,557,243
Financial services	2,782	4,455
Total assets	$2,900,637	$2,561,698
Liabilities and stockholders' equity		
Homebuilding:		
Accounts payable	$108,325	$118,544
Accrued expenses and other liabilities	353,130	340,345
Mortgages and notes payable	1,963,753	1,722,815
	2,425,208	2,181,704
Financial services	2,294	3,188
Common stock	115,178	115,178
Paid-in capital	783,298	888,579
Retained earnings	435,745	450,292
Accumulated other comprehensive loss	(27,958)	(27,958)
Grantor stock ownership trust, at cost	(115,117)	(115,149)
Treasury stock, at cost	(718,011)	(934,136)
Total stockholders' equity	473,135	376,806
Total liabilities and stockholders' equity	$2,900,637	$2,561,698

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands – Unaudited)

	Three Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net loss	$(12,458)	$(45,802)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in income of unconsolidated joint ventures	(656)	(70)
Distributions of earnings from unconsolidated joint ventures	1,438	—
Amortization of discounts and issuance costs	971	579
Depreciation and amortization	465	392
Loss on early extinguishment of debt	—	2,003
Stock-based compensation	1,013	1,656
Inventory impairments	—	6,572
Changes in assets and liabilities:		
Receivables	326	18,293
Inventories	(198,761)	(25,856)
Accounts payable, accrued expenses and other liabilities	(2,413)	(60,621)
Other, net	(957)	(6,730)
Net cash used in operating activities	(211,032)	(109,584)
Cash flows from investing activities:		
Return of investments in (contributions to) unconsolidated joint ventures	(304)	6,547
Purchases of property and equipment, net	(430)	(429)
Net cash provided by (used in) investing activities	(734)	6,118
Cash flows from financing activities:		
Change in restricted cash	(2,257)	591
Proceeds from issuance of debt	230,000	344,831
Payment of debt issuance costs	(6,878)	(5,816)
Repayment of senior notes	—	(340,481)
Payments on mortgages and land contracts due to land sellers and other loans	(17,003)	(1,715)
Proceeds from issuance of common stock, net	109,811	—
Issuance of common stock under employee stock plans	52	175
Payments of cash dividends	(2,089)	(4,818)
Net cash provided by (used in) financing activities	311,636	(7,233)
Net increase (decrease) in cash and cash equivalents	99,870	(110,699)
Cash and cash equivalents at beginning of period	525,688	418,074
Cash and cash equivalents at end of period	$625,558	$307,375

See accompanying notes.

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KB HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

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

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly our consolidated financial position as of February 28, 2013, the results of our consolidated operations for the three months ended February 28, 2013 and February 29, 2012, and our consolidated cash flows for the three months ended February 28, 2013 and February 29, 2012. The results of our consolidated operations for the three months ended February 28, 2013 are not necessarily indicative of the results to be expected for the full year, due to seasonal variations in operating results and other factors. The consolidated balance sheet at November 30, 2012 has been taken from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2012, which are contained in our Annual Report on Form 10-K for that period.

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

Use of Estimates. The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP and, therefore, include amounts based on informed estimates and judgments of management. Actual results could differ from these 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 $512.3 million at February 28, 2013 and $396.3 million at November 30, 2012. The majority of our cash and cash equivalents were invested in money market funds and interest-bearing bank deposit accounts.

Restricted cash of $44.6 million at February 28, 2013 and $42.4 million at November 30, 2012 consisted of cash deposited with various financial institutions that was required as collateral for our cash-collateralized letter of credit facilities (“LOC Facilities”).

Loss Per Share. Basic and diluted loss per share were calculated as follows (in thousands, except per share amounts):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Numerator:		
Net loss	$(12,458)	$(45,802)
Denominator:		
Basic and diluted average shares outstanding	79,401	77,090
Basic and diluted loss per share	$(.16)	$(.59)

All outstanding stock options were excluded from the diluted loss per share calculations for the three months ended February 28, 2013 and February 29, 2012 because the effect of their inclusion would be antidilutive, or would decrease the reported loss per share. Additionally, the impact of the $230.0 million in aggregate principal amount of 1.375% convertible senior notes due 2019 (the “$230 Million Convertible Senior Notes”) that we issued in the first quarter of 2013 was excluded from the computation of diluted loss per share for the three months ended February 28, 2013 because the effect would have been antidilutive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies (continued)

Comprehensive Loss. We had comprehensive losses of $12.5 million for the three months ended February 28, 2013 and $45.8 million for the three months ended February 29, 2012. Our comprehensive losses for the three months ended February 28, 2013 and February 29, 2012 were equal to our net losses for the same periods. The accumulated other comprehensive loss in our consolidated balance sheets as of February 28, 2013 and November 30, 2012 was comprised solely of adjustments recorded directly to accumulated other comprehensive loss in accordance with Accounting Standards Codification Topic No. 715, "Compensation – Retirement Benefits" ("ASC 715"). Such adjustments are made annually as of November 30, when our benefit plan obligations are remeasured. ASC 715 requires an employer to recognize the funded status of defined postretirement benefit plans as an asset or liability on the balance sheet and requires any unrecognized prior service costs and actuarial gains/losses to be recognized in accumulated other comprehensive income (loss).

Homebuyer Closing Cost Allowances Reclassification. Effective December 1, 2012, we elected to reclassify closing cost allowances we give to certain homebuyers from selling, general and administrative expenses to construction and land costs in our consolidated statements of operations. These allowances are used to cover a portion of non-recurring third-party fees, such as escrow fees, title costs, recording fees, finance processing fees, and prepaid property taxes and insurance costs charged to a homebuyer in connection with the closing of the sale of a home. As a result of this reclassification, both our housing gross profits and selling, general and administrative expenses decreased by $2.1 million and $4.4 million for the three months ended February 28, 2013 and February 29, 2012, respectively, which represented .5% and 1.7% of housing revenues, respectively. The reclassification had no impact on consolidated operating income (loss) or net income (loss) amounts previously reported. All prior period amounts have been reclassified to conform to the 2013 presentation.

2. Stock-Based Compensation

We measure and recognize compensation expense associated with our grant of equity-based awards in accordance with Accounting Standards Codification Topic No. 718, "Compensation — Stock Compensation" ("ASC 718"). ASC 718 requires that companies measure and recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements over the vesting period.

Stock Options. In accordance with ASC 718, we estimate the grant-date fair value of stock options using the Black-Scholes option-pricing model, which takes into account assumptions regarding an expected dividend yield, a risk-free interest rate, an expected volatility factor for the market price of our common stock and an expected term of the stock options. During the three months ended February 28, 2013, no stock options were granted, exercised or canceled. The following table summarizes the stock options outstanding and stock options exercisable as of February 28, 2013:

	Options	Weighted Average Exercise Price
Options outstanding at beginning and end of period	10,105,546	$21.27
Options exercisable at end of period	8,538,707	$23.76

As of February 28, 2013, the weighted average remaining contractual life of stock options outstanding and stock options exercisable was 6.1 years and 5.7 years, respectively. There was $1.3 million of total unrecognized compensation expense related to unvested stock option awards as of February 28, 2013. For the three months ended February 28, 2013 and February 29, 2012, stock-based compensation expense associated with stock options totaled $.4 million and $1.2 million, respectively. The aggregate intrinsic value of stock options outstanding was $37.9 million at February 28, 2013. The aggregate intrinsic value of stock options exercisable was $20.7 million at February 28, 2013. (The intrinsic value of a stock option is the amount by which the market value of a share of the underlying common stock exceeds the exercise price of the stock option.)

Other Stock-Based Awards. From time to time, we grant restricted stock, performance-based restricted stock units (each a “PSU”), and phantom shares to various employees. We recognized total compensation expense of $.6 million for the three months ended February 28, 2013 and $.4 million for the three months ended February 29, 2012 related to restricted stock, PSUs and phantom shares.

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3. Segment Information
As of February 28, 2013, we had identified five reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment, within our consolidated operations in accordance with Accounting Standards Codification Topic No. 280, “Segment Reporting.” As of February 28, 2013, our homebuilding reporting segments conducted ongoing operations in the following states:
West Coast: California
Southwest: Arizona, Nevada and New Mexico
Central: Colorado and Texas
Southeast: Florida, Maryland, North Carolina and Virginia
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, first move-up and active adult homebuyers.
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. We evaluate segment performance primarily based on segment pretax results.
Our financial services reporting segment offers insurance services to our homebuyers in the same markets as our homebuilding reporting segments and provides title services in the majority of our markets within our Central and Southeast homebuilding reporting segments. In addition, since the third quarter of 2011, this segment has earned revenues pursuant to the terms of a marketing services agreement with a preferred mortgage lender that offers mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers who elect to use the lender. Our homebuyers are under no obligation to use our preferred mortgage lender and may select any lender of their choice to obtain mortgage financing for the purchase of a home. We make available to our homebuyers marketing materials and other information regarding our preferred mortgage lender’s financing options and mortgage loan products, and are compensated solely for the fair market value of these services. We have had no affiliation with our preferred mortgage lender or its affiliates. Except as discussed below, we have had no ownership, joint venture or other interests in or with these entities, or with respect to the revenues or income that may have been generated from their provision of mortgage banking services to, or origination of mortgage loans for, our homebuyers.
On January 21, 2013, we entered into an agreement with our current preferred mortgage lender, Nationstar Mortgage LLC (“Nationstar”), to form Home Community Mortgage, LLC (“Home Community Mortgage”), a mortgage banking company that will offer mortgage banking services to our homebuyers. We have a 49.9% ownership interest and Nationstar has a 50.1% ownership interest in Home Community Mortgage, with Nationstar providing management oversight of Home Community Mortgage’s operations. Nationstar will continue as our preferred mortgage lender until Home Community Mortgage begins offering mortgage banking services, which is expected in the latter part of 2013. As of February 28, 2013, we had not made any capital contributions to Home Community Mortgage. Home Community Mortgage will be accounted for as an unconsolidated joint venture within our financial services reporting segment.
Our reporting segments follow the same accounting policies used for our consolidated financial statements. Operational 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 reporting segments (in thousands):

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3. Segment Information (continued)

	Three Months Ended February 28, 2013	Three Months Ended February 29, 2012
Revenues:		
West Coast	$206,104	$105,233
Southwest	31,831	31,584
Central	106,492	80,274
Southeast	58,389	34,804
Total homebuilding revenues	402,816	251,895
Financial services	2,403	2,663
Total	$405,219	$254,558
Pretax income (loss):		
West Coast	$9,842	$(18,760)
Southwest	(749)	(5,043)
Central	136	(3,507)
Southeast	(8,324)	(4,259)
Corporate and other (a)	(15,922)	(15,803)
Total homebuilding pretax loss	(15,017)	(47,372)
Financial services	2,659	1,970
Total	$(12,358)	$(45,402)
Equity in income (loss) of unconsolidated joint ventures:		
West Coast	$(33)	$(45)
Southwest	(525)	(8)
Central	—	—
Southeast	123	(19)
Total	$(435)	$(72)
Inventory impairments:		
West Coast	$—	$6,572
Southwest	—	—
Central	—	—
Southeast	—	—
Total	$—	$6,572

(a)Corporate and other includes corporate general and administrative expenses.

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(Unaudited)

3. Segment Information (continued)

	February 28, 2013	November 30, 2012
Assets:		
West Coast	$1,117,506	$930,450
Southwest	324,546	319,863
Central	382,642	369,294
Southeast	372,033	341,460
Corporate and other	701,128	596,176
Total homebuilding assets	2,897,855	2,557,243
Financial services	2,782	4,455
Total	$2,900,637	$2,561,698
Investments in unconsolidated joint ventures:		
West Coast	$38,543	$38,372
Southwest	75,505	75,920
Central	—	—
Southeast	9,162	9,382
Total	$123,210	$123,674

4. Financial Services

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

	Three Months Ended	
	February 28, 2013	February 29, 2012
Revenues		
Insurance commissions	$1,303	$1,600
Title services	649	386
Marketing services fees	450	675
Interest income	1	2
Total	2,403	2,663
Expenses		
General and administrative	(835)	(835)
Operating income	1,568	1,828
Equity in income of unconsolidated joint venture	1,091	142
Pretax income	$2,659	$1,970

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4. Financial Services (continued)

	February 28, 2013	November 30, 2012
Assets		
Cash and cash equivalents	$1,514	$923
Receivables	724	1,859
Investment in unconsolidated joint venture	516	1,630
Other assets	28	43
Total assets	$2,782	$4,455
Liabilities		
Accounts payable and accrued expenses	$2,294	$3,188
Total liabilities	$2,294	$3,188

5. Inventories

Inventories consisted of the following (in thousands):

	February 28, 2013	November 30, 2012
Homes under construction	$519,746	$454,108
Land under development	764,479	567,470
Land held for future development	653,549	684,993
Total	$1,937,774	$1,706,571

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, capitalized interest and real estate taxes associated with land undergoing improvement activity. 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 other 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 community.

Our interest costs are as follows (in thousands):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Capitalized interest at beginning of period	$217,684	$233,461
Interest incurred (a)	33,422	30,411
Interest expensed (a)	(15,240)	(16,286)
Interest amortized to construction and land costs	(18,705)	(12,669)
Capitalized interest at end of period (b)	$217,161	$234,917

(a) Amounts for the three months ended February 29, 2012 include a $2.0 million loss on the early extinguishment of debt.

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5. Inventories (continued)

(b) Inventory impairment charges are recognized against all inventory costs of a community, such as land, land development, cost of home construction and capitalized interest. Capitalized interest amounts presented in the table reflect the gross amount of capitalized interest as impairment charges recognized are not generally allocated to specific components of inventory.

6. 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: 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 housing sales; 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 in accordance with Accounting Standards Codification Topic No. 360, "Property, Plant, and Equipment" ("ASC 360"). We evaluated 20 and 37 communities or land parcels for recoverability during the three months ended February 28, 2013 and February 29, 2012, respectively.

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. With the undiscounted future net cash flows, we also consider 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 three months ended February 28, 2013 and February 29, 2012, these expectations reflected our experience that notwithstanding fluctuations in our company-wide net orders, backlog levels and housing gross profit margin, on a year-over-year basis, market conditions for each of our assets in inventory where impairment indicators were identified have been generally stable or slightly improved in 2012 and 2013, with no significant deterioration identified as to revenue and cost drivers that would prevent or otherwise impact recoverability. Based on this experience, and taking into account the signs of stability and improvement in many markets for new home sales, our inventory assessments as of February 28, 2013 considered an expected steady overall sales pace and average selling price performance for the remainder of 2013 relative to the generally accelerating 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 it is open for sales and/or undergoing development, or whether it is being held for future development. For active communities and land parcels, due to their short-term nature 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. These assessments, at the time made, generally anticipate net orders, average selling prices, volume of homes delivered and costs to continue at or near then-current levels through the affected 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. These various estimates, trends, 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 performance and may vary among communities or land parcels and may vary over time.
We record an inventory impairment charge when the carrying value of a real estate asset is greater than the undiscounted future net cash flows the asset is expected to generate. These real estate assets are written down to fair value, which is primarily based on the estimated future net cash flows discounted for inherent risk associated with each such asset. Inputs used in our calculation of estimated discounted future net cash flows are specific to each affected community or land parcel and are based

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(Unaudited)

6. Inventory Impairments and Land Option Contract Abandonments (continued)

on our expectations for each such asset as of the applicable measurement date, including, among others, expectations related to average selling prices and delivery rates. The discount rates we use are impacted by the following at the time each assessment is 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.

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

Unobservable Input (a)	Three Months Ended February 28, 2013	February 29, 2012
Average selling price	$—	$379,200 - $498,000
Deliveries per month	—	2
Discount rate	— %	17%

(a) The ranges of inputs used primarily reflect the underlying variability among the various housing markets where each of the impacted communities or land parcels are located, rather than changes in prevailing market conditions.

Based on the results of our evaluations, we recognized no inventory impairment charges in the three months ended February 28, 2013. In the three months ended February 29, 2012, we recognized inventory impairment charges of $6.6 million associated with two communities with a post-impairment fair value of $12.2 million. The charges we recognized during the three months ended February 29, 2012 reflected challenging economic and housing market conditions in the relevant markets at the time, and were partly due to our efforts to accelerate our return on investment in those communities. Inventory impairment charges are included in construction and land costs in our consolidated statements of operations.

As of February 28, 2013, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $312.7 million, representing 44 communities and various other land parcels. As of November 30, 2012, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $307.2 million, representing 46 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 internal investment and marketing 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 home delivery volume; 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 no land option contract abandonment charges in the three months ended February 28, 2013 or the three months ended February 29, 2012.

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, we estimate our inventory assets' remaining operating lives under current and expected future market conditions to range generally from one year

to in excess of 10 years. Based on current market conditions and anticipated delivery timelines, we expect to realize, on an overall basis, the majority of our current inventory balance within five years.
Due to the judgment and assumptions applied in the estimation process with respect to inventory impairments, land option contract abandonments, the remaining operating lives of our inventory assets and the realization of our inventory balances, it is possible that actual results could differ substantially from those estimated.

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7. Fair Value Disclosures

Accounting Standards Codification Topic No. 820, “Fair Value Measurements and Disclosures,” provides a framework for measuring the fair value of assets and liabilities under GAAP, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

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

Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate the carrying value is not recoverable. The following table presents the fair value hierarchy and our assets measured at fair value on a nonrecurring basis for the three months ended February 28, 2013 and the year ended November 30, 2012 (in thousands):

Description	Fair Value Hierarchy	February 28, 2013	November 30, 2012
Long-lived assets held and used (a)	Level 3	$—	$39,851

(a) Amounts represent the aggregate fair value for communities or land parcels where we recognized inventory impairment charges during the period, as of the date that the fair value measurements were made. The carrying value for these communities or land parcels may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

We had no inventory impairment charges during the three months ended February 28, 2013. During the year ended November 30, 2012, long-lived assets held and used with a carrying value of $68.0 million were written down to their fair value of $39.9 million, resulting in inventory impairment charges of $28.1 million.

The fair values for long-lived assets held and used that were determined using Level 3 inputs were primarily based on the estimated future net cash flows discounted for inherent risk associated with each asset as described in Note 6. Inventory Impairments and Land Option Contract Abandonments. The discount rates we used were impacted by the following at the time the assessment 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 was located. These factors were specific to each affected community or land parcel and may have varied among communities or land parcels.

Our financial instruments consist of cash and cash equivalents, restricted cash, senior notes, the $230 Million 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.

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):

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7. Fair Value Disclosures (continued)

		February 28, 2013		November 30, 2012	
	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Liabilities:					
Senior notes	Level 2	$1,670,845	$1,873,328	$1,670,504	$1,831,596
Convertible senior notes due February 1, 2019 at 1.375%	Level 2	230,000	234,313	—	—

The fair values of our senior notes and $230 Million 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.

8. Variable Interest Entities

We participate in joint ventures from time to time that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. Our investments in these joint ventures may create a variable interest in a variable interest entity ("VIE"), depending on the contractual terms of the arrangement. We analyze our joint ventures in accordance with Accounting Standards Codification Topic No. 810, "Consolidation" ("ASC 810"), to determine whether they are VIEs and, if so, whether we are the primary beneficiary. All of our joint ventures at February 28, 2013 and November 30, 2012 were determined under the provisions of ASC 810 to be unconsolidated joint ventures and were accounted for under the equity method, either because they were not VIEs and we did not have a controlling financial interest or, if they were VIEs, we were not the primary beneficiary of the VIEs.

In the ordinary course of our business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. The use of such land option contracts and other similar contracts generally allows us to reduce the market risks associated with direct land ownership and development, and to reduce our capital and financial commitments, including interest and other carrying costs. Under such contracts, we typically pay a specified option or earnest money deposit in consideration for the right to purchase land in the future, usually at a predetermined price. Under the requirements of ASC 810, certain of these contracts may create a variable interest for us, with the land seller being identified as a VIE.

In compliance with ASC 810, we analyze our land option contracts and other similar contracts to determine whether the corresponding land sellers are VIEs and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, ASC 810 requires us to consolidate a VIE if we are determined to be 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 February 28, 2013 and November 30, 2012 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.

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

	February 28, 2013		November 30, 2012	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	$9,838	$345,664	$8,463	$327,196
	11,564	188,727	17,219	298,139

Other land option contracts and other similar contracts	$21,402	$534,391	$25,682	$625,335

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 $22.9 million at

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8. Variable Interest Entities (continued)

February 28, 2013 and $25.4 million at November 30, 2012. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets. We also had outstanding letters of credit of $.2 million at February 28, 2013 and $.5 million at November 30, 2012 in lieu of cash deposits under certain land option contracts and other similar contracts.

We also evaluate our land option contracts and other similar contracts for financing arrangements in accordance with Accounting Standards Codification Topic No. 470, "Debt" ("ASC 470"), and, as a result of our evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in our consolidated balance sheets by $8.9 million at February 28, 2013 and $4.1 million at November 30, 2012.

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. 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 until a home sale is closed and title passes to a homebuyer, at which time we account for those earnings as a reduction of the cost of purchasing the land from the unconsolidated joint venture.

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, equal 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.

Each unconsolidated joint venture is obligated to maintain financial statements in accordance with GAAP. We share in the profits and losses of these unconsolidated joint ventures generally in accordance with our respective equity interests. In some instances, we recognize profits and losses related to our investment in an unconsolidated joint venture that differ from our equity interest in the unconsolidated joint venture. This may arise from impairments that we recognize related to our investment that differ from the impairments the unconsolidated joint venture recognizes with respect to the unconsolidated joint venture's assets; differences between our basis in assets we have transferred to the unconsolidated joint venture and the unconsolidated joint venture's basis in those assets; our deferral of the unconsolidated joint venture profits from land sales to us; or other items.

With respect to our investments in unconsolidated joint ventures, our equity in loss of unconsolidated joint ventures included no impairment charges for the three months ended February 28, 2013 or the three months ended February 29, 2012.

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

	Three Months Ended	
	February 28, 2013	February 29, 2012

Revenues	$—	$—
Construction and land costs	—	6
Other expenses, net	(855)	(461)
Loss	$(855)	$(455)

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9. Investments in Unconsolidated Joint Ventures (continued)

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

	February 28, 2013	November 30, 2012
Assets		
Cash	$15,998	$29,721
Receivables	6,603	6,104
Inventories	361,158	352,791
Other assets	1,182	1,175
Total assets	$384,941	$389,791
Liabilities and equity		
Accounts payable and other liabilities	$86,506	$88,027
Equity	298,435	301,764
Total liabilities and equity	$384,941	$389,791

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

	February 28, 2013	November 30, 2012
Number of investments in unconsolidated joint ventures	8	8
Investments in unconsolidated joint ventures	$123,210	$123,674

Our unconsolidated joint ventures finance land and inventory investments for a project through a variety of arrangements, and certain of our unconsolidated joint ventures have obtained loans from third-party lenders that are secured by the underlying property and related project assets. However, none of our unconsolidated joint ventures had outstanding debt at February 28, 2013 or November 30, 2012.

10. Other Assets

Other assets consisted of the following (in thousands):

	February 28, 2013	November 30, 2012
Cash surrender value of insurance contracts	$67,276	$64,757
Debt issuance costs (a)	21,159	14,563
Property and equipment, net	7,887	7,920
Prepaid expenses	6,256	7,810
Total	$102,578	$95,050

(a) The increase in debt issuance costs as of February 28, 2013 compared to November 30, 2012 primarily reflected the costs associated with our issuance of the $230 Million Convertible Senior Notes during the three months ended February 28, 2013.

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11. Accrued Expenses and Other Liabilities

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

	February 28, 2013	November 30, 2012
Construction defect and other litigation liabilities	$107,153	$107,111
Employee compensation and related benefits	94,891	97,189
Accrued interest payable	56,760	47,392
Warranty liability	43,333	47,822
Liabilities related to inventories not owned	8,942	4,100
Real estate and business taxes	5,106	8,453
Other	36,945	28,278
Total	$353,130	$340,345

12. Mortgages and Notes Payable

Mortgages and notes payable consisted of the following (in thousands):

	February 28, 2013	November 30, 2012
Mortgages and land contracts due to land sellers and other loans	$62,908	$52,311
Senior notes due February 1, 2014 at 5 3/4%	75,923	75,911
Senior notes due January 15, 2015 at 5 7/8%	102,018	101,999
Senior notes due June 15, 2015 at 6 1/4%	236,833	236,826
Senior notes due September 15, 2017 at 9.10%	261,579	261,430
Senior notes due June 15, 2018 at 7 1/4%	299,161	299,129
Senior notes due March 15, 2020 at 8.00%	345,331	345,209
Senior notes due September 15, 2022 at 7.50%	350,000	350,000
Convertible senior notes due February 1, 2019 at 1.375%	230,000	—
Total	$1,963,753	$1,722,815

Letter of Credit Facilities. We maintain LOC Facilities with various financial institutions to obtain letters of credit in the ordinary course of operating our business. As of February 28, 2013 and November 30, 2012, $43.7 million and $41.9 million, respectively, of letters of credit were outstanding under our LOC Facilities. Our LOC Facilities require us to deposit and maintain cash with the issuing financial institutions as collateral for our letters of credit outstanding. We may maintain, revise or, if necessary or desirable, enter into additional or expanded letter of credit facilities or other similar facility arrangements with the same or other financial institutions.

Mortgages and Land Contracts Due to Land Sellers and Other Loans. As of February 28, 2013, inventories having a carrying value of $129.1 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

Senior Notes. All of our senior notes outstanding at February 28, 2013 and November 30, 2012 represent senior unsecured obligations, rank equally in right of payment with all of our existing and future indebtedness and are unconditionally guaranteed jointly and severally by certain of our subsidiaries (the “Guarantor Subsidiaries”) on a senior unsecured basis. Interest on each of these senior notes is payable semi-annually. 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 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.

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12. Mortgages and Notes Payable (continued)

On February 7, 2012, pursuant to our universal shelf registration statement filed with the SEC on September 20, 2011 (the “2011 Shelf Registration”), we issued $350.0 million of 8.00% senior notes due 2020 (the “$350 Million 8.00% Senior Notes”). We used substantially all of the net proceeds from this issuance to purchase, pursuant to the terms of tender offers that were initially made on January 19, 2012 (the “Tender Offers”), $340.0 million in aggregate principal amount of our senior notes due 2014 and 2015. The total amount paid to purchase these senior notes was $340.5 million. We incurred a loss of $2.0 million in the first quarter of 2012 related to the early redemption of debt due to a premium paid under the Tender Offers and the unamortized original issue discount. The loss on early redemption of debt was included in interest expense in our consolidated statements of operations.

Convertible Senior Notes. On January 29, 2013 and February 4, 2013, pursuant to the 2011 Shelf Registration, we issued in an underwritten public offering the $230 Million Convertible Senior Notes at 100% of the principal amount of the notes. The issuance on February 4, 2013 was made pursuant to the exercise of an option granted to the underwriters to purchase such notes to cover over-allotments. Interest on the $230 Million Convertible Senior Notes, which represent senior unsecured obligations of ours and rank equally in right of payment with all of our other senior unsecured indebtedness, is payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2013. We will also pay interest on November 1, 2018. The $230 Million Convertible Senior Notes will mature on February 1, 2019, unless converted earlier by the holders, at their option, or redeemed by us, or purchased by us upon the occurrence of a fundamental change, as defined in the instruments governing the $230 Million Convertible Senior Notes.

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 their $230 Million Convertible Senior Notes. The $230 Million Convertible Senior 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 and a conversion premium of 47% based on the closing price of our common stock on January 29, 2013, which was $18.62 per share. This initial conversion rate equates to 8,401,831 shares of our common stock. The conversion rate is subject to adjustment upon the occurrence of certain events. On conversion, holders of the $230 Million Convertible Senior Notes will not be entitled to receive cash in lieu of shares of our common stock, except for cash in lieu of fractional shares.

We may not redeem the $230 Million Convertible Senior 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 $230 Million Convertible Senior Notes for a cash price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to, but not including, the redemption date. If a fundamental change, as defined in the instruments governing the $230 Million Convertible Notes, occurs or our stock ceases to trade prior to the stated maturity date, the holders may require us to purchase for cash all or any portion of their $230 Million Convertible Senior Notes at 100% of the principal amount of the notes, plus accrued and unpaid interest, if any.

The $230 Million Convertible Senior Notes are fully and unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries. In the first quarter of 2013, we used a portion of the $223.1 million in total net proceeds from the issuance of the $230 Million Convertible Senior Notes together with a portion of the total net proceeds from a concurrent underwritten public offering of our common stock, which is described in Note 15. Stockholders’ Equity, for general corporate purposes, including without limitation for land acquisition and land development. The remainder of such net proceeds are expected to be used in future periods for such purposes.

The indenture governing our senior notes and $230 Million Convertible Senior Notes does not contain any financial maintenance 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. Unlike our other senior notes, the terms governing the $265.0 million in aggregate principal amount of 9.10% senior notes due 2017 (the “$265 Million Senior Notes”), the $350 Million 8.00% Senior Notes, the $350.0 million in aggregate principal amount of 7.50% senior notes due 2022 (the “$350 Million 7.50% Senior Notes”), and the $230 Million Convertible Senior Notes contain certain limitations related to mergers, consolidations, and sales of assets.

As of February 28, 2013, we were in compliance with the applicable terms of all of our covenants under our senior notes, the $230 Million Convertible Senior Notes, the indenture, and mortgages and land contracts due to land sellers and other loans. Our ability to secure future debt financing may depend in part on our ability to remain in such compliance.

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12. Mortgages and Notes Payable (continued)

Principal payments on senior notes, the $230 Million Convertible Senior Notes, mortgages and land contracts due to land sellers and other loans are due as follows: 2013 – $42.2 million; 2014 – $91.8 million; 2015 – $342.3 million; 2016 – $1.3 million; 2017 – $261.6 million; and thereafter – $1.22 billion.

13. 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 these limited warranties vary depending upon the market in which we do business. We generally provide a structural warranty of 10 years, a warranty on electrical, heating, cooling, plumbing and 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, including claims where we could have liability under applicable state statutes or tort law for a defective condition in or damages to a home. We estimate the costs that may be incurred under each limited warranty and record a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our accrued warranty liability, which is included in accrued expenses and other liabilities in our consolidated balance sheets, and adjust the amount as necessary based on our assessment. Our assessment includes the review of our actual warranty costs incurred to identify trends and changes in our warranty claims experience, and considers our home construction quality and customer service initiatives and outside events. While we believe the warranty liability currently reflected in our consolidated balance sheets to be adequate, unanticipated changes or developments in the legal environment, local weather, land or environmental conditions, quality of materials or methods used in the construction of homes, or customer service practices could have a significant impact on our actual warranty costs in the future and such amounts could differ from our current estimates.

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

	Three Months Ended	
	February 28, 2013	February 29, 2012
Balance at beginning of period	$47,822	$67,693
Warranties issued	2,766	1,317
Payments	(8,929)	(4,436)
Adjustments	1,674	33
Balance at end of period	$43,333	$64,607

Central and Southwest Florida Claims. During 2012, we received claims from homeowners in certain of our communities located in central and southwest Florida that primarily involved framing, stucco, roofing and/or sealant matters on homes we delivered between 2003 and 2009, many of which have resulted in water intrusion-related issues. While we initially believed these issues were isolated, after additional investigation, we determined in the fourth quarter of 2012 that more homes and communities may have been affected. During the three months ended February 28, 2013, through our continued efforts to identify, examine and repair homes that may have been impacted by these issues, the number of identified homes and our estimate of the total repair costs were revised. Based on the status of our investigations and repair efforts, our overall warranty liability at February 28, 2013 included $15.9 million for estimated remaining repair costs associated with homes in central and southwest Florida that have been identified as having water intrusion-related issues. As of February 28, 2013, we had identified a total of 969 homes requiring more than minor repairs and resolved repairs on 207 of them. During the three months ended February 28, 2013, we paid $5.4 million to repair identified homes. As of February 28, 2013, we had paid $9.4 million of the total estimated repair costs of $25.3 million associated with all identified homes. The majority of the total

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13. Commitments and Contingencies (continued)

estimated repair costs as of February 28, 2013 relate to two attached-home communities. We consider warranty-related repairs for homes to be resolved when all repairs are complete and all repair costs are fully paid.
As discussed below, due to the increased scope of these water-intrusion issues, we recorded a charge, net of estimated recoveries, during the three months ended February 28, 2013 to increase our overall warranty liability for all of our previously delivered homes that are covered under our limited warranty, including the homes in central and southwest Florida identified as having water intrusion-related issues. As our investigations and repair efforts in central and southwest Florida are continuing, at this time we are unable to determine whether we will need to record additional charges for repair costs on the homes we have identified or on homes that may be identified in the future.
As of February 28, 2013, based on our investigation into the central and southwest Florida water intrusion-related claims, we believe it is probable that we will recover a portion of our total estimated repair costs associated with identified homes from various sources, including subcontractors involved with the original construction of the identified homes and their insurers. Accordingly, we have reflected estimated probable recoveries of $9.4 million in our overall warranty liability as of February 28, 2013. Our evaluation of identified homes and potentially responsible parties is ongoing and our estimate of probable recoveries may change as additional information is obtained.
Other Claims. With respect to potential recoveries on claims regarding other homes previously delivered, we have tendered claims with responsible liability insurance carriers, seeking reimbursement of costs we have incurred to make repairs and to handle claims. We intend to continue to undertake efforts, including legal proceedings, to obtain reimbursement from various sources, including subcontractors, suppliers and their insurers, for the costs we have incurred or expect to incur to investigate and complete repairs and to defend ourselves in litigation. We have not recorded any amounts for potential future recoveries as of February 28, 2013 related to these claims regarding other homes previously delivered.
Global Settlement Regarding Allegedly Defective Drywall Material. As of February 28, 2013, we were a defendant in eight lawsuits relating to allegedly defective drywall manufactured in China. Seven of the lawsuits are “omnibus” class actions purportedly filed on behalf of numerous homeowners asserting claims for damages against drywall manufacturers, homebuilders and other parties in the supply chain of the allegedly defective drywall material. We are also a defendant in one lawsuit brought in Florida state court by individual homeowners. On February 7, 2013, a final global settlement of claims relating to the allegedly defective drywall material, including the seven omnibus class actions in which we were named as a defendant, was approved by the federal court judge overseeing a multidistrict litigation case — In re: Chinese Manufactured Drywall Products Liability Litigation (MDL-2047). The global settlement resolved all current claims against us and bars any future claims against all participating defendants, including us.
Our total obligation as a participating defendant under the global settlement was $.3 million, which we paid on March 25, 2013. We also expect to receive certain amounts under the global settlement in 2013 based on repairs we made to homes of certain settlement class members. The plaintiffs in the Florida state court case opted out of the global settlement, and we will defend that case. While the ultimate outcome of that case is uncertain, based on the current status of the proceedings, we do not believe the outcome will be material to our consolidated financial statements.
Overall Warranty Liability Assessment. In assessing our overall warranty liability at a reporting date, we evaluate the costs for warranty-related items on a combined basis for all of our previously delivered homes that are under our limited warranty, which would include any such homes in central and southwest Florida identified as having water intrusion-related issues. As of February 28, 2013, based on our assessment of our overall warranty liability, we recorded an adjustment to increase our overall warranty liability by $1.7 million in the first quarter of 2013 with a corresponding charge to construction and land costs in our consolidated statement of operations. This adjustment was comprised of a $12.4 million increase in our estimated warranty costs, net of $10.7 million which represented the estimated probable recoveries for water intrusion-related issues in central and southwest Florida and other

adjustments.
Depending on the number of additional homes in central and southwest Florida identified as having water intrusion-related issues, if any, and the actual costs we incur in future periods to repair such homes and/or homes affected by other issues, including costs to provide affected homeowners with temporary housing, we may revise the estimated amount of our liability, which could result in an increase or decrease in our overall warranty liability. However, based on the rate of new homes that we have identified since the end of the first quarter of 2013 to the date of this report in central and southwest Florida that have or that may have water intrusion-related issues, we believe we have identified the majority of such homes as of February 28, 2013 and anticipate resolving repairs on such homes by mid-2014.

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13. Commitments and Contingencies (continued)

Guarantees. In the normal course of our business, we issue certain representations, warranties and guarantees related to our home sales and land sales that may be affected by Accounting Standards Codification Topic No. 460, "Guarantees." Based on historical evidence, we do not believe any potential liability with respect to these representations, warranties or guarantees would be material to our consolidated financial statements.

Insurance. We maintain, and require the majority of our 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. In Arizona, California, Colorado and Nevada, our subcontractors' general liability insurance primarily takes the form of a wrap-up policy, where eligible subcontractors are enrolled as insureds on each project. 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 expenses and liabilities based on the estimated costs required to cover our self-insured retention and deductible amounts under our insurance policies, and the estimated costs of potential claims and claim adjustment expenses that are above our coverage limits or that are not covered by our insurance policies. These estimated costs are based on an analysis of our historical claims and include an estimate of construction defect claims incurred but not yet reported. Our estimated liabilities for such items were $91.7 million at February 28, 2013 and $93.3 million at November 30, 2012. These amounts are included in accrued expenses and other liabilities in our consolidated balance sheets. Our expenses associated with self-insurance totaled $1.8 million for the three months ended February 28, 2013 and $2.3 million for the three months ended February 29, 2012. These expenses were largely offset by contributions from subcontractors participating in the wrap-up policy.

Performance Bonds and Letters of Credit. We are often required to provide to various municipalities and other government agencies performance bonds and/or letters of credit to secure the completion of our projects and/or in support of obligations to build community improvements such as roads, sewers, water systems and other utilities, and to support similar development activities by certain of our unconsolidated joint ventures. At February 28, 2013, we had $284.7 million of performance bonds and $43.7 million of letters of credit outstanding. At November 30, 2012, we had $286.1 million of performance bonds and $41.9 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. 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 February 28, 2013, we had total deposits of $21.6 million, comprised of $21.4 million of cash deposits and $.2 million of letters of credit, to purchase land having an aggregate purchase price of $534.4 million. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

14. Legal Matters

Nevada Development Contract Litigation. KB HOME Nevada Inc., a wholly owned subsidiary of ours ("KB Nevada"), is a defendant in a case in the Eighth Judicial District Court in Clark County, Nevada entitled Las Vegas Development Associates, LLC, Essex Real Estate Partners, LLC, et al. v. KB HOME Nevada Inc. In 2007, Las Vegas Development Associates, LLC ("LVDA") agreed to purchase from KB Nevada approximately 83 acres of land located near Las

Vegas, Nevada. LVDA subsequently assigned its rights to Essex Real Estate Partners, LLC (“Essex”). KB Nevada and Essex entered into a development agreement relating to certain major infrastructure improvements. LVDA’s and Essex’s complaint, initially filed in 2008, alleged that KB Nevada breached the development agreement, and also alleged that KB Nevada fraudulently induced them to enter into the purchase and development agreements. LVDA’s and Essex’s lenders subsequently filed related actions that were consolidated into the LVDA/Essex matter. The consolidated plaintiffs sought rescission of the agreements or, in the alternative, compensatory damages of $55 million plus unspecified punitive damages and other damages, and interest charges in excess of $41 million (the “Claimed Damages”). KB Nevada has denied the allegations, and believes it has meritorious defenses to the consolidated plaintiffs’ claims. At a November 19, 2012 hearing, the court denied all of the

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14. Legal Matters (continued)

consolidated plaintiffs' motions for summary judgment on their claims. In addition, the court granted several of KB Nevada's motions for summary judgment, eliminating, among other of the consolidated plaintiff's claims, all claims for fraud, negligent misrepresentation, and punitive damages. With the court's decisions, the only remaining claims against KB Nevada are for contract damages and rescission. While the ultimate outcome is uncertain — we believe it is reasonably possible that the loss in this matter could range from zero to the amount of the Claimed Damages (now excluding any punitive damages per the court's action) 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. The non-jury trial, originally set for September 2012 and then continued until January 2013, has now been further continued to October 15, 2013.

Southern California Project Development Case. On December 27, 2011, the jury in a case entitled Estancia Coastal, LLC v. KB HOME Coastal Inc. et al. returned a verdict against KB HOME Coastal Inc., a wholly owned subsidiary, and us for $9.8 million, excluding legal fees and interest. The case related to a land option contract and a construction agreement between KB HOME Coastal Inc. and the plaintiff. Based on pre-trial analysis, the verdict was not expected, and we and KB HOME Coastal Inc. jointly filed a motion for judgment notwithstanding the verdict and a motion for a new trial, which were heard on May 18, 2012. On May 23, 2012, the trial court denied the motions and on June 4, 2012 entered a judgment in favor of the plaintiff in the amount of $9.2 million plus pre-judgment interest of approximately $.9 million. The judgment entered reflects an earlier payment by us to the plaintiff of a portion of the jury's award and does not include legal fees and costs and post-judgment interest. We had established an accrual for this matter based on our pre-judgment estimate of the probable loss. However, as a result of the trial court's decision and probable legal fees and costs award, we recorded a charge of $8.8 million in the second quarter of 2012 to increase the accrual for this matter to $11.7 million. On September 14, 2012, following a hearing, the trial court awarded legal fees and costs to the plaintiff of approximately $1.4 million. In the first quarter of 2013, we recorded a charge of $.6 million to reflect additional post-judgment interest, and increased the accrual for this matter to approximately $12.3 million. The charges recorded in 2013 and 2012 were included in selling, general and administrative expenses in our consolidated statements of operations for the applicable periods. We continue to believe our accrual at February 28, 2013 reflects the probable outcome of the matter. We and KB HOME Coastal Inc. have appealed the entry of judgment. While the ultimate outcome is uncertain, we and KB HOME Coastal Inc. believe we will be successful in resolving the matter for an amount less than the judgment.

Other Matters. In addition to the specific proceedings described above, we are involved in other litigation and regulatory proceedings incidental to our business that are in various procedural stages. We believe that the accruals we have recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of February 28, 2013, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized on our consolidated financial statements. We evaluate our accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjust them to reflect (i) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments; (ii) the advice and analyses of counsel; and (iii) the assumptions and judgment of management. Similar factors and considerations are used in establishing new accruals for proceedings as to which losses have become probable and reasonably estimable at the time an evaluation is made. Based on our experience, we believe that the amounts that may be claimed or alleged against us in these proceedings are not a meaningful indicator of our potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses we may incur, however, is inherently uncertain and could differ significantly from the estimate reflected in a related accrual, if made. Therefore, it is possible that the ultimate outcome of any proceeding, if in excess of a related accrual or if no accrual had been made, could be material to our consolidated financial statements.

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15. Stockholders' Equity

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

	Three Months Ended February 28, 2013						
	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Grantor Stock Ownership Trust	Treasury Stock	Total Stockholders' Equity
Balance at November 30, 2012	$115,178	$888,579	$450,292	$ (27,958)	$(115,149)	$(934,136)	$ 376,806
Net loss	—	—	(12,458)	—	—	—	(12,458)
Dividends on common stock	—	—	(2,089)	—	—	—	(2,089)
Restricted stock amortization	—	620	—	—	—	—	620
Stock-based compensation	—	393	—	—	—	—	393
Issuance of common stock	—	(106,314)	—	—	—	216,125	109,811
Grantor stock ownership trust	—	20	—	—	32	—	52
Balance at February 28, 2013	$115,178	$783,298	$435,745	$ (27,958)	$(115,117)	$(718,011)	$ 473,135

	Three Months Ended February 29, 2012						
	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Grantor Stock Ownership Trust	Treasury Stock	Total Stockholders' Equity
Balance at November 30, 2011	$115,171	$884,190	$519,844	$ (26,152)	$(118,059)	$(932,337)	$ 442,657
Net loss	—	—	(45,802)	—	—	—	(45,802)
Dividends on common stock	—	—	(4,818)	—	—	—	(4,818)
Restricted stock amortization	—	409	—	—	—	—	409
Stock-based compensation	—	1,247	—	—	—	—	1,247
Grantor stock ownership trust	—	(81)	—	—	256	—	175
Balance at February 29, 2012	$115,171	$885,765	$469,224	$ (26,152)	$(117,803)	$(932,337)	$ 393,868

On January 29, 2013, pursuant to the 2011 Shelf Registration, we issued 6,325,000 shares of our common stock, par value $1.00 per share, in an underwritten public offering at a price of $18.25 per share (the “Common Stock Offering”). We used 6,325,000 shares of treasury stock for the issuance and received net proceeds of $109.8 million, after underwriting discounts, commissions and transaction expenses.

In connection with the issuance of the $230 Million Convertible Senior Notes, which is discussed in Note 12. Mortgages and Notes Payable, we established a common stock reserve account with our transfer agent to reserve the maximum number of shares of our common stock potentially deliverable upon conversion to holders of the $230 Million Convertible Senior Notes based on the terms of the instruments governing these notes. The maximum number of shares would potentially be deliverable to holders only in certain limited circumstances as set forth in the instruments governing the $230 Million Convertible Notes. Accordingly, the common stock reserve account had a balance of 12,602,735 shares at February 28, 2013.

As of February 28, 2013, we were authorized to repurchase 4,000,000 shares of our common stock under a board-approved share repurchase program. We did not repurchase any shares of our common stock under this program in the three months ended February 28, 2013. We have not repurchased shares pursuant to a common stock repurchase plan for the past several years and any resumption of such stock repurchases will be at the discretion of our board of directors.

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15. Stockholders’ Equity (continued)

During the three months ended February 28, 2013, our board of directors declared a cash dividend of $.0250 per share of common stock, which was paid on February 21, 2013 to stockholders of record on February 7, 2013. A cash dividend of $.0625 per share of common stock was declared and paid during the three months ended February 29, 2012.

16. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”), which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. However, in December 2011, the FASB issued Accounting Standards Update No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (“ASU 2011-12”), which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date for ASU 2011-05. For public entities, the amendments in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. Our adoption of this guidance, which is related to disclosure only, as of February 28, 2013 did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”), which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, ASU 2013-02 requires an entity to present, either on the face of the income statement or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. For public entities, the amendments in ASU 2013-02 are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this guidance concerns disclosure only and will not have an impact on our consolidated financial statements.

17. Income Taxes

Our income tax expense totaled $.1 million for the three months ended February 28, 2013 and $.4 million for the three months ended February 29, 2012. Due to the effects of our deferred tax asset valuation allowance and changes in our unrecognized tax benefits, our effective tax rates for the three months ended February 28, 2013 and February 29, 2012 are not meaningful items as our income tax amounts are not directly correlated to the amount of our pretax losses for those periods.

In accordance with Accounting Standards Codification Topic No. 740, “Income Taxes” (“ASC 740”), we evaluate our deferred tax assets quarterly to determine if adjustments to the valuation allowance are required. ASC 740 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. The value of our deferred tax assets will depend on applicable income tax rates. During the three months ended February 28, 2013, we reduced our deferred tax asset valuation allowance by $.7 million to account for adjustments to our deferred tax assets associated with the vesting of equity-based awards. During the three months ended February 29, 2012,

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17. Income Taxes (continued)

we recorded a valuation allowance of $18.3 million against net deferred tax assets generated from the pretax loss for the period.

We had no net deferred tax assets at February 28, 2013 or November 30, 2012 as we maintained a full valuation allowance against our deferred tax assets. The deferred tax asset valuation allowance decreased to $879.4 million at February 28, 2013 from $880.1 million at November 30, 2012, reflecting the $.7 million valuation allowance adjustment recorded during the three months ended February 28, 2013.

During the three months ended February 28, 2013, our total gross unrecognized tax benefits increased by $.1 million and we had no additions to our total gross unrecognized tax benefits as a result of the current status of federal and state tax audits. The total amount of gross unrecognized tax benefits, including interest and penalties, that would affect the effective tax rate was $1.4 million as of February 28, 2013. We anticipate that total unrecognized tax benefits will decrease by an amount ranging from $.7 million to $1.1 million during the 12 months from this reporting date due to various state tax filings associated with the resolution of a federal tax audit.

The benefits of our net operating losses (“NOL”), built-in losses and tax credits would be reduced or potentially eliminated if we experienced an “ownership change” under Internal Revenue Code Section 382 (“Section 382”). Based on our analysis performed as of February 28, 2013, we do not believe 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.

18. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Three Months Ended	
	February 28, 2013	February 29, 2012
Summary of cash and cash equivalents at end of period:		
Homebuilding	$624,044	$304,171
Financial services	1,514	3,204
Total	$625,558	$307,375
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$5,872	$31,334
Income taxes paid	120	174
Income taxes refunded	58	58
Supplemental disclosures of noncash activities:		
Increase (decrease) in consolidated inventories not owned	$4,842	$(2,536)
Cost of inventories acquired through seller financing	27,600	—

19. Supplemental Guarantor Information

Our obligations to pay principal, premium, if any, and interest under our senior notes and the $230 Million Convertible Senior Notes are guaranteed on a joint and several basis by the Guarantor Subsidiaries. The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. Pursuant to the terms of the indenture governing our senior notes and the $230 Million Convertible Senior Notes, 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), it will be automatically and unconditionally released and discharged from its guaranty of our senior notes and $230 Million Convertible Senior Notes so long as all guarantees by

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19. Supplemental Guarantor Information (continued)

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 the periods presented below reflects the relevant subsidiaries that were Guarantor Subsidiaries as of and for the respective periods then ended. Accordingly, information for any period presented does not reflect subsequent changes, if any, in the subsidiaries considered to be Guarantor Subsidiaries.

Condensed Consolidated Statements of Operations
Three Months Ended February 28, 2013 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$—	$273,432	$131,787	$—	$405,219
Homebuilding:					
Revenues	$—	$273,432	$129,384	$—	$402,816
Construction and land costs	—	(231,720)	(111,545)	—	(343,265)
Selling, general and administrative expenses	(14,823)	(26,894)	(17,380)	—	(59,097)
Operating income (loss)	(14,823)	14,818	459	—	454
Interest income	201	—	3	—	204
Interest expense	13,509	(19,302)	(9,447)	—	(15,240)
Equity in income (loss) of unconsolidated joint ventures	—	(558)	123	—	(435)
Homebuilding pretax loss	(1,113)	(5,042)	(8,862)	—	(15,017)
Financial services pretax income	—	—	2,659	—	2,659
Total pretax loss	(1,113)	(5,042)	(6,203)	—	(12,358)
Income tax expense	—	—	(100)	—	(100)
Equity in net loss of subsidiaries	(11,345)	—	—	11,345	—
Net loss	$(12,458)	$(5,042)	$(6,303)	$11,345	$(12,458)

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19. Supplemental Guarantor Information (continued)

Three Months Ended February 29, 2012 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$—	$146,489	$108,069	$—	$254,558
Homebuilding:					
Revenues	$—	$146,489	$105,406	$—	$251,895
Construction and land costs	—	(137,099)	(94,733)	—	(231,832)
Selling, general and administrative expenses	(14,000)	(19,055)	(18,157)	—	(51,212)
Operating loss	(14,000)	(9,665)	(7,484)	—	(31,149)
Interest income	125	1	9	—	135
Interest expense	14,120	(23,882)	(6,524)	—	(16,286)
Equity in loss of unconsolidated joint ventures	—	(51)	(21)	—	(72)
Homebuilding pretax income (loss)	245	(33,597)	(14,020)	—	(47,372)
Financial services pretax income	—	—	1,970	—	1,970
Total pretax income (loss)	245	(33,597)	(12,050)	—	(45,402)
Income tax expense	—	(300)	(100)	—	(400)
Equity in net loss of subsidiaries	(46,047)	—	—	46,047	—
Net loss	$(45,802)	$(33,897)	$(12,150)	$46,047	$(45,802)

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KB HOME
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19. Supplemental Guarantor Information (continued)

Condensed Consolidated Balance Sheets
February 28, 2013 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	$554,547	$28,625	$40,872	$—	$624,044
Restricted cash	44,619	—	—	—	44,619
Receivables	91	50,839	14,700	—	65,630
Inventories	—	1,132,565	805,209	—	1,937,774
Investments in unconsolidated joint ventures	—	109,102	14,108	—	123,210
Other assets	93,196	7,075	2,307	—	102,578
	692,453	1,328,206	877,196	—	2,897,855
Financial services	—	—	2,782	—	2,782
Investments in subsidiaries	(2,947)	—	—	2,947	—
Total assets	$689,506	$1,328,206	$879,978	$2,947	$2,900,637
Liabilities and stockholders' equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	$142,672	$139,150	$179,633	$—	$461,455
Mortgages and notes payable	1,875,735	63,918	24,100	—	1,963,753
	2,018,407	203,068	203,733	—	2,425,208
Financial services	—	—	2,294	—	2,294
Intercompany	(1,802,036)	1,130,180	671,856	—	—
Stockholders' equity	473,135	(5,042)	2,095	2,947	473,135
Total liabilities and stockholders' equity	$689,506	$1,328,206	$879,978	$2,947	$2,900,637

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19. Supplemental Guarantor Information (continued)

November 30, 2012 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	$457,007	$22,642	$45,116	$—	$524,765
Restricted cash	42,362	—	—	—	42,362
Receivables	121	49,518	15,182	—	64,821
Inventories	—	1,075,011	631,560	—	1,706,571
Investments in unconsolidated joint ventures	—	109,346	14,328	—	123,674
Other assets	85,901	7,491	1,658	—	95,050
	585,391	1,264,008	707,844	—	2,557,243
Financial services	—	—	4,455	—	4,455
Investments in subsidiaries	11,411	—	—	(11,411)	—
Total assets	$596,802	$1,264,008	$712,299	$(11,411)	$2,561,698
Liabilities and stockholders' equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	$134,314	$147,563	$177,012	$—	$458,889
Mortgages and notes payable	1,645,394	69,596	7,825	—	1,722,815
	1,779,708	217,159	184,837	—	2,181,704
Financial services	—	—	3,188	—	3,188
Intercompany	(1,559,712)	1,046,849	512,863	—	—
Stockholders' equity	376,806	—	11,411	(11,411)	376,806
Total liabilities and stockholders' equity	$596,802	$1,264,008	$712,299	$(11,411)	$2,561,698

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19. Supplemental Guarantor Information (continued)

Condensed Consolidated Statements of Cash Flows
Three Months Ended February 28, 2013 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net loss	$(12,458)	$(5,042)	$(6,303)	$11,345	$(12,458)
Adjustments to reconcile net loss to net cash used in operating activities:					
Equity in (income) loss of unconsolidated joint ventures	—	558	(1,214)	—	(656)
Changes in assets and liabilities:					
Receivables	30	(1,321)	1,617	—	326
Inventories	—	(57,554)	(141,207)	—	(198,761)
Accounts payable, accrued expenses and other liabilities	8,010	(8,413)	(2,010)	—	(2,413)
Other, net	1,281	540	1,109	—	2,930
Net cash used in operating activities	(3,137)	(71,232)	(148,008)	11,345	(211,032)
Cash flows from investing activities:					
Return of investments in (contributions to) unconsolidated joint ventures	—	(314)	10	—	(304)
Purchases of property and equipment, net	(96)	(129)	(205)	—	(430)
Net cash used in investing activities	(96)				