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Form 10-Q
July 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 31, 2012.

or

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

For the transition period from [ ] to [ ].

Commission File No. 001-09195

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(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 x No ¨

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of May 31, 2012.

There were 77,117,168 shares of the registrant s common stock, par value $1.00 per share, outstanding on May 31, 2012. The registrant s grantor stock ownership trust held an additional 10,839,351 shares of the registrant s common stock on that date.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts   Unaudited)

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Total revenues	$ 557,410	$ 468,678	$ 302,852	$ 271,738
Homebuilding:				
Revenues	$ 552,500	$ 465,284	$ 300,605	$ 269,983
Construction and land costs	(477,027)	(421,177)	(249,669)	(250,381)
Selling, general and administrative expenses	(122,158)	(112,125)	(66,472)	(62,520)
Loss on loan guaranty		(37,330)		(14,572)
Operating loss	(46,685)	(105,348)	(15,536)	(57,490)
Interest income	246	653	111	270
Interest expense	(30,755)	(24,560)	(14,469)	(13,121)
Equity in loss of unconsolidated joint ventures	(315)	(55,929)	(243)	(92)
Homebuilding pretax loss	(77,509)	(185,184)	(30,137)	(70,433)
Financial services:				
Revenues	4,910	3,394	2,247	1,755
Expenses	(1,528)	(1,652)	(693)	(787)
Equity in income (loss) of unconsolidated joint venture	89	512	(53)	661
Financial services pretax income	3,471	2,254	1,501	1,629
Total pretax loss	(74,038)	(182,930)	(28,636)	(68,804)
Income tax benefit (expense)	4,100	(100)	4,500	300
Net loss	$ (69,938)	$ (183,030)	$ (24,136)	$ (68,504)
Basic and diluted loss per share	$ (.91)	$ (2.38)	$ (.31)	$ (.89)
Basic and diluted average shares outstanding	77,097	76,983	77,105	76,991
Cash dividends declared per common share	$ .0875	$ .1250	$ .0250	$ .0625

See accompanying notes.

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CONSOLIDATED BALANCE SHEETS

(In Thousands Unaudited)

	May 31, 2012	November 30, 2011
Assets		
Homebuilding:		
Cash and cash equivalents	$ 314,258	$ 415,050
Restricted cash	63,182	64,481
Receivables	74,028	66,179
Inventories	1,727,640	1,731,629
Investments in unconsolidated joint ventures	121,408	127,926
Other assets	85,197	75,104
	2,385,713	2,480,369
Financial services	8,292	32,173
Total assets	$ 2,394,005	$ 2,512,542
Liabilities and stockholders equity		
Homebuilding:		
Accounts payable	$ 91,805	$ 104,414
Accrued expenses and other liabilities	344,380	374,406
Mortgages and notes payable	1,582,788	1,583,571
	2,018,973	2,062,391
Financial services	5,501	7,494
Common stock	115,171	115,171
Paid-in capital	887,262	884,190
Retained earnings	443,160	519,844
Accumulated other comprehensive loss	(26,152)	(26,152)
Grantor stock ownership trust, at cost	(117,573)	(118,059)
Treasury stock, at cost	(932,337)	(932,337)
Total stockholders equity	369,531	442,657
Total liabilities and stockholders equity	$ 2,394,005	$ 2,512,542

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands Unaudited)

	Six Months Ended May 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	$ (69,938)	$ (183,030)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity in loss of unconsolidated joint ventures	226	55,417
Distributions of earnings from unconsolidated joint ventures		6,313
Loss on loan guaranty		37,330
Gain on sale of operating property		(8,825)
Amortization of discounts and issuance costs	1,347	1,108
Depreciation and amortization	781	1,160
Loss (gain) on early extinguishment of debt	2,003	(3,612)
Stock-based compensation expense	3,205	3,775
Inventory impairments and land option contract abandonments	16,509	22,345
Change in assets and liabilities:		
Receivables	16,795	(1,443)
Inventories	(16,131)	(167,792)
Accounts payable, accrued expenses and other liabilities	(40,214)	(28,080)
Other, net	(4,464)	(5,990)
Net cash used in operating activities	(89,881)	(271,324)
Cash flows from investing activities:		
Return of investment in (contributions to) unconsolidated joint ventures	4,550	(1,919)
Proceeds from sale of operating property		80,600
Purchases of property and equipment, net	(592)	(108)
Net cash provided by investing activities	3,958	78,573
Cash flows from financing activities:		
Change in restricted cash	1,299	1,514
Proceeds from issuance of senior notes	344,831	
Payment of senior notes issuance costs	(6,751)	
Repayment of senior notes	(340,481)	
Payments on mortgages and land contracts due to land sellers and other loans	(6,695)	(80,826)
Issuance of common stock under employee stock plans	353	442
Payments of cash dividends	(6,746)	(9,613)
Net cash used in financing activities	(14,190)	(88,483)
Net decrease in cash and cash equivalents	(100,113)	(281,234)
Cash and cash equivalents at beginning of period	418,074	908,430
Cash and cash equivalents at end of period	$ 317,961	$ 627,196

See accompanying notes.

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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 United States 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 the opinion of KB Home (the Company), the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the Company s consolidated financial position as of May 31, 2012, the results of its consolidated operations for the six months and three months ended May 31, 2012 and 2011, and its consolidated cash flows for the six months ended May 31, 2012 and 2011. The results of consolidated operations for the six months and three months ended May 31, 2012 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, 2011 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, 2011, which are contained in the Company s Annual Report on Form 10-K for that period.

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

The Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. The Company s cash equivalents totaled $197.6 million at May 31, 2012 and $212.8 million at November 30, 2011. The majority of the Company s cash and cash equivalents were invested in money market accounts and U.S. government securities.

Restricted cash of $63.2 million at May 31, 2012 and $64.5 million at November 30, 2011 consisted of cash deposited with various financial institutions that was required as collateral for the Company s cash-collateralized letter of credit facilities (the LOC Facilities).

Loss Per Share

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

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Numerator:				
Net loss	$ (69,938)	$ (183,030)	$ (24,136)	$ (68,504)
Denominator:				
Basic and diluted average shares outstanding	77,097	76,983	77,105	76,991
Basic and diluted loss per share	$ (.91)	$ (2.38)	$ (.31)	$ (.89)

All outstanding stock options were excluded from the diluted loss per share calculations for the six months and three months ended May 31, 2012 and 2011 because the effect of their inclusion would be antidilutive, or would decrease the reported loss per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Comprehensive Loss

The Company s comprehensive loss was $24.1 million for the three months ended May 31, 2012 and $68.5 million for the three months ended May 31, 2011. The Company s comprehensive loss was $69.9 million for the six months ended May 31, 2012 and $183.0 million for the six months ended May 31, 2011. The accumulated balances of other comprehensive loss in the consolidated balance sheets as of May 31, 2012 and November 30, 2011 were 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). 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).

2. Stock-Based Compensation

The Company measures and recognizes compensation expense associated with its grants of equity-based awards in accordance with Accounting Standards Codification Topic No. 718, Compensation Stock Compensation (ASC 718). ASC 718 requires that public 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, the Company estimates the grant-date fair value of its 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 the Company s common stock and an expected term of the stock options. The following table summarizes the stock options outstanding and stock options exercisable as of May 31, 2012, as well as stock options activity during the six months then ended:

	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	10,160,396	$ 21.27
Granted	30,000	9.08
Exercised		
Cancelled	(7,000)	20.95
Options outstanding at end of period	10,183,396	21.24
Options exercisable at end of period	7,240,732	26.27

As of May 31, 2012, the weighted average remaining contractual life of stock options outstanding and stock options exercisable was 6.8 years and 6.1 years, respectively. There was $3.5 million of total unrecognized compensation cost related to unvested stock option awards as of May 31, 2012. For the three months ended May 31, 2012 and 2011, stock-based compensation expense associated with stock options totaled $1.2 million and $1.3 million, respectively. For the six months ended May 31, 2012 and 2011, stock-based compensation expense associated with stock options totaled $2.4 million and $2.7 million, respectively. The aggregate intrinsic value of stock options outstanding was $1.5

million at May 31, 2012. Stock options exercisable had no aggregate intrinsic value at May 31, 2012. (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.)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Stock-Based Compensation (continued)

Other Stock-Based Awards

From time to time, the Company grants restricted common stock, phantom shares and stock appreciation rights (SARs) to various employees. In some cases, the Company has granted phantom shares and SARs that can be settled only in cash and are therefore accounted for as liability awards. The Company recognized total compensation expense of $.4 million in each of the three months ended May 31, 2012 and 2011 related to restricted common stock and phantom shares. The Company recognized total compensation expense of $.8 million in the six months ended May 31, 2012 and $1.4 million in the six months ended May 31, 2011 related to these stock-based awards.

3. Segment Information

As of May 31, 2012, the Company had identified five reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment, within its consolidated operations in accordance with Accounting Standards Codification Topic No. 280, Segment Reporting. As of May 31, 2012, the Company s homebuilding reporting segments conducted ongoing operations in the following states:

West Coast: California

Southwest: Arizona and Nevada

Central: Colorado and Texas

Southeast: Florida, Maryland, North Carolina and Virginia

The Company s homebuilding reporting segments are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to first-time, move-up and active adult homebuyers.

The Company s 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. The Company evaluates segment performance primarily based on segment pretax results.

The Company s financial services reporting segment provides title and insurance services to the Company s homebuyers in the same markets as the Company s 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 originations, to the Company s homebuyers who elect to use the lender. The Company s homebuyers are under no obligation to use the Company s preferred mortgage lender and may select any lender of their choice to obtain mortgage financing for the purchase of a home. The Company makes available to its homebuyers marketing materials and other information regarding its preferred mortgage lender s financing options and mortgage loan products, and is compensated solely for the fair market value of these services. Prior to late June 2011, this segment provided mortgage banking services to the Company s homebuyers indirectly through KBA Mortgage, LLC (KBA Mortgage), a former unconsolidated joint venture of a subsidiary of the Company and a subsidiary of Bank of America, N.A., with each partner having had a 50% interest in the joint venture.

The Company s reporting segments follow the same accounting policies used for the Company s 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 the Company s reporting segments (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Segment Information (continued)

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Revenues:				
West Coast	$ 237,884	$ 178,914	$ 132,651	$ 107,143
Southwest	59,493	51,932	27,909	28,632
Central	168,030	144,790	87,756	84,201
Southeast	87,093	89,648	52,289	50,007
Total homebuilding revenues	552,500	465,284	300,605	269,983
Financial services	4,910	3,394	2,247	1,755
Total	$ 557,410	$ 468,678	$ 302,852	$ 271,738
Pretax income (loss):				
West Coast	$ (33,454)	$ 6,591	$ (14,694)	$ (2,274)
Southwest	(7,182)	(116,821)	(2,139)	(36,492)
Central	(4,138)	(10,202)	(631)	(3,493)
Southeast	320	(23,021)	4,579	(8,993)
Corporate and other (a)	(33,055)	(41,731)	(17,252)	(19,181)
Total homebuilding loss	(77,509)	(185,184)	(30,137)	(70,433)
Financial services	3,471	2,254	1,501	1,629
Total	$ (74,038)	$ (182,930)	$ (28,636)	$ (68,804)
Equity in loss of unconsolidated joint ventures:				
West Coast	$ (77)	$ (17)	$ (32)	$ (80)
Southwest	(217)	(55,902)	(209)	(2)
Central				
Southeast	(21)	(10)	(2)	(10)
Total	$ (315)	$ (55,929)	$ (243)	$ (92)
Inventory impairments:				
West Coast	$ 13,107	$ 1,351	$ 6,535	$ 1,351
Southwest	2,135	18,715	2,135	18,324
Central	1,267	51	1,267	
Southeast		969		419
Total	$ 16,509	$ 21,086	$ 9,937	$ 20,094
Land option contract abandonments:				

West Coast	$	$ 112	$	$
Southwest		296		296
Central		240		
Southeast		611		201
Total	$	$ 1,259	$	$ 497

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Segment Information (continued)

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Joint venture impairments:				
West Coast	$	$	$	$
Southwest		53,727		
Central				
Southeast				
Total	$	$ 53,727	$	$

	May 31, 2012	November 30, 2011
Assets:		
West Coast	$ 968,793	$ 995,888
Southwest	311,475	338,586
Central	339,314	336,553
Southeast	333,548	317,308
Corporate and other	432,583	492,034
Total homebuilding assets	2,385,713	2,480,369
Financial services	8,292	32,173
Total assets	$ 2,394,005	$ 2,512,542
Investments in unconsolidated joint ventures:		
West Coast	$ 38,328	$ 38,405
Southwest	73,439	80,194
Central		
Southeast	9,641	9,327
Total	$ 121,408	$ 127,926

4. Financial Services

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

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Revenues				
Insurance commissions	$ 2,754	$ 2,586	$ 1,154	$ 1,333
Title services	878	803	492	419
Marketing services fees	1,275		600	
Interest income	3	5	1	3
Total	4,910	3,394	2,247	1,755
Expenses				
General and administrative	(1,528)	(1,652)	(693)	(787)
Operating income	3,382	1,742	1,554	968
Equity in income (loss) of unconsolidated joint venture	89	512	(53)	661
Pretax income	$ 3,471	$ 2,254	$ 1,501	$ 1,629

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Financial Services (continued)

	May 31, 2012	November 30, 2011
Assets		
Cash and cash equivalents	$ 3,703	$ 3,024
Receivables (a)	851	25,495
Investment in unconsolidated joint venture	3,728	3,639
Other assets	10	15
Total assets	$ 8,292	$ 32,173
Liabilities		
Accounts payable and accrued expenses	$ 5,501	$ 7,494
Total liabilities	$ 5,501	$ 7,494

(a) In December 2011, the Company collected a $23.5 million receivable it established in the fourth quarter of 2011 in connection with the wind down of KBA Mortgage s business operations.

5. Inventories

Inventories consisted of the following (in thousands):

	May 31, 2012	November 30, 2011
Homes under construction	$ 469,880	$ 417,304
Land under development	532,520	587,582
Land held for future development	725,240	726,743
Total	$ 1,727,640	$ 1,731,629

The Company s interest costs are as follows (in thousands):

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011

Capitalized interest at beginning of period	$ 233,461	$ 249,966	$ 234,917	$ 253,040
Interest incurred (a)	60,020	55,399	29,609	29,462
Interest expensed (a)	(30,755)	(24,560)	(14,469)	(13,121)
Interest amortized to construction and land costs	(27,694)	(31,013)	(15,025)	(19,589)
Capitalized interest at end of period (b)	$ 235,032	$ 249,792	$ 235,032	$ 249,792

(a) Amounts for the six months ended May 31, 2012 include a $2.0 million loss on early extinguishment of debt. Amounts for the six months ended May 31, 2011 include a $3.6 million gain on the early extinguishment of secured debt.

(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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Inventories (continued)

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 the Company s 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 sales rates, 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 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). The Company evaluated 39 and 33 communities or land parcels for recoverability during the three months ended May 31, 2012 and 2011, respectively. The Company evaluated 76 and 64 communities or land parcels for recoverability during the six months ended May 31, 2012 and 2011, respectively. Some of the communities or land parcels evaluated during the six months ended May 31, 2012 and 2011 were evaluated in more than one quarterly period.

When an indicator of potential impairment is identified for a community or land parcel, the Company tests 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 the Company at the time the cash flows are calculated. The undiscounted future net cash flows consider recent trends in the Company s sales, backlog and cancellation rates. Also taken into account are the Company s future expectations related to the following: market supply and demand, including estimates concerning average selling prices; sales and cancellation rates; and anticipated land development, construction and overhead costs to be incurred. With respect to the three months and six months ended May 31, 2012 and 2011, these expectations reflected the Company s experience that market conditions for its assets in inventory where impairment indicators were identified have been generally stable in 2011 and into 2012, with no significant deterioration or improvement identified as to revenue and cost drivers. In the Company s assessments during the first half of 2012, the Company determined that the year-over-year decrease in net orders in the first quarter of 2012 and modest increase in net orders in the second quarter of 2012 did not reflect a sustained change in market conditions preventing recoverability. Rather, the Company considered that the changes reflected period-specific residential consumer mortgage loan funding issues arising from a change in the nature of the Company s relationships with mortgage lenders during the period. The Company believes such issues will be mitigated in future periods as a result of an operational transition to its new preferred mortgage lender, as well as the Company s expected ability to continue to generate a consistent or higher average selling price. The Company s year-over-year net order comparison for the first half of 2012 also reflected a lower number of new home communities open for sales. Based on this experience, and taking into account the signs of stability in many markets for new home sales, the Company s inventory assessments as of May 31, 2012 considered an expected steady, if slightly improved, overall sales pace for the remainder of 2012 relative to the pace in the second half of 2011.

Given the inherent challenges and uncertainties in forecasting future results, the Company s inventory assessments at the time they are made generally assume the continuation of then-current market conditions, subject to identifying information suggesting a significant sustained deterioration or improvement, or other changes, in such conditions. Therefore, the Company s inventory assessments, at the time made, anticipate sales rates, average selling prices and costs to generally continue at or near then-current levels through the affected asset s estimated remaining life. Inventory assessments for the Company s land held for future development also incorporate highly subjective forecasts for future performance, including the timing and projected costs of development and construction, the product to be offered, and the sales rates and selling prices of the product when an associated community is anticipated to open for sales. The Company evaluates various factors to develop these forecasts, including the availability of and demand for homes and finished lots within the relevant marketplace; historical, current and future sales trends for the marketplace; and third-party data, if available.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Based on these factors, the Company formulates assumptions for future performance that it believes are reasonable. These various estimates, trends, expectations and assumptions used in the Company s inventory assessments are specific to each community or land parcel and may vary among communities or land parcels and over time.

The Company records 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 the estimated discounted future net cash flows are specific to each affected community or land parcel and are based on expectations of the Company s local management teams 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 used are impacted by the following: the risk-free rate of return; expected risk premium based on estimated land development, construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to development or construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located at the time the assessment is made.

The following table summarizes ranges for significant quantitative unobservable inputs the Company utilized in its fair value measurements with respect to the impaired communities or land parcels written down to fair value during the six months and three months ended May 31, 2012:

Unobservable Input	Six Months Ended May 31, 2012	Three Months Ended May 31, 2012
Average selling price	$115,200 - $498,000	$115,200 - $487,300
Deliveries per month	1 - 6	1 - 6
Discount rate	17% - 20%	17% - 20%

Based on the results of its evaluations, the Company recognized inventory impairment charges of $9.9 million in the three months ended May 31, 2012 associated with five communities with a post-impairment fair value of $15.2 million. In the three months ended May 31, 2011, the Company recognized $20.1 million of such charges associated with five communities with a post-impairment fair value of $27.6 million. These charges included an $18.1 million adjustment to the fair value of real estate collateral in the Company s Southwest homebuilding reporting segment that the Company took back on a note receivable. In the six months ended May 31, 2012, the Company recognized inventory impairment charges of $16.5 million associated with seven communities with a post-impairment fair value of $27.4 million. In the six months ended May 31, 2011, the Company recognized $21.1 million of such charges associated with eight communities or land parcels with a post-impairment fair value of $28.8 million.

As of May 31, 2012, the aggregate carrying value of the Company s inventory that had been impacted by inventory impairment charges was $351.2 million, representing 50 communities and various other land parcels. As of November 30, 2011, the aggregate carrying value of the Company s inventory that had been impacted by inventory impairment charges was $338.5 million, representing 53 communities and various other land parcels.

The Company s inventory controlled under land option contracts and other similar contracts is assessed to determine whether it continues to meet the Company s 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, among others: current and/or anticipated sales rates, average selling prices and home delivery volume; estimated land development and 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 its marketing strategy, the Company writes off the related inventory costs, including non-refundable deposits and pre-acquisition costs. Based on the results of its assessments, the Company recognized no land option contract abandonment charges in the three months or six months ended May 31, 2012. In the three months ended May 31, 2011, the Company recognized $.5 million of land option contract abandonment charges corresponding to 117 lots. In the six months ended May 31, 2011, the

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

Company recognized $1.3 million of such charges corresponding to 258 lots. Inventory impairment and land option contract abandonment charges are included in construction and land costs in the Company s consolidated statements of operations.

The estimated remaining life of each community or land parcel in the Company s 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 sales 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, the Company estimates its 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 expected delivery timelines, the Company expects to realize, on an overall basis, the majority of its 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 the Company s inventory assets and the realization of its inventory balances, it is possible that actual results could differ substantially from those estimated.

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 Company s assets measured at fair value on a nonrecurring basis during the six months ended May 31, 2012 and the year ended November 30, 2011 (in thousands):

		Fair Value	
Description	Hierarchy	May 31, 2012 (a)	November 30, 2011 (a)
Long-lived assets held and used	Level 2	$	$ 75
Long-lived assets held and used	Level 3	27,396	33,947

Total	$ 27,396	$ 34,022

(a) Amounts represent the aggregate fair values for communities or land parcels for which the Company 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.

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7. Fair Value Disclosures (continued)

In accordance with the provisions of ASC 360, long-lived assets held and used with a carrying value of $43.9 million were written down to their fair value of $27.4 million during the six months ended May 31, 2012, resulting in inventory impairment charges of $16.5 million. Long-lived assets held and used with a carrying value of $56.7 million were written down to their fair value of $34.0 million during the year ended November 30, 2011, resulting in inventory impairment charges of $22.7 million.

The fair values for the Company s long-lived assets held and used that were determined using Level 2 inputs were based on an executed contract. 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 used were impacted by the following: the risk-free rate of return; expected risk premium based on estimated land development, construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to development or construction cost increases; and other risks specific to the asset or conditions in the market in which the asset was located at the time the assessment was made. These factors were specific to each affected community or land parcel and may have varied among communities or land parcels.

The Company s financial instruments consist of cash and cash equivalents, restricted cash, mortgages and notes receivable, 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, the Company uses 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 the Company s financial instruments, except those for which the carrying values approximate fair values (in thousands):

		May 31, 2012		November 30, 2011	
	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Liabilities:					
Senior notes due 2014 at 5 3/4%	Level 2	$ 193,482	$ 191,033	$ 249,647	$ 232,500
Senior notes due 2015 at 5 7/8%	Level 2	169,657	163,207	299,273	270,000
Senior notes due 2015 at 6 1/4%	Level 2	296,179	285,556	449,795	401,625
Senior notes due 2017 at 9.10%	Level 2	261,141	267,650	260,865	235,519
Senior notes due 2018 at 7 1/4%	Level 2	299,067	282,000	299,007	251,625
Senior notes due 2020 at 8.00%	Level 2	344,973	339,500		

The fair values of the Company s senior notes are estimated based on quoted market prices.

The carrying values reported for cash and cash equivalents, restricted cash, mortgages and notes receivable, and mortgages and land contracts due to land sellers and other loans approximate fair values.

8. Variable Interest Entities

The Company participates in joint ventures from time to time that conduct land acquisition, development and/or other homebuilding activities. Its investments in these joint ventures may create a variable interest in a variable interest entity (VIE), depending on the contractual terms of the

arrangement. The Company analyzes its joint ventures in accordance with Accounting Standards Codification Topic No. 810, Consolidation (ASC 810), to determine whether they are VIEs and, if so, whether the Company is the primary beneficiary. All of the Company s joint ventures at May 31, 2012 and November 30, 2011 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 or, if they were VIEs, the Company was not the primary beneficiary of the VIEs.

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8. Variable Interest Entities (continued)

In the ordinary course of its business, the Company enters into land option contracts and other similar contracts to procure rights to land parcels for the construction of homes. The use of such land option contracts and other similar contracts generally allows the Company to reduce the market risks associated with direct land ownership and development, and to reduce the Company s capital and financial commitments, including interest and other carrying costs. Under such contracts, the Company typically pays a specified option deposit 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 the Company, with the land seller being identified as a VIE.

In compliance with ASC 810, the Company analyzes its land option contracts and other similar contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the underlying land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has 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. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. As a result of its analyses, the Company determined that as of May 31, 2012 and November 30, 2011 it was not the primary beneficiary of any VIEs from which it is purchasing land under land option contracts and other similar contracts.

As of May 31, 2012, the Company had cash deposits totaling $2.9 million associated with land option contracts and other similar contracts that it determined were unconsolidated VIEs, having an aggregate purchase price of $267.3 million, and had cash deposits totaling $20.9 million associated with land option contracts and other similar contracts that the Company determined were not VIEs, having an aggregate purchase price of $351.9 million. As of November 30, 2011, the Company had cash deposits totaling $8.1 million associated with land option contracts and other similar contracts that it determined were unconsolidated VIEs, having an aggregate purchase price of $122.1 million, and had cash deposits totaling $12.8 million associated with land option contracts and other similar contracts that the Company determined were not VIEs, having an aggregate purchase price of $223.0 million.

The Company s exposure to loss related to its land option contracts and other similar contracts with third parties and unconsolidated entities consisted of deposits and pre-acquisition costs, which totaled $23.8 million and $27.1 million, respectively, at May 31, 2012 and $20.9 million and $31.5 million, respectively, at November 30, 2011. These amounts are included in inventories in the Company s consolidated balance sheets. In addition, the Company had outstanding letters of credit of $.5 million at May 31, 2012 and $1.7 million at November 30, 2011 in lieu of cash deposits under certain land option contracts or other similar contracts.

The Company also evaluates its 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 its evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in its consolidated balance sheets by $20.3 million at May 31, 2012 and $23.9 million at November 30, 2011.

9. Investments in Unconsolidated Joint Ventures

The Company has investments in unconsolidated joint ventures that conduct land acquisition, development and/or other homebuilding activities in various markets where its homebuilding operations are located. The Company s 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 homesites owned and controlled by the Company. In some instances, participating in unconsolidated joint ventures has enabled the Company to acquire

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9. Investments in Unconsolidated Joint Ventures (continued)

and develop land that it might not otherwise have had access to due to a project s size, financing needs, duration of development or other circumstances. While the Company considers its participation in unconsolidated joint ventures as potentially beneficial to its homebuilding activities, it does not view such participation as essential and has unwound its participation in a number of unconsolidated joint ventures in the past few years.

The Company typically has obtained rights to purchase portions of the land held by the unconsolidated joint ventures in which it currently participates. When an unconsolidated joint venture sells land to the Company s homebuilding operations, the Company defers recognition of its share of such unconsolidated joint venture s earnings until a home sale is closed and title passes to a homebuyer, at which time the Company accounts for those earnings as a reduction of the cost of purchasing the land from the unconsolidated joint venture.

The Company and its unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures, typically on a pro rata basis equal to their 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. The Company shares in the profits and losses of these unconsolidated joint ventures generally in accordance with its respective equity interests. In some instances, the Company recognizes profits and losses related to its investment in an unconsolidated joint venture that differ from its equity interest in the unconsolidated joint venture. This may arise from impairments recognized by the Company related to its investment that differ from the recognition of impairments by the unconsolidated joint venture with respect to the unconsolidated joint venture s assets; differences between the Company s basis in assets it has transferred to the unconsolidated joint venture and the unconsolidated joint venture s basis in those assets; the deferral of the unconsolidated joint venture profits from land sales to the Company; or other items.

With respect to the Company s investments in unconsolidated joint ventures, its equity in loss of unconsolidated joint ventures included no impairment charges for the six months ended May 31, 2012 and $53.7 million of such charges for the six months ended May 31, 2011. The impairment charges for the six months ended May 31, 2011 reflected the write-off of the Company s remaining investment in South Edge, LLC (South Edge). South Edge was a residential development joint venture in the Company s Southwest homebuilding reporting segment. The Company wrote off its remaining investment in South Edge based on the Company s determination that South Edge was no longer able to perform its activities as originally intended following a court decision in the first quarter of 2011 to enter an order for relief on a Chapter 11 involuntary bankruptcy petition filed against the joint venture.

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

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Revenues	$	$ 230	$	$
Construction and land costs	6	(201)		21
Other expenses, net	(749)	(4,605)	(288)	(238)
Loss	$ (743)	$ (4,576)	$ (288)	$ (217)

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

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9. Investments in Unconsolidated Joint Ventures (continued)

	May 31, 2012	November 30, 2011
Assets		
Cash	$ 24,060	$ 8,923
Receivables	12,009	19,503
Inventories	360,007	368,306
Other assets	150	151
Total assets	$ 396,226	$ 396,883
Liabilities and equity		
Accounts payable and other liabilities	$ 93,990	$ 96,981
Equity	302,236	299,902
Total liabilities and equity	$ 396,226	$ 396,883

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

	May 31, 2012	November 30, 2011
Number of investments in unconsolidated joint ventures (a)	8	8
Investments in unconsolidated joint ventures (a)	$ 121,408	$ 127,926

(a) The Company s investments in unconsolidated joint ventures as of May 31, 2012 and November 30, 2011 include Inspirada Builders, LLC, an unconsolidated joint venture that was formed in 2011 in connection with the South Edge Plan (as defined below) and in which a wholly owned subsidiary of the Company is a member. As part of the South Edge Plan, land previously owned by South Edge was transferred to Inspirada Builders, LLC in November 2011. The Company anticipates that it will acquire its share of the land from Inspirada Builders, LLC through a future distribution.

The Company s unconsolidated joint ventures finance land and inventory investments for a project through a variety of arrangements. To finance their respective land acquisition and development activities, certain of the Company s unconsolidated joint ventures have obtained loans from third-party lenders that are secured by the underlying property and related project assets. However, none of the Company s unconsolidated joint ventures had outstanding debt at May 31, 2012 or November 30, 2011.

In certain instances, the Company and/or its partner(s) in an unconsolidated joint venture have provided completion and/or carve-out guarantees to the unconsolidated joint venture s lenders. A completion guaranty refers to the physical completion of improvements for a project and/or the obligation to contribute capital to an unconsolidated joint venture to enable it to fund its completion obligations. The Company s potential

responsibility under its completion guarantees, if triggered, is highly dependent on the facts of a particular case. A carve-out guaranty refers to the payment of losses a lender suffers due to certain bad acts or omissions by an unconsolidated joint venture or its partners, such as fraud or misappropriation, or due to environmental liabilities arising with respect to the relevant project. The Company does not believe it currently has exposure with respect to any of its completion or carve-out guarantees.

In the first quarter of 2011, as a result of recording a probable obligation related to a limited several repayment guaranty (the Springing Guaranty) that the Company had provided to the administrative agent for the lenders

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9. Investments in Unconsolidated Joint Ventures (continued)

to South Edge, and taking into account accruals it had previously established with respect to its investment in South Edge, the Company recognized a charge of $22.8 million that was reflected as a loss on loan guaranty in its consolidated statements of operations. This charge was in addition to the joint venture impairment charge of $53.7 million to write off the Company s remaining investment in South Edge. In the second quarter of 2011, in updating the estimate of its probable net payment obligation to reflect the terms of an agreement regarding a proposed consensual plan of reorganization for South Edge (the South Edge Plan), the Company recorded an additional loss on loan guaranty of $14.6 million. South Edge underwent and completed a bankruptcy reorganization under the South Edge Plan in 2011. In connection with a bankruptcy court s confirmation of the South Edge Plan in November 2011 and the resolution of other matters concerning South Edge, the Company s obligations under the Springing Guaranty were eliminated in the fourth quarter of 2011.

10. Other Assets

Other assets consisted of the following (in thousands):

	May 31, 2012	November 30, 2011
Cash surrender value of insurance contracts	$ 61,933	$ 59,718
Debt issuance costs	10,032	4,219
Property and equipment, net	7,617	7,801
Prepaid expenses	4,463	2,214
Net deferred tax assets	1,152	1,152
Total	$ 85,197	$ 75,104

11. Accrued Expenses and Other Liabilities

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

	May 31, 2012	November 30, 2011
Construction defect and other litigation liabilities	$ 109,953	$ 101,017
Employee compensation and related benefits	75,550	76,960
Warranty liability	50,866	67,693
Accrued interest payable	45,172	43,129
Liabilities related to inventory not owned	20,293	23,903
Real estate and business taxes	3,340	10,770
Other	39,206	50,934

Total	$ 344,380	$ 374,406

12. Mortgages and Notes Payable

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

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12. Mortgages and Notes Payable (continued)

	May 31, 2012	November 30, 2011
Mortgages and land contracts due to land sellers and other loans	$ 18,289	$ 24,984
Senior notes due 2014 at 5 3/4%	193,482	249,647
Senior notes due 2015 at 5 7/8%	169,657	299,273
Senior notes due 2015 at 6 1/4%	296,179	449,795
Senior notes due 2017 at 9.10%	261,141	260,865
Senior notes due 2018 at 7 1/4%	299,067	299,007
Senior notes due 2020 at 8.00%	344,973	
Total	$ 1,582,788	$ 1,583,571

The Company maintains the LOC Facilities to provide letters of credit in the ordinary course of operating its business. As of May 31, 2012 and November 30, 2011, $61.8 million and $63.8 million, respectively, of letters of credit were outstanding under the LOC Facilities. The LOC Facilities require the Company to deposit and maintain cash with the issuing financial institutions as collateral for its letters of credit outstanding. The Company 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.

On February 7, 2012, pursuant to its universal shelf registration statement filed with the SEC on September 20, 2011 (the 2011 Shelf Registration), the Company issued $350.0 million in aggregate principal amount of 8.00% senior notes due 2020 (the $350 Million Senior Notes). The $350 Million Senior Notes, which are due on March 15, 2020, with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $350 Million Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to the greater of (a) 100% of their principal amount and (b) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption at a defined rate, plus, in each case, accrued and unpaid interest to the applicable redemption date. If a change in control occurs as defined in the instruments governing the $350 Million Senior Notes, the Company would be required to offer to purchase the $350 Million Senior Notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. The $350 Million Senior Notes are unconditionally guaranteed jointly and severally by certain of the Company s subsidiaries (the Guarantor Subsidiaries) on a senior unsecured basis. The Company used substantially all of the net proceeds from the issuance of the $350 Million Senior Notes to purchase, pursuant to the terms of tender offers that were initially made on January 19, 2012 (the Tender Offers), $56.3 million in aggregate principal amount of its 5 3/4% senior notes due 2014, $130.0 million in aggregate principal amount of its 5 7/8 % senior notes due 2015, and $153.7 million in aggregate principal amount of its 6 1/4% senior notes due 2015. The applicable Tender Offers expired on February 15, 2012. The total amount paid to purchase these senior notes was $340.5 million. The Company 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 indenture governing the Company s senior notes does not contain any financial maintenance covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit the Company s ability to incur secured indebtedness, or engage in sale-leaseback transactions involving property or assets above a certain specified value. Unlike the Company s other senior notes, the terms governing both the Company s $265.0 million in aggregate principal amount of 9.10% senior notes due 2017 (the $265 Million Senior Notes) and the $350 Million Senior Notes contain certain limitations related to mergers, consolidations, and sales of assets.

As of May 31, 2012, the Company was in compliance with the applicable terms of all of its covenants under the Company s senior notes, the indenture, and mortgages and land contracts due to land sellers and other loans. The Company s ability to secure future debt financing may

depend in part on its ability to remain in such compliance.

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12. Mortgages and Notes Payable (continued)

Principal payments on senior notes, mortgages and land contracts due to land sellers and other loans are due as follows: 2012 $15.9 million; 2013 $2.4 million; 2014 $193.5 million; 2015 $465.8 million; 2016 $0; and thereafter $905.2 million.

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. The Company provides a limited warranty on all of its homes. The specific terms and conditions of these limited warranties vary depending upon the market in which the Company does business. The Company generally provides 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. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company s warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. The Company s primary assumption in estimating the amounts it accrues for warranty costs is that historical claims experience is a strong indicator of future claims experience. The Company periodically assesses the adequacy of its accrued warranty liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, and adjusts the amount as necessary based on its assessment. The Company s assessment includes the review of its actual warranty costs incurred to identify trends and changes in its warranty claims experience, and considers the Company s construction quality and customer service initiatives and outside events. While the Company believes the warranty liability reflected in its consolidated balance sheets to be adequate, unanticipated changes 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 its actual warranty costs in the future and such amounts could differ from the Company s current estimates.

The changes in the Company s warranty liability are as follows (in thousands):

	Six Months Ended May 31,		Three Months Ended May 31,	
	2012	2011	2012	2011
Balance at beginning of period	$ 67,693	$ 93,988	$ 64,607	$ 87,061
Warranties issued	2,973	1,981	1,656	1,133
Payments	(8,703)	(14,471)	(4,267)	(6,662)
Adjustments (a)	(11,097)	1,132	(11,130)	1,098
Balance at end of period	$ 50,866	$ 82,630	$ 50,866	$ 82,630

(a) The Company s warranty adjustments for the three months and six months ended May 31, 2012 include $11.2 million of adjustments that were recorded to reflect the Company s assessment of trends in its overall warranty claims experience on homes previously delivered.

The Company s overall warranty liability of $50.9 million at May 31, 2012 included $3.3 million for estimated remaining repair costs associated with 54 homes that have been identified as containing or suspected of containing allegedly defective drywall manufactured in China. These homes are located in Florida and were primarily delivered in 2006 and 2007. The Company s overall warranty liability of $67.7 million at

November 30, 2011 included $4.8 million for the estimated remaining repair costs associated with 87 such identified affected homes. The decrease in the liability for estimated remaining repair costs associated with

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13. Commitments and Contingencies (continued)

identified affected homes during the six months ended May 31, 2012 reflected the lower number of identified affected homes with unresolved repairs at May 31, 2012 compared to November 30, 2011. During the six months ended May 31, 2012, the Company resolved repairs on 35 identified affected homes and identified two additional affected homes. For these purposes, the Company considers repairs for identified affected homes to be resolved when all repairs are complete and all repair costs are fully paid. Repairs for identified affected homes are considered unresolved if repairs are not complete and/or there are repair costs remaining to be paid.

During the six months ended May 31, 2012 and 2011, the Company paid $2.4 million and $9.0 million, respectively, to repair identified affected homes, and estimated its additional repair costs with respect to the identified affected homes to be $.9 million and $4.7 million, respectively. Since first identifying affected homes in 2009, the Company has identified a total of 469 affected homes and has resolved repairs on 415 of those homes through May 31, 2012. As of May 31, 2012, the Company has paid $42.9 million of the total estimated repair costs of $46.2 million associated with the identified affected homes. The Company believes that it has identified substantially all potentially affected homes and anticipates it will receive only nominal additional claims in future periods.

As of May 31, 2012, the Company has been named as a defendant in 11 lawsuits relating to the allegedly defective drywall material, and it may in the future be subject to other similar litigation or claims that could cause the Company to incur significant costs. Given the preliminary stages of the proceedings, the Company has not concluded whether the outcome of any of these lawsuits will be material to its consolidated financial statements.

The Company intends to seek and is undertaking efforts, including legal proceedings, to obtain reimbursement from various sources, including suppliers and insurers, for the costs it has incurred or expects to incur to investigate and complete repairs and to defend itself in litigation associated with this allegedly defective drywall material. Given uncertainties in the potential outcomes of these efforts, some of which may involve pursuing claims in international forums, the Company has not recorded any amounts for potential future recoveries as of May 31, 2012.

In assessing its overall warranty liability, the Company evaluates the costs related to identified homes affected by the allegedly defective drywall material and other home warranty-related items on a combined basis. Based on its assessments, the Company determined that its overall warranty liability at each reporting date was sufficient with respect to the Company s then-estimated remaining repair costs associated with identified affected homes and its overall warranty obligations on homes delivered. In light of these assessments, the Company did not incur charges in its consolidated statements of operations for the three months ended May 31, 2012 or May 31, 2011 with respect to repair costs associated with the identified affected homes. Additionally, based on the Company s assessment of trends in its warranty claims experience, the Company recorded favorable warranty adjustments of $11.2 million as reductions to construction and land costs in its consolidated statements of operations during the three months ended May 31, 2012. The overall warranty liability has decreased in part because of the payments the Company has made to resolve repairs on identified affected homes and in part due to the decrease in the number of homes the Company has delivered over the past several years.

The Company has tendered claims with its liability insurance carriers, seeking reimbursement of costs the Company has incurred to repair construction defects on previously delivered homes, including homes affected by the allegedly defective drywall material described above. During the three months ended May 31, 2012, the Company recognized an insurance recovery of $10.0 million as a reduction to construction and land costs in its consolidated statements of operations, representing an amount the Company received from one of its insurance carriers for a portion of the claims the Company has tendered. While its discussions and negotiations with the insurance carriers are ongoing, the Company has not recorded any amounts for potential future recoveries from the carriers as of May 31, 2012.

Guarantees. In the normal course of its business, the Company issues certain representations, warranties and guarantees related to its home sales and land sales that may be affected by Accounting Standards Codification Topic No. 460, Guarantees. Based on historical evidence, the Company does not believe any potential liability

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(Unaudited)

13. Commitments and Contingencies (continued)

with respect to these representations, warranties or guarantees would be material to its consolidated financial statements.

Insurance. The Company has, and requires the majority of its subcontractors to have, general liability insurance (including construction defect and bodily injury coverage) and workers compensation insurance. These insurance policies protect the Company against a portion of its risk of loss from claims related to its homebuilding activities, subject to certain self-insured retentions, deductibles and other coverage limits. In Arizona, California, Colorado and Nevada, the Company s general liability insurance takes the form of a wrap-up policy, where eligible subcontractors are enrolled as insureds on each project. The Company self-insures a portion of its overall risk through the use of a captive insurance subsidiary. The Company records expenses and liabilities based on the estimated costs required to cover its self-insured retention and deductible amounts under its insurance policies, and the estimated costs of potential claims and claim adjustment expenses that are above its coverage limits or that are not covered by its policies. These estimated costs are based on an analysis of the Company s historical claims experience and include an estimate of construction defect claims incurred but not yet reported. The Company s estimated liabilities for such items were $93.9 million at May 31, 2012 and $94.9 million at November 30, 2011. These amounts are included in accrued expenses and other liabilities in the Company s consolidated balance sheets. The Company s expenses associated with self-insurance totaled $2.3 million for each of the three-month periods ended May 31, 2012 and May 31, 2011. For each of the six-month periods ended May 31, 2012 and 2011, the Company s expenses associated with self-insurance totaled $4.6 million. These expenses were largely offset by contributions from subcontractors participating in the wrap-up policy.

Performance Bonds and Letters of Credit. The Company is often required to provide to various municipalities and other government agencies performance bonds and/or letters of credit to secure the completion of its 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 its unconsolidated joint ventures. At May 31, 2012, the Company had $282.7 million of performance bonds and $61.8 million of letters of credit outstanding. At November 30, 2011, the Company had $361.6 million of performance bonds and $63.8 million of letters of credit outstanding. If any such performance bonds or letters of credit are called, the Company would be obligated to reimburse the issuer of the performance bond or letter of credit. The Company does 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, the Company is 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 its business, the Company enters into land option contracts and other similar contracts to procure rights to land parcels for the construction of homes. At May 31, 2012, the Company had total deposits of $24.3 million, comprised of $23.8 million of cash deposits and $.5 million of letters of credit, to purchase land having an aggregate purchase price of $619.2 million. The Company s land option contracts and other similar contracts generally do not contain provisions requiring the Company s specific performance.

14. Legal Matters

Nevada Development Contract Litigation

On November 4, 2011, the Eighth Judicial District Court, Clark County, Nevada set for trial a consolidated action against KB HOME Nevada Inc., a wholly owned subsidiary of the Company (KB Nevada), in a case 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

KB HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

14. Legal Matters (continued)

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, alleges that KB Nevada breached the development agreement, and also alleges 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 seek rescission of the agreements or a rescissory measure of damages 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 denies the allegations and damages, and believes it has meritorious defenses to the consolidated plaintiffs claims. While the ultimate outcome is uncertain the Company believes it is reasonably possible that the loss in this matter could range from zero to the amount of the Claimed Damages and could be material to the Company s consolidated financial statements KB Nevada believes it will be successful in defending against the plaintiffs claims and that the plaintiffs will not be awarded rescission or damages. The non-jury trial is currently set for September 2012.

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 the Company 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 KB HOME Coastal Inc. and the Company 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 the Company to the plaintiff of a portion of the jury s award and does not include legal fees and costs and post-judgment interest. KB HOME Coastal Inc. and the Company expect the trial court to award legal fees and costs to the plaintiff after a hearing in September 2012 in an amount less than $1.8 million. The Company had established an accrual for this matter based on its previous estimate of the probable loss. However, as a result of the trial court s decision and probable attorney fees and costs award, the Company recorded a charge of $8.8 million in the second quarter of 2012 to increase the accrual for this matter to $11.7 million at May 31, 2012. The charge was included in selling, general and administrative expenses in the Company s consolidated statement of operations. KB HOME Coastal Inc. and the Company have appealed the entry of judgment. While the ultimate outcome is uncertain, KB HOME Coastal Inc. and the Company believe they will be successful in resolving the matter for an amount less than the judgment.

Other Matters

In addition to the specific proceedings described above, the Company is involved in other litigation and regulatory proceedings incidental to its business that are in various procedural stages. The Company believes that the accruals it has recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of May 31, 2012, 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 the Company s consolidated financial statements. The Company evaluates its accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjusts them to reflect (i) the facts and circumstances known to the Company 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 its experience, the Company believes that the amounts that may be claimed or alleged against it in these proceedings are not a meaningful indicator of its potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses the Company 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 the Company s consolidated financial statements.

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KB HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

15. Stockholders Equity

As of May 31, 2012, the Company was authorized to repurchase four million shares of its common stock under a board-approved share repurchase program. The Company did not repurchase any of its common stock under this program in the six months ended May 31, 2012. The Company has not repurchased common 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 the Company s board of directors.

During the three months ended May 31, 2012, the Company s board of directors declared a cash dividend of $.025 per share of common stock, which was paid on May 17, 2012 to stockholders of record on May 3, 2012. During the three months ended February 29, 2012, the Company s board of directors declared a cash dividend of $.0625 per share of common stock, which was paid on February 16, 2012 to stockholders of record on February 7, 2012. A cash dividend of $.0625 per share of common stock was declared and paid during the three months ended February 28, 2011 and the three months ended May 31, 2011.

16. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRS (ASU 2011-04), which changes the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between GAAP and International Financial Reporting Standards. ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or liabilities. In addition, the guidance expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of recurring fair value measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset s highest and best use. The revised guidance was effective for interim and annual periods beginning after December 15, 2011. The Company s adoption of this guidance as of March 1, 2012 did not have a material impact on its consolidated financial position or results of operations.

In June 2011, the 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. The adoption of this guidance concerns disclosure only and will not have an impact on the Company s consolidated financial position or results of operations.

KB HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

17. Income Taxes

The Company s income tax benefit totaled $4.5 million for the three months ended May 31, 2012 and $.3 million for the three months ended May 31, 2011. For the six months ended May 31, 2012, the Company s income tax benefit totaled $4.1 million, compared to income tax expense of $.1 million for the six months ended May 31, 2011. The income tax benefits recognized for the three months and six months ended May 31, 2012 primarily resulted from a $4.1 million state income tax refund received in the second quarter in connection with the resolution of a state tax audit. Due to the effects of its deferred tax asset valuation allowance, and changes in its unrecognized tax benefits, the Company s effective tax rates for the three months and six months ended May 31, 2012 and 2011 are not meaningful items as the Company s income tax amounts are not directly correlated to the amount of its pretax losses for those periods.

In accordance with Accounting Standards Codification Topic No. 740, Income Taxes (ASC 740), the Company evaluates its 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 realization of deferred tax assets depends primarily on the Company s ability to generate sustained profitability. During the three months ended May 31, 2012, the Company recorded a valuation allowance of $9.7 million against net deferred tax assets generated from the loss for the period. During the three months ended May 31, 2011, the Company recorded a similar valuation allowance of $25.7 million. For the six months ended May 31, 2012 and 2011, the Company recorded valuation allowances of $28.0 million and $70.8 million, respectively, against the net deferred tax assets generated from the losses for those periods. The Company s net deferred tax assets totaled $1.1 million at both May 31, 2012 and November 30, 2011. The deferred tax asset valuation allowance increased to $875.8 million at May 31, 2012 from $847.8 million at November 30, 2011, reflecting the $28.0 million valuation allowance recorded during the six months ended May 31, 2012.

During the three months and six months ended May 31, 2012, the Company had a net reduction to its total gross unrecognized tax benefits of $.5 million as a result of the current status of federal and state tax audits. The total amount of unrecognized tax benefits, including interest and penalties, that would affect the effective tax rate was $1.4 million as of May 31, 2012. The Company anticipates that total unrecognized tax benefits will decrease by approximately $.2 million during the 12 months from this reporting date due to various state tax filings associated with the resolution of the federal tax audit.

The benefits of the Company s net operating losses (NOLs), built-in losses and tax credits would be reduced or potentially eliminated if the Company experienced an ownership change under Internal Revenue Code Section 382 (Section 382). Based on the Company s analysis performed as of May 31, 2012, the Company does not believe it has experienced an ownership change as defined by Section 382, and, therefore, the NOLs, built-in losses and tax credits the Company has 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):

	Six Months Ended May 31,	
	2012	2011
Summary of cash and cash equivalents at end of period:		
Homebuilding	$ 314,258	$ 621,304
Financial services	3,703	5,892
Total	$ 317,961	$ 627,196

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

18. Supplemental Disclosure to Consolidated Statements of Cash Flows (continued)

	Six Months Ended May 31,	
	2012	2011
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 28,711	$ 22,544
Income taxes paid	647	226
Income taxes refunded	4,376	182
Supplemental disclosures of noncash activities:		
Increase (decrease) in consolidated inventories not owned	$ (3,611)	$ 12,813
Acquired property securing note receivable		40,000

19. Supplemental Guarantor Information

The Company s obligations to pay principal, premium, if any, and interest under its 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 the Company. The Company has 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 of the Company 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 of the Company considered to be Guarantor Subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

19. Supplemental Guarantor Information (continued)

Condensed Consolidated Statements of Operations

Six Months Ended May 31, 2012 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 322,432	$ 234,978	$	$ 557,410
Homebuilding:					
Revenues	$	$ 322,432	$ 230,068	$	$ 552,500
Construction and land costs		(278,469)	(198,558)		(477,027)
Selling, general and administrative expenses	(28,934)	(51,428)	(41,796)		(122,158)
Operating loss	(28,934)	(7,465)	(10,286)		(46,685)
Interest income	225	4	17		246
Interest expense	30,930	(47,517)	(14,168)		(30,755)
Equity in loss of unconsolidated joint ventures		(292)	(23)		(315)
Homebuilding pretax income (loss)	2,221	(55,270)	(24,460)		(77,509)
Financial services pretax income			3,471		3,471
Total pretax income (loss)	2,221	(55,270)	(20,989)		(74,038)
Income tax benefit (expense)	(100)	3,100	1,100		4,100
Equity in net loss of subsidiaries	(72,059)			72,059	
Net loss	$ (69,938)	$ (52,170)	$ (19,889)	$ 72,059	$ (69,938)

Six Months Ended May 31, 2011 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 131,894	$ 336,784	$	$ 468,678
Homebuilding:					
Revenues	$	$ 131,894	$ 333,390	$	$ 465,284
Construction and land costs		(114,128)	(307,049)		(421,177)
Selling, general and administrative expenses	(33,839)	(9,935)	(68,351)		(112,125)
Loss on loan guaranty			(37,330)		(37,330)
Operating income (loss)	(33,839)	7,831	(79,340)		(105,348)

Interest income	534	4	115		653
Interest expense	23,779	(21,392)	(26,947)		(24,560)
Equity in loss of unconsolidated joint ventures		(72)	(55,857)		(55,929)
Homebuilding pretax loss	(9,526)	(13,629)	(162,029)		(185,184)
Financial services pretax income			2,254		2,254
Total pretax loss	(9,526)	(13,629)	(159,775)		(182,930)
Income tax expense			(100)		(100)
Equity in net loss of subsidiaries	(173,504)			173,504	
Net loss	$ (183,030)	$ (13,629)	$ (159,875)	$ 173,504	$ (183,030)

KB HOME

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

19. Supplemental Guarantor Information (continued)

Condensed Consolidated Statements of Operations

Three Months Ended May 31, 2012 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 175,943	$ 126,909	$	$ 302,852
Homebuilding:					
Revenues	$	$ 175,943	$ 124,662	$	$ 300,605
Construction and land costs		(143,487)	(106,182)		(249,669)
Selling, general and administrative expenses	(14,934)	(30,257)	(21,281)		(66,472)
Operating income (loss)	(14,934)	2,199	(2,801)		(15,536)
Interest income	100	3	8		111
Interest expense	16,810	(23,634)	(7,645)		(14,469)
Equity in loss of unconsolidated joint ventures		(241)	(2)		(243)
Homebuilding pretax income (loss)	1,976	(21,673)	(10,440)		(30,137)
Financial services pretax income			1,501		1,501
Total pretax income (loss)	1,976	(21,673)	(8,939)		(28,636)
Income tax benefit (expense)	(200)	3,400	1,300		4,500
Equity in net loss of subsidiaries	(25,912)			25,912	
Net loss	$ (24,136)	$ (18,273)	$ (7,639)	$ 25,912	$ (24,136)

Three Months Ended May 31, 2011 (in thousands)

	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 82,687	$ 189,051	$	$ 271,738
Homebuilding:					
Revenues	$	$ 82,687	$ 187,296	$	$ 269,983
Construction and land costs		(67,551)	(182,830)		(250,381)
Selling, general and administrative expenses	(15,169)	(11,060)	(36,291)		(62,520)
Loss on loan guaranty			(14,572)		(14,572)
Operating income (loss)	(15,169)	4,076	(46,397)		(57,490)

Interest income	221	49