Jones David A
Form 4
May 04, 2009

# FORM 4

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

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
| Expires: | January 31, 2005 |
| Estimated average burden hours per response... | 0.5 |

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

## STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
Jones David A

(Last) (First) (Middle)

3003 TASMAN DRIVE

(Street)

SANTA CLARA, CA 95054

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SVB FINANCIAL GROUP [SIVB]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2009

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Credit Officer

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

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

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 04/29/2009 | | J [(1)] | | 438 | A | $ 0 | 86,499 | D | |
| Common Stock | 04/29/2009 | | J [(2)] | | 156 | D | $ 20.51 | 86,343 | D | |
| Common Stock | | | | | | | | 3,631 | I | By self in 401k/ESOP |

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

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

SEC 1474 (9-02)

**number.**

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

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
| Restricted Stock Unit | [3] | 04/29/2009 | | J[1] | | | 438 | 04/29/2009 | 04/29/2012 | Cx solid #000000"> | |

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by New Mountain Finance Corporation ( NMFC ) in connection with the sale by NMFC of the securities registered under this Registration Statement.

(2) Subject to Note 3 below, there is being registered hereunder an indeterminate number of shares of common stock of NMFC as may be sold from time to time.

(3) In no event will the aggregate offering price of all NMFC securities issued from time to time pursuant to this Registration Statement exceed $150,000,000.

(4) These shares are being sold by selling stockholders.

(5) For each outstanding share of NMFC common stock, NMFC will hold one common membership unit of New Mountain Finance Holdings, L.L.C. ( NMFH , and together with NMFC, the Registrants ) on a one-to-one basis. No separate consideration will be received for the NMFH common membership units in this offering.

(6) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(c) of the Securities Act of 1933, as amended, the proposed maximum aggregate offering amount and the amount of the registration fee have been determined on the basis of the high and low market prices of NMFC s common stock reported on the New York Stock Exchange on April 10, 2012.

(7) Previously paid.

## EXPLANATORY NOTE

This Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File Nos. 333-180689 and 333-180690) of New Mountain Finance Corporation and New Mountain Finance Holdings, L.L.C. (the Registration Statement ) is being filed pursuant to Rule 462(d) under the Securities Act of 1933, as amended (the Securities Act ), solely for the purpose of filing exhibits to the Registration Statement. Accordingly, this Post-Effective Amendment No. 3 consists only of a facing page, this explanatory note and Part C of the Registration Statement on Form N-2 setting forth the exhibits to the Registration Statement. This Post-Effective Amendment No. 3 does not modify any other part of the Registration Statement. Pursuant to Rule 462(d) under the Securities Act, this Post-Effective Amendment No. 3 shall become effective immediately upon filing with the Securities and Exchange Commission. The contents of the Registration Statement are hereby incorporated by reference.

## PART C

## Other Information

**Item 25. Financial Statements And Exhibits**

(1) *Financial Statements*

The following financial statements of New Mountain Finance Holdings, L.L.C., formerly known as New Mountain Guardian (Leveraged), L.L.C. (the Operating Company ), New Mountain Finance Corporation ( NMFC ) and New Mountain Finance AIV Holdings Corporation ( AIV Holdings ) are included in Part C of this Registration Statement. The Operating Company is the sole investment of NMFC and of AIV Holdings.

## INDEX TO FINANCIAL STATEMENTS

## TABLE OF CONTENTS


| | PAGE |
|---|---|
| **INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2012** | |
| **New Mountain Finance Holdings, L.L.C.** | |
| Consolidated Statements of Assets, Liabilities and Members Capital as of March 31, 2012 (unaudited) and December 31, 2011 | F-3 |
| Consolidated Statements of Operations for the three months ended March 31, 2012 (unaudited) and March 31, 2011 (unaudited) | F-4 |
| Consolidated Statements of Changes in Members Capital for the three months ended March 31, 2012 (unaudited) and March 31, 2011 (unaudited) | F-5 |
| Consolidated Statements of Cash Flows for the three months ended March 31, 2012 (unaudited) and March 31, 2011 (unaudited) | F-6 |
| Consolidated Schedule of Investments as of March 31, 2012 (unaudited) | F-7 |
| Consolidated Schedule of Investments as of December 31, 2011 | F-14 |
| **New Mountain Finance Corporation** | |
| Statement of Assets and Liabilities as of March 31, 2012 (unaudited) and December 31, 2011 | F-21 |
| Statements of Operations for the three months ended March 31, 2012 (unaudited) | F-22 |
| Statement of Changes in Net Assets for the three months ended March 31, 2012 (unaudited) | F-23 |
| Statement of Cash Flows for the three months ended March 31, 2012 (unaudited) | F-24 |
| **New Mountain Finance AIV Holdings Corporation** | |
| Statement of Assets and Liabilities as of March 31, 2012 (unaudited) and December 31, 2011 | F-25 |

| | PAGE |
|---|---|
| Statements of Operations for the three months ended March 31, 2012 (unaudited) | F-26 |
| Statement of Changes in Net Assets for the three months ended March 31, 2012 (unaudited) | F-27 |
| Statement of Cash Flows for the three months ended March 31, 2012 (unaudited) | F-28 |
| Combined Notes to the Financial Statements for New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation | F-29 |
| Reports of Independent Registered Public Accounting Firm | F-58 |
| **AUDITED FINANCIAL STATEMENTS** | |
| Reports of Independent Registered Public Accounting Firm | F-61 |
| **New Mountain Finance Holdings, L.L.C.** | |
| Consolidated Statements of Assets, Liabilities and Members Capital as of December 31, 2011 and December 31, 2010 | F-64 |
| Consolidated Statements of Operations for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 | F-65 |
| Consolidated Statements of Changes in Members Capital for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 | F-66 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2011, December 31, 2010 and December 31, 2009 | F-67 |
| Consolidated Schedule of Investments as of December 31, 2011 | F-68 |
| Consolidated Schedule of Investments as of December 31, 2010 | F-75 |
| **New Mountain Finance Corporation** | |
| Statement of Assets and Liabilities as of December 31, 2011 | F-80 |
| Statements of Operations for May 19, 2011 (commencement of operations) to December 31, 2011 | F-81 |
| Statement of Changes in Net Assets for May 19, 2011 (commencement of operations) to December 31, 2011 | F-82 |
| Statement of Cash Flows for May 19, 2011 (commencement of operations) to December 31, 2011 | F-83 |
| **New Mountain Finance AIV Holdings Corporation** | |
| Statement of Assets and Liabilities as of December 31, 2011 | F-84 |
| Statements of Operations for May 19, 2011 (commencement of operations) to December 31, 2011 | F-85 |
| Statement of Changes in Net Assets for May 19, 2011 (commencement of operations) to December 31, 2011 | F-86 |
| Statement of Cash Flows for May 19, 2011 (commencement of operations) to December 31, 2011 | F-87 |
| Combined Notes to the Financial Statements for New Mountain Finance Holdings, L.L.C., New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation | F-88 |

(2) *Exhibits*

(a)(1) Certificate of Incorporation of New Mountain Guardian Corporation(2)

(a)(2) Certificate of Amendment to Certificate of Incorporation of New Mountain Guardian Corporation changing its name to New Mountain Finance Corporation(1)

| | |
|---|---|
| (a)(3) | Amended and Restated Certificate of Incorporation of New Mountain Finance Corporation(3) |
| (a)(4) | Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C.(1) |
| (a)(5) | Certificate of Amendment to Certificate of Formation of New Mountain Guardian (Leveraged), L.L.C. changing its name to New Mountain Finance Holdings, L.L.C.(4) |
| (a)(6) | Certificate of Change of Registered Agent and/or Registered Office of New Mountain Finance Corporation(5) |
| (b)(1) | Bylaws of New Mountain Finance Corporation(2) |
| (b)(2) | Amended and Restated Bylaws of New Mountain Finance Corporation(3) |
| (b)(3) | Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(4) |
| (b)(4) | First Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(4) |
| (b)(5) | Second Joinder Agreement with Respect to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(4) |
| (b)(6) | Amendment No. 1 to the Amended and Restated Limited Liability Company Agreement of New Mountain Finance Holdings, L.L.C.(6) |
| (b)(7) | Form of Second Amended and Restated Limited Liability Company Agreement of New Mountain Finance SPV Funding, L.L.C.(1) |
| (d) | Form of Stock Certificate of New Mountain Finance Corporation(1) |
| (e) | Dividend Reinvestment Plan(3) |
| (f)(1) | Letter Agreement relating to entry into Amended and Restated Loan and Security Agreement by and among New Mountain Finance Holdings, L.L.C., as Borrower and Collateral Administrator, each of the lenders thereto, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, National Association, as Collateral Custodian.(1) |
| (f)(2) | Form of Variable Funding Note of New Mountain Finance Holdings, L.L.C., as the Borrower(1) |
| (f)(3) | Form of Amended and Restated Account Control Agreement, among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Securities Intermediary(1) |
| (f)(4) | First Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(5) | Second Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(6) | Third Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities LLC, As Administrative Agent and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(7) | Loan and Security Agreement, by and among New Mountain Guardian (Leveraged), L.L.C., as Collateral Administrator, New Mountain Guardian SPV Funding, L.L.C., as Borrower, each of the lenders party thereto, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Collateral Custodian(1) |

| | |
|---|---|
| (f)(8) | First Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(1) |
| (f)(9) | Second Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(1) |
| (f)(10) | Third Amendment to Loan and Security Agreement between New Mountain Guardian SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(11) | Fourth Amendment to Loan and Security Agreement between New Mountain Finance SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(12) | Fifth Amendment to Loan and Security Agreement between New Mountain SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, N.A., as Lender(6) |
| (f)(13) | Account Control Agreement, by and between New Mountain Guardian SPV Funding, L.L.C., as Pledgor, Wells Fargo Securities, LLC, as Administrative Agent on behalf of the Secured Parties, and Wells Fargo Bank, N.A., as Securities Intermediary.(1) |
| (f)(14) | Variable Funding Note of New Mountain Guardian SPV Funding, L.L.C., as the Borrower.(1) |
| (f)(15) | Seventh Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance Holdings, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, National Association, as Collateral Custodian(10) |
| (f)(16) | Tenth Amendment to Amended and Restated Loan and Security Agreement between New Mountain Finance SPV Funding, L.L.C., as Borrower, Wells Fargo Securities, LLC, as Administrative Agent, and Wells Fargo Bank, National Association, as Lender(10) |
| (g) | Form of Amended and Restated Investment Advisory and Management Agreement(7) |
| (h)(1) | Form of Underwriting Agreement(8) |
| (h)(2) | Underwriting Agreement dated July 12, 2012(9) |
| (h)(3) | Underwriting Agreement dated September 25, 2012(11) |
| (h)(4) | Underwriting Agreement dated December 4, 2012 |
| (j) | Form of Safekeeping Agreement among New Mountain Finance Holdings, L.L.C., Wells Fargo Securities, LLC as the Administrative Agent and Wells Fargo Bank, National Association, as Safekeeping Agent(1) |
| (k)(1) | Amended and Restated Administration Agreement(6) |
| (k)(2) | Form of Trademark License Agreement(1) |
| (k)(3) | Amendment No. 1 to Trademark License Agreement(6) |
| (k)(4) | Form of Registration Rights Agreement(1) |
| (k)(5) | Form of Indemnification Agreement by and between New Mountain Finance Corporation and each director(1) |
| (k)(6) | Form of Indemnification Agreement by and between New Mountain Finance Holdings, L.L.C. and each director(1) |
| (k)(7) | Form of Letter Agreement relating to Lock-Up Period by and among New Mountain Finance Holdings, L.L.C. and New Mountain Finance Advisers BDC, L.L.C.(1) |

| | |
|---|---|
| (l)(1) | Opinion of Sutherland Asbill & Brennan LLP(8) |
| (l)(2) | Opinion of Sutherland Asbill & Brennan LLP(9) |
| (l)(3) | Opinion of Sutherland Asbill & Brennan LLP |
| (n)(1) | Consent of Sutherland Asbill & Brennan LLP (incorporated by reference to exhibit (l)(1) hereto)(8) |
| (n)(2) | Consent of Deloitte & Touche LLP(8) |
| (n)(3) | Report of Deloitte & Touche LLP(8) |
| (n)(4) | Awareness Letter of Deloitte & Touche LLP(8) |
| (n)(5) | Consent of Sutherland Asbill & Brennan LLP (incorporated by reference to exhibit (l)(2)) |
| (n)(6) | Consent of Sutherland Asbill & Brennan LLP (incorporated by reference to exhibit (l)(3)) |
| (r) | Code of Ethics(1) |
| 99.1 | Form of Prospectus Supplement for Common Stock Offerings(8) |

(1) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 Pre-Effective Amendment No. 3 (File Nos. 333-168280 and 333-172503) filed on May 9, 2011.
(2) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 (File No. 333-168280) filed on July 22, 2010.
(3) Previously filed in connection with New Mountain Finance Corporation s quarterly report on Form 10-Q filed on August 11, 2011.
(4) Previously filed in connection with New Mountain Finance Holdings, L.L.C. s quarterly report on Form 10-Q filed on August 11, 2011.
(5) Previously filed in connection with New Mountain Finance Corporation and New Mountain Finance AIV Holdings Corporation report on Form 8-K filed on August 25, 2011.
(6) Previously filed in connection with New Mountain Finance Corporation s quarterly report on Form 10-Q filed on November 14, 2011.
(7) Previously filed as Annex A to New Mountain Finance Corporation s definitive proxy statement on Schedule 14A filed on March 28, 2012.
(8) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 Pre-Effective Amendment No. 1 (File Nos. 333-180689 and 333-180690) filed on July 10, 2012.
(9) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 Post-Effective Amendment No. 1 (File Nos. 333-180689 and 333-180690) filed on July 12, 2012.
(10) Previously filed in connection with New Mountain Finance Corporation s quarterly report on Form 10-Q filed on August 8, 2012.
(11) Previously filed in connection with New Mountain Finance Corporation s registration statement on Form N-2 Post-Effective Amendment No. 1 (Files Nos. 333-180689 and 333-180690) filed on September 25, 2012.

**Item 26. Marketing Arrangements**

The information contained under the heading Plan of Distribution in this Registration Statement is incorporated herein by reference.

**Item 27. Other Expenses Of Issuance And Distribution**

| | |
|---|---|
| SEC registration fee | $ 53,828.32 |
| FINRA filing fee | $ 47,470.61 |
| New York Stock Exchange listing fee | $ 113,590.07 |
| Accounting fees and expenses | $ 50,000.00 |
| Legal fees and expenses | $ 250,000.00 |
| Printing and engraving | $ 70,000.00 |
| Miscellaneous fees and expenses | $ |
| Total | $ 584,889.00 |

Note: All listed amounts, except the SEC registration fee and the FINRA filing fee, are estimates.

**Item 28. Persons Controlled By Or Under Common Control**

The Operating Company may be deemed to control certain portfolio companies. See Portfolio Companies in the prospectus. As of June 30, 2012, NMFC owns approximately 34.6% of the units of the Operating Company and AIV Holdings owns approximately 65.4% of the units of the Operating Company.

**Item 29. Number Of Holders Of Securities**

The following table sets forth the number of record holders of NMFC s common stock at July 6, 2012.

| **Title of Class** | **Number of Record Holders** |
|---|---|
| Common stock, $0.01 par value | 26 |

**Item 30. Indemnification**

Section 145 of the Delaware General Corporation Law empowers a Delaware corporation to indemnify its officers and directors and specific other persons to the extent and under the circumstances set forth therein.

Section 102(b)(7) of the Delaware General Corporation Law allows a Delaware corporation to eliminate the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liabilities arising (a) from any breach of the director s duty of loyalty to the corporation or its stockholders; (b) from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) under Section 174 of the Delaware General Corporation Law; or (d) from any transaction from which the director derived an improper personal benefit.

Subject to the 1940 Act or any valid rule, regulation or order of the SEC thereunder, NMFC s amended and restated bylaws provide that it will indemnify any person who was or is a party or is threatened to be made a party to any threatened action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of NMFC, or is or was serving at the request of NMFC as a director or officer of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, in accordance with provisions corresponding to Section 145 of the Delaware General Corporation Law. The 1940 Act provides that a company may not indemnify any director or officer against liability to it or its security holders to which he or she might otherwise be subject by reason of his or her willful

C-6

misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office unless a determination is made by final decision of a court, by vote of a majority of a quorum of directors who are disinterested, non-party directors or by independent legal counsel that the liability for which indemnification is sought did not arise out of the foregoing conduct. In addition, NMFC s amended and restated bylaws provide that the indemnification described therein is not exclusive and shall not exclude any other rights to which the person seeking to be indemnified may be entitled under statute, any bylaw, agreement, vote of stockholders or directors who are not interested persons, or otherwise, both as to action in his or her official capacity and to his or her action in another capacity while holding such office.

The above discussion of Section 145 of the Delaware General Corporation Law and NMFC s amended and restated bylaws is not intended to be exhaustive and is respectively qualified in its entirety by such statute and NMFC s amended and restated bylaws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the Securities Act ) may be permitted to directors, officers and controlling persons of the Registrants pursuant to the foregoing provisions, or otherwise, the Registrants has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrants of expenses incurred or paid by a director, officer or controlling person of the Registrants in the successful defense of any action suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrants will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is again public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrants have obtained primary and excess insurance policies insuring our directors and officers against some liabilities they may incur in their capacity as directors and officers. Under such policies, the insurer, on the Registrants behalf, may also pay amounts for which the Registrants have granted indemnification to the directors or officers.

The Investment Management Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, New Mountain Finance Advisers BDC, L.L.C., or the Investment Adviser, and its officers, managers, agents, employees, controlling persons, members (or their owners) and any other person or entity affiliated with it are entitled to indemnification from the Operating Company for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of the Investment Adviser s services under the Investment Management Agreement or otherwise as an investment adviser of the Operating Company.

The Administration Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of the reckless disregard of their respective duties and obligations, New Mountain Finance Administration, L.L.C. and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrants for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of services under the Administration Agreement or otherwise as administrator for the Registrants.

**Item 31. Business And Other Connections Of Investment Adviser**

A description of any other business, profession, vocation, or employment of a substantial nature in which the Investment Adviser, and each director or executive officer of the Investment Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee,

partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled Management Biographical Information Directors , Portfolio Management Investment Personnel , Management Biographical Information Executive Officers Who Are Not Directors and Investment Management Agreement . Additional information regarding the Investment Adviser and its officers and directors is set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. 801-71948), and is incorporated herein by reference.

**Item 32. Location Of Accounts And Records**

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

(1) the Registrants, New Mountain Finance Corporation, 787 Seventh Avenue, 48th Floor, New York, New York 10019;
(2) the Transfer Agent, 6201 15th Avenue, Brooklyn, New York 11219;
(3) the Safekeeping Agent, 9062 Old Annapolis Road, Columbia, Maryland 21045;
(4) the Investment Adviser, New Mountain Finance Advisers BDC, L.L.C., 787 Seventh Avenue, 48th Floor, New York, New York 10019; and
(5) the Administrator, New Mountain Finance Administration, L.L.C., 787 Seventh Avenue, 48th Floor, New York, New York 10019.

**Item 33. Management Services**

Not Applicable.

**Item 34. Undertakings**

(1) Registrants undertake to suspend the offering of the shares of common stock covered hereby until it amends its prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value per share of common stock declines more than 10.0% from its net asset value per share of common stock as of the effective date of this Registration Statement, or (b) its net asset value per share of common stock increases to an amount greater than its net proceeds as stated in the prospectus contained herein.

(2) Not applicable.

(3) Not applicable.

(4) The Registrants hereby undertake:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to the registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the 1933 Act;

(ii) to reflect in the prospectus any facts or events after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(b) That, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof; and

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(d) That, for the purpose of determining liability under the 1933 Act to any purchaser, if the Registrants are subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the 1933 Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the 1933 Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(e) That, for the purpose of determining liability of the Registrants under the 1933 Act to any purchaser in the initial distribution of securities, the undersigned Registrants undertake that in a primary offering of securities of the undersigned Registrants pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrants will be sellers to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the 1933 Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the 1933 Act relating to the offering containing material information about the undersigned Registrants or their securities provided by or on behalf of the undersigned Registrants; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

(f) To file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant the registration statement until such post-effective amendment has been declared effective under the 1933 Act, in the event the shares of Registrants are trading below its net asset value and either (i) Registrant receives, or has been advised by its independent registered accounting firm that it will receive, an audit report reflecting substantial doubt regarding the Registrants ability to continue as a going concern or (ii) Registrant has concluded that a material adverse change has occurred in its financial position or results of operations that has caused the financial statements and other disclosures on the basis of which the offering would be made to be materially misleading.

(5) (a) For the purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrants under Rule 497 (h) under the Securities Act of 1933 shall be deemed to be part of the Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) The Registrants undertake to send by first class mail or other means designed to ensure equally prompt delivery within two business days of receipt of a written or oral request, any Statement of Additional Information.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrants have duly caused Post-Effective Amendment No. 3 to this Registration Statement on Form N-2 to be signed on their behalf by the undersigned, thereunto duly authorized, in the City of New York, in the State of New York, on the 4th day of December, 2012.

**NEW MOUNTAIN FINANCE CORPORATION**

**NEW MOUNTAIN FINANCE HOLDINGS, L.L.C.**

By: /s/ Robert A. Hamwee
**Robert A. Hamwee**
**Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, as amended, Post-Effective Amendment No. 3 to this Registration Statement on Form N-2 has been signed by the following persons on behalf of the Registrants, and in the capacities indicated, on the 4th day of December, 2012.

| Signature | Title |
|---|---|
| /s/ Robert A. Hamwee<br>**Robert A. Hamwee** | Chief Executive Officer (Principal Executive Officer) and Director |
| *<br>**Steven B. Klinsky** | Chairman of the Board of Directors |
| *<br>**Alfred F. Hurley Jr.** | Director |
| *<br>**David Ogens** | Director |
| *<br>**Kurt J. Wolfgruber** | Director |
| /s/ Adam Weinstein<br>**Adam Weinstein** | Chief Financial Officer (Principal Financial Officer) and Treasurer |

* Signed by Robert A. Hamwee pursuant to a power of attorney signed by each individual and filed with this registration statement on April 12, 2012.

C-10

dding-right:2px;">

(141,680
)
Cash flows from investing activities:

Contributions to unconsolidated joint ventures
(2,527
)

(8,025
)
Return of investments in unconsolidated joint ventures
5,001

1,099

Proceeds from sale of building
5,804

—

Purchases of property and equipment, net
(10,025
)

(1,924
)
Net cash used in investing activities
(1,747
)

(8,850
)
Cash flows from financing activities:

Proceeds from issuance of debt
405,250

—

Payment of debt issuance costs
(5,209
)

—

Repayment of senior notes
(230,000
)

—

Borrowings under revolving credit facility
140,000

—

Repayments under revolving credit facility
(140,000
)

—

Payments on mortgages and land contracts due to land sellers and other loans
(28,020
)

(3,362
)
Issuance of common stock under employee stock plans
832

2,946

Tax payments associated with stock-based compensation awards
(3,342
)

(6,787
)
Payments of cash dividends
(2,266
)

(2,322
)
Net cash provided by (used in) financing activities
137,245

(9,525
)
Net decrease in cash and cash equivalents

(62,712
)

(160,055
)
Cash and cash equivalents at beginning of period
575,119

720,861

Cash and cash equivalents at end of period
$
512,407

$
560,806

See accompanying notes.

5

---

KB HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies
Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted.
In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly our consolidated financial position as of February 28, 2019, the results of our consolidated operations for the three months ended February 28, 2019 and 2018, and our consolidated cash flows for the three months ended February 28, 2019 and 2018. The results of our consolidated operations for the three months ended February 28, 2019 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, 2018 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, 2018, which are contained in our Annual Report on Form 10-K for that period.
Unless the context indicates otherwise, the terms "we," "our," and "us" used in this report refer to KB Home, a Delaware corporation, and its subsidiaries.
Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.
Cash and Cash Equivalents. We consider all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. Our cash equivalents totaled $367.3 million at February 28, 2019 and $385.2 million at November 30, 2018. At February 28, 2019 and November 30, 2018, the majority of our cash and cash equivalents was invested in interest-bearing bank deposit accounts.
Comprehensive Income (Loss). Our comprehensive income was $30.0 million for the three months ended February 28, 2019. For the three months ended February 28, 2018, our comprehensive loss was $71.3 million. Our comprehensive income (loss) for each of the three-month periods ended February 28, 2019 and 2018 was equal to our net income (loss) for the respective periods.
Adoption of New Accounting Pronouncement. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue guidance in Accounting Standards Codification Topic 605, "Revenue Recognition," and most industry-specific revenue and cost guidance in the accounting standards codification, including some cost guidance related to construction-type and production-type contracts. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
On December 1, 2018, we adopted ASU 2014-09 and its related amendments (collectively, "ASC 606"), using the modified retrospective method applied to contracts that were not completed as of the adoption date. Results for reporting periods beginning December 1, 2018 and after are presented under ASC 606, while results for prior reporting periods have not been adjusted and continue to be presented under the accounting guidance in effect for those periods. We recorded the following cumulative effect adjustment to increase beginning retained earnings as of December 1, 2018 (in thousands):

| Balance Sheet | Balance at November 30, 2018 | Adjustments due to ASC 606 | Balance at December 1, 2018 |
|---|---|---|---|
| Assets | | | |
| Homebuilding: | | | |
| Inventories | $3,582,839 | $ (35,288 ) | $3,547,551 |
| Deferred tax assets, net | 441,820 | (4,024 ) | 437,796 |
| Property and equipment, net | 24,283 | 31,194 | 55,477 |
| Financial services | 12,380 | 19,728 | 32,108 |
| Stockholders' equity: | | | |
| Retained earnings | 1,897,168 | 11,610 | 1,908,778 |

Within our homebuilding operations, ASC 606 impacts the classification and timing of recognition in our consolidated financial statements of certain community sales office and other marketing- and model home-related costs, which we previously capitalized to inventories and amortized through construction and land costs with each home delivered in a community. With our adoption of ASC 606, these costs are capitalized to property and equipment and depreciated to selling, general and administrative expenses, or expensed to selling, general and administrative expenses as incurred. Upon adopting ASC 606, we reclassified these community sales office and other marketing- and model home-related costs and related accumulated amortization from inventories to either property and equipment, net or retained earnings in our consolidated balance sheet. Forfeited deposits related to cancelled home sale and land sale contracts, which were previously reflected as other income within selling, general and administrative expenses, are included in homebuilding revenues under ASC 606.

Within our financial services operations, ASC 606 impacts the timing of recognition in our consolidated financial statements of insurance commissions for insurance policy renewals. We previously recognized such insurance commissions as revenue when policies were renewed. With our adoption of ASC 606, insurance commissions for future policy renewals are estimated and recognized as revenue when the insurance carrier issues an initial insurance policy to our homebuyer, which generally occurs at the time each applicable home sale is closed. Upon adopting ASC 606, we recognized contract assets for the estimated future renewal commissions related to existing insurance policies as of December 1, 2018.

There were no significant changes to our business processes or internal control over financial reporting as a result of adopting ASC 606.

The impacts of adopting ASC 606 on our consolidated statement of operations for the three months ended February 28, 2019 and consolidated balance sheet as of February 28, 2019 were as follows (in thousands, except per share amounts):

| | Three Months Ended February 28, 2019 | | |
|---|---|---|---|
| Statement of Operations | As Reported | Amounts without the Adoption of ASC 606 | Effect of Change Higher/(Lower) |
| Homebuilding: | | | |
| Revenues | $808,788 | $808,155 | $ 633 |
| Construction and land costs | (670,855 ) | (676,115 ) | (5,260 ) |
| Selling, general and administrative expenses | (106,594 ) | (99,281 ) | 7,313 |
| Operating income | 31,339 | 32,759 | (1,420 ) |
| Financial services: | | | |
| Revenues | 2,695 | 2,590 | 105 |
| Total pretax income | 34,511 | 35,826 | (1,315 ) |
| Income tax expense | (4,500 ) | (4,800 ) | (300 ) |

| | | | |
|---|---|---|---|
| Net income | 30,011 | 31,026 | (1,015 ) |
| Diluted earnings per share | .31 | .32 | (.01 ) |

7

| Balance Sheet | As of February 28, 2019 | | |
|---|---|---|---|
| | As Reported | Amounts without the Adoption of ASC 606 | Effect of Change Higher/(Lower) |
| Assets | | | |
| Homebuilding: | | | |
| Inventories | $3,683,763 | $3,722,475 | $ (38,712 ) |
| Deferred tax assets, net | 433,295 | 437,019 | (3,724 ) |
| Property and equipment, net | 55,330 | 22,132 | 33,198 |
| Financial services | 29,275 | 9,442 | 19,833 |
| Stockholders' equity: | | | |
| Retained earnings | 1,936,523 | 1,925,928 | 10,595 |

As a result of our adoption of ASC 606, we updated our significant accounting policies as follows:
Homebuilding Revenues. We apply the following steps in determining the timing and amount of revenue to recognize: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, if applicable; and (5) recognize revenue when (or as) we satisfy a performance obligation.
Our home sale transactions are made pursuant to contracts under which we typically have a single performance obligation to deliver a completed home to the homebuyer when closing conditions are met. Revenues from home sales are recognized when we have satisfied the performance obligation within the sales contract, which is generally when title to and possession of the home and the risks and rewards of ownership are transferred to the homebuyer on the closing date. Under our home sale contracts, we typically receive an initial cash deposit from the homebuyer at the time the sales contract is executed and receive the remaining consideration to which we are entitled, through a third-party escrow agent, at closing. Customer deposits related to sold but undelivered homes, totaled $20.1 million and $19.5 million at February 28, 2019 and November 30, 2018, respectively, and are included in accrued expenses and other liabilities.
Concurrent with the recognition of revenues in our consolidated statements of operations, sales incentives in the form of price concessions on the selling price of a home are recorded as a reduction of revenues, while the costs of sales incentives in the form of free or discounted products or services to homebuyers, including option upgrades and closing cost allowances used to cover a portion of the fees and costs charged to a homebuyer, are reflected as construction and land costs. Cash proceeds from home sale closings held by third-party escrow agents for our benefit, typically for less than five days, are considered deposits in-transit and classified as cash.
Land sale transactions are made pursuant to contracts under which we typically have a performance obligation(s) to deliver specified land parcels to the buyer when closing conditions are met. Revenues from land sales are recognized when we have satisfied the performance obligation(s) within the sales contract, which is generally when title to and possession of the land and the risks and rewards of ownership are transferred to the land buyer on the closing date. Under our land sale contracts, we typically receive an initial cash deposit from the buyer at the time the contract is executed and receive the remaining consideration to which we are entitled, through a third-party escrow agent, at closing. In limited circumstances where we provide financing to the land buyer, we determine that collectibility of the receivable is reasonably assured before we recognize revenue.
In instances where we have a material performance obligation(s) under a land sale contract to perform land development work after the closing date, a portion of the transaction price is allocated to such performance obligation(s) and is recognized as revenue when and as such obligation(s) is (are) completed. While the payment terms for such a performance obligation(s) vary, the final payment is generally received when we have completed our land development work and it has been accepted by the land buyer.
Homebuilding revenues include forfeited deposits, which occur when home sale or land sale contracts that include a nonrefundable deposit are cancelled. Revenues from forfeited deposits are immaterial.

Within our homebuilding operations, substantially all of our contracts with customers and the related performance obligations have an original expected duration of one year or less.

Community Sales Office and Other Marketing- and Model Home-Related Costs. Community sales office and other marketing- and model home-related costs are either recorded as inventories, capitalized as property and equipment, or expensed to selling, general and administrative expenses as incurred. Costs related to the construction of a model home, inclusive of upgrades that will be sold as part of the home, are recorded as inventories and recognized as construction and land costs when the model home is delivered to a homebuyer. Costs to furnish and ready a model home or on-site community sales facility that will not be sold as part of the model home, such as model furnishings, community sales office and model complex grounds, sales office construction and sales office furniture and equipment, are capitalized as property and equipment under "model furnishings and sales office improvements." Model furnishings and sales office improvements are depreciated to selling, general and administrative expenses over their estimated useful lives. Other costs incurred related to the marketing of a community, removing the on-site community sales facility and readying a completed (model) home for sale are expensed to selling, general and administrative expenses as incurred.

Financial Services Revenues. Our financial services reporting segment generates revenues primarily from title services and insurance commissions. Revenues from title services are recognized when policies are issued, which generally occurs at the time each applicable home sale is closed. We receive insurance commissions from various third-party insurance carriers for arranging for the carriers to provide homeowner and other insurance policies for our homebuyers that elect to obtain such coverage. In addition, each time a homebuyer renews their insurance policy with the insurance carrier, we receive a renewal commission. Revenues from insurance commissions are recognized when the insurance carrier issues an initial insurance policy to our homebuyer, which generally occurs at the time each applicable home sale is closed. As our performance obligations for policy renewal commissions are satisfied upon issuance of the initial insurance policy, insurance commissions for renewals are considered variable consideration under ASC 606. Accordingly, we estimate the probable future renewal commissions when an initial policy is issued and record a corresponding contract asset and insurance commission revenues. We estimate the amount of variable consideration based on historical renewal trends and constrain the estimate such that it is probable that a significant reversal of cumulative recognized revenue will not occur. We also consider the likelihood and magnitude of a potential future reversal of revenue and update our assessment at the end of each reporting period. The contract assets for estimated future renewal commissions are included in other assets within financial services and totaled $19.8 million at February 28, 2019. Contract assets totaling $19.7 million were recognized on December 1, 2018 in connection with the adoption of ASC 606.

Disaggregation of Revenues. Our homebuilding operations accounted for 99.7% of our total revenues for the year ended November 30, 2018, with most of those revenues generated from home sale contracts with customers. Our financial services operations accounted for the remaining .3% of total revenues for the year ended November 30, 2018. Due to the nature of our revenue-generating activities, we believe the disaggregation of revenues as reported in our consolidated statement of operations, and as disclosed by homebuilding reporting segment in Note 2 – Segment Information and for our financial services reporting segment in Note 3 – Financial Services, fairly depict how the nature, amount, timing and uncertainty of cash flows are affected by economic factors.

Recent Accounting Pronouncements Not Yet Adopted. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under this guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Lessor accounting remains substantially similar to current GAAP. In addition, disclosures of leasing activities are to be expanded to include qualitative along with specific quantitative information. ASU 2016-02 is effective for us beginning December 1, 2019 (with early adoption permitted). Originally, entities were required to adopt ASU 2016-02 using a modified retrospective transition method. However, in July 2018, the FASB issued Accounting Standards Update No. 2018-11, "Leases (Topic 842): Targeted Improvements" ("ASU 2018-11"), which provides entities with an additional transition method. Under ASU 2018-11, entities have the option of recognizing the cumulative effect of applying the new standard as an adjustment to beginning retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. In July 2018, the FASB also issued Accounting Standards Update No. 2018-10, "Codification Improvements to Topic 842, Leases" ("ASU 2018-10"), which clarifies how to apply certain aspects of ASU 2016-02. We expect to adopt ASU 2016-02, ASU 2018-10 and ASU 2018-11

beginning December 1, 2019. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (“ASU 2018-02”), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (“TCJA”), and requires certain disclosures about stranded tax effects. ASU 2018-02 is effective for us beginning December 1, 2019 (with early adoption permitted), and shall be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the corporate

income tax rate in the TCJA is recognized. We expect to adopt ASU 2018-02 beginning December 1, 2019. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.
Reclassifications. Certain amounts in our consolidated financial statements of prior periods have been reclassified to conform to the current period presentation.

2. Segment Information

We have identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment. As of February 28, 2019, our homebuilding reporting segments conducted ongoing operations in the following states:
West Coast: California and Washington
Southwest: Arizona and Nevada
Central: Colorado and Texas
Southeast: Florida and North Carolina
Our homebuilding reporting segments are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to first-time, first move-up and active adult homebuyers. Our homebuilding operations generate most of their revenues from the delivery of completed homes to homebuyers. They also earn revenues from the sale of land.
Our homebuilding reporting segments were identified based primarily on similarities in economic and geographic characteristics, product types, regulatory environments, methods used to sell and construct homes and land acquisition characteristics. Management evaluates segment performance primarily based on segment pretax results.
Our financial services reporting segment offers property and casualty insurance and, in certain instances, earthquake, flood and personal property insurance to our homebuyers in the same markets as our homebuilding reporting segments, and provides title services in the majority of our markets located within our Central and Southeast homebuilding reporting segments. This segment earns revenues primarily from insurance commissions and from the provision of title services.
We offer mortgage banking services, including residential consumer mortgage loan ("mortgage loan") originations, to our homebuyers indirectly through KBHS Home Loans, LLC ("KBHS"), an unconsolidated joint venture we formed with Stearns Lending, LLC ("Stearns"). We and Stearns each have a 50.0% ownership interest, with Stearns providing management oversight of KBHS' operations. The financial services reporting segment is separately reported in our consolidated financial statements.
Corporate and other is a non-operating segment that develops and oversees the implementation of company-wide strategic initiatives and provides support to our reporting segments by centralizing certain administrative functions. Corporate management is responsible for, among other things, evaluating and selecting the geographic markets in which we operate, consistent with our overall business strategy; allocating capital resources to markets for land acquisition and development activities; making major personnel decisions related to employee compensation and benefits; and monitoring the financial and operational performance of our divisions. Corporate and other includes general and administrative expenses related to operating our corporate headquarters. A portion of the expenses incurred by Corporate and other is allocated to our homebuilding reporting segments.
Our reporting segments follow the same accounting policies used for our consolidated financial statements. The results of each reporting segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented, nor are they indicative of the results to be expected in future periods.

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues: | | |
| West Coast | $305,810 | $386,652 |
| Southwest | 157,656 | 151,899 |
| Central | 241,592 | 244,181 |
| Southeast | 103,730 | 86,473 |
| Total | $808,788 | $869,205 |
| | | |
| Pretax income (loss): | | |
| West Coast | $17,916 | $31,593 |
| Southwest | 22,072 | 14,977 |
| Central | 18,583 | 19,095 |
| Southeast | (545) | 1,320 |
| Corporate and other | (25,988) | (22,824) |
| Total | $32,038 | $44,161 |
| Inventory impairment charges: | | |
| West Coast | $3,196 | $4,699 |
| Southwest | — | — |
| Central | — | — |
| Southeast | — | — |
| Total | $3,196 | $4,699 |
| | | |
| Land option contract abandonment charges: | | |
| West Coast | $55 | $208 |
| Southwest | 59 | — |
| Central | 245 | 78 |
| Southeast | — | — |
| Total | $359 | $286 |

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Inventories: | | |
| Homes under construction | | |
| West Coast | $ 560,514 | $ 514,099 |
| Southwest | 170,760 | 173,036 |
| Central | 319,931 | 312,366 |
| Southeast | 138,705 | 125,651 |
| Subtotal | 1,189,910 | 1,125,152 |

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Land under development | | |
| West Coast | 1,053,533 | 1,059,432 |
| Southwest | 426,106 | 404,201 |
| Central | 561,979 | 543,472 |
| Southeast | 209,351 | 212,831 |
| Subtotal | 2,250,969 | 2,219,936 |
| | | |
| Land held for future development or sale | | |
| West Coast | 159,644 | 154,462 |
| Southwest | 30,761 | 21,137 |
| Central | 7,835 | 9,346 |
| Southeast | 44,644 | 52,806 |
| Subtotal | 242,884 | 237,751 |
| Total | $ 3,683,763 | $ 3,582,839 |

| Assets: | | |
|---|---|---|
| West Coast | $1,983,539 | $1,880,516 |
| Southwest | 672,264 | 631,509 |
| Central | 1,021,616 | 1,017,490 |
| Southeast | 442,982 | 463,224 |
| Corporate and other | 1,023,980 | 1,068,452 |
| Total | $5,144,381 | $5,061,191 |

3. Financial Services

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues | | |
| Insurance commissions | $1,472 | $1,352 |
| Title services | 1,217 | 1,066 |
| Interest income | 6 | — |
| Total | 2,695 | 2,418 |
| | | |
| Expenses | | |
| General and administrative | (1,024 ) | (953 ) |
| Operating income | 1,671 | 1,465 |
| Equity in income of unconsolidated joint ventures | 802 | 419 |
| Pretax income | $2,473 | $1,884 |

12

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 717 | $ 760 |
| Receivables | 1,602 | 2,885 |
| Investments in unconsolidated joint ventures | 6,995 | 8,594 |
| Other assets (a) | 19,961 | 141 |
| Total assets | $ 29,275 | $ 12,380 |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 1,174 | $ 1,495 |
| Total liabilities | $ 1,174 | $ 1,495 |

(a) Other assets at February 28, 2019 included $19.8 million of contract assets for estimated future renewal commissions due to our adoption of ASC 606 effective December 1, 2018, as described in Note 1 – Basis of Presentation and Significant Accounting Policies.

4. Earnings (Loss) Per Share

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Numerator: | | |
| Net income (loss) | $30,011 | $(71,255) |
| Less: Distributed earnings allocated to nonvested restricted stock | (14) | — |
| Less: Undistributed earnings allocated to nonvested restricted stock | (176) | — |
| Numerator for basic earnings (loss) per share | 29,821 | (71,255) |
| Effect of dilutive securities: | | |
| Interest expense and amortization of debt issuance costs associated with convertible senior notes, net of taxes | 541 | — |
| Add: Undistributed earnings allocated to nonvested restricted stock | 176 | — |
| Less: Undistributed earnings reallocated to nonvested restricted stock | (158) | — |
| Numerator for diluted earnings (loss) per share | $30,380 | $(71,255) |
| | | |
| Denominator: | | |
| Weighted average shares outstanding — basic | 86,972 | 87,155 |
| Effect of dilutive securities: | | |
| Share-based payments | 4,202 | — |
| Convertible senior notes | 5,788 | — |
| Weighted average shares outstanding — diluted | 96,962 | 87,155 |
| Basic earnings (loss) per share | $.34 | $(.82) |
| Diluted earnings (loss) per share | $.31 | $(.82) |

We compute earnings (loss) per share using the two-class method, which is an allocation of earnings (losses) between the holders of common stock and a company’s participating security holders. Our outstanding nonvested shares of restricted stock contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. We had no other participating securities at February 28, 2019 or 2018.

For the three-month period ended February 28, 2019, outstanding stock options to purchase .8 million shares of our common stock were excluded from the diluted earnings per share calculation because the effect of their inclusion would be antidilutive. The diluted earnings per share calculation for the three months ended February 28, 2019 included the dilutive effect of the $230.0 million in aggregate principal amount of our 1.375% convertible senior notes due 2019 ("1.375% Convertible Senior Notes due 2019") based on the number of days they were outstanding during the period. We repaid the notes at their February 1, 2019 maturity.

For the three months ended February 28, 2018, all outstanding stock options, contingently issuable shares associated with outstanding performance-based restricted stock units (each, a "PSU"), and the impact of our 1.375% Convertible Senior Notes due 2019 were excluded from the diluted loss per share calculation because the effect of their inclusion would have been antidilutive. Contingently issuable shares associated with outstanding PSUs were not included in the basic earnings per share calculations for the periods presented as the applicable vesting conditions had not been satisfied.

5. Receivables

Receivables consisted of the following (in thousands):

| | February 28, 2019 | November 30, 2018 |
| --- | --- | --- |
| Recoveries related to self-insurance and other legal claims | $ 149,719 | $ 138,261 |
| Due from utility companies, improvement districts and municipalities | 115,250 | 113,434 |
| Refundable deposits and bonds | 13,734 | 14,115 |
| Recoveries related to warranty and other claims | 4,111 | 4,750 |
| Other | 42,086 | 33,775 |
| Subtotal | 324,900 | 304,335 |
| Allowance for doubtful accounts | (11,291) | (11,505) |
| Total | $ 313,609 | $ 292,830 |

6. Inventories

Inventories consisted of the following (in thousands):

| | February 28, 2019 | November 30, 2018 |
| --- | --- | --- |
| Homes under construction | $ 1,189,910 | $ 1,125,152 |
| Land under development | 2,250,969 | 2,219,936 |
| Land held for future development or sale (a) | 242,884 | 237,751 |
| Total | $ 3,683,763 | $ 3,582,839 |

(a) Land held for sale totaled $27.8 million at February 28, 2019 and $9.8 million at November 30, 2018.

Interest is capitalized to inventories while the related communities or land parcels are being actively developed and until homes are completed or the land is available for immediate sale. Capitalized interest is amortized to construction and land costs as the related inventories are delivered to homebuyers or land buyers (as applicable). For land held for future development or sale, applicable interest is expensed as incurred.

Our interest costs were as follows (in thousands):

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Capitalized interest at beginning of period | $209,129 | $262,191 |
| Interest incurred | 34,788 | 39,944 |
| Interest amortized to construction and land costs (a) | (30,547 ) | (42,350 ) |
| Capitalized interest at end of period (b) | $213,370 | $259,785 |

(a) Interest amortized to construction and land costs for the three months ended February 28, 2019 and 2018 included $.6 million and $1.0 million, respectively, related to land sales during the periods.

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

7. Inventory Impairments and Land Option Contract Abandonments

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

We evaluated 18 and 29 communities or land parcels for recoverability during the three months ended February 28, 2019 and 2018, respectively. The carrying value of those communities or land parcels evaluated during the three months ended February 28, 2019 and 2018 was $96.2 million and $200.1 million, respectively. The communities or land parcels evaluated during the three months ended February 28, 2019 and 2018 included certain communities or land parcels previously held for future development that were reactivated as part of our efforts to improve our asset efficiency under our Returns-Focused Growth Plan.

Based on the results of our evaluations, we recognized inventory impairment charges of $3.2 million for the three months ended February 28, 2019 and $4.7 million for the three months ended February 28, 2018. The impairment charges for the three-month periods ended February 28, 2019 and 2018 reflected our decisions to make changes in our operational strategies aimed at more quickly monetizing our investment in certain communities by accelerating the overall pace for selling, building and delivering homes on land previously held for future development.

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

| | Three Months Ended February 28, | |
|---|---|---|
| Unobservable Input | 2019 | 2018 |
| Average selling price | $1,045,400 | $774,100 |
| Deliveries per month | 1 | 3 |
| Discount rate | 17% | 18% |

As of February 28, 2019, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $159.1 million, representing 22 communities and various other land parcels. As of November 30, 2018, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $156.1 million, representing 22 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed on a quarterly basis to determine whether it continues to meet our investment return standards. When a decision is made not to exercise certain land option contracts and other similar contracts due to market conditions and/or changes in our marketing strategy, we write off the

15

related inventory costs, including non-refundable deposits and unrecoverable pre-acquisition costs. Based on the results of our assessments, we recognized land option contract abandonment charges of $.4 million and $.3 million for the three-month periods ended February 28, 2019 and 2018, respectively.

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

8. Variable Interest Entities

Unconsolidated Joint Ventures. We participate in joint ventures from time to time that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. Our investments in these joint ventures may create a variable interest in a variable interest entity ("VIE"), depending on the contractual terms of the arrangement. We analyze our joint ventures under the variable interest model to determine whether they are VIEs and, if so, whether we are the primary beneficiary. Based on our analyses, we determined that one of our joint ventures at February 28, 2019 and November 30, 2018 was a VIE, but we were not the primary beneficiary of the VIE. All of our joint ventures at February 28, 2019 and November 30, 2018 were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

Land Option Contracts and Other Similar Contracts. In the ordinary course of our business, we enter into land option contracts and other similar contracts with third parties and unconsolidated entities to acquire rights to land for the construction of homes. Under these contracts, we typically make a specified option payment or earnest money deposit in consideration for the right to purchase land in the future, usually at a predetermined price. We analyze each of our land option contracts and other similar contracts under the variable interest model to determine whether the land seller is a VIE and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, we are required to consolidate a VIE if we are the primary beneficiary. As a result of our analyses, we determined that as of February 28, 2019 and November 30, 2018, we were not the primary beneficiary of any VIEs from which we have acquired rights to land under land option contracts and other similar contracts. We perform ongoing reassessments of whether we are the primary beneficiary of a VIE.

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

| | February 28, 2019 | | November 30, 2018 | |
|---|---|---|---|---|
| | Cash Deposits | Aggregate Purchase Price | Cash Deposits | Aggregate Purchase Price |
| Unconsolidated VIEs | $22,733 | $758,458 | $26,542 | $784,334 |
| Other land option contracts and other similar contracts | 27,069 | 475,740 | 27,288 | 586,904 |
| Total | $49,802 | $1,234,198 | $53,830 | $1,371,238 |

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 $43.6 million at February 28, 2019 and $46.9 million at November 30, 2018. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

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

non-reimbursable costs associated with the contract. As a result of our evaluations of land option contracts and other similar contracts for financing arrangements, we recorded inventories in our consolidated balance sheets, with a corresponding increase to accrued expenses and other liabilities, of $5.5 million at February 28, 2019 and $21.8 million at November 30, 2018.

9. Investments in Unconsolidated Joint Ventures

We have investments in unconsolidated joint ventures that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. We and our unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures, typically on a pro rata basis, according to our respective equity interests. The obligations to make capital contributions are governed by each such unconsolidated joint venture's respective operating agreement and related governing documents. For distributions we receive from these unconsolidated joint ventures, we have elected to use the cumulative earnings approach for our consolidated statements of cash flows. Under the cumulative earnings approach, distributions up to the amount of cumulative equity in earnings recognized are treated as returns on investment within operating cash flows and those in excess of that amount are treated as returns of investment within investing cash flows.

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

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

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues | $12,192 | $8,797 |
| Construction and land costs | (12,220) | (8,816) |
| Other expense, net | (628) | (1,372) |
| Loss | $(656) | $(1,391) |

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

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Assets | | |
| Cash | $ 16,598 | $ 18,567 |
| Inventories | 127,377 | 131,074 |
| Other assets | 446 | 530 |
| Total assets | $ 144,421 | $ 150,171 |
| Liabilities and equity | | |
| Accounts payable and other liabilities | $ 11,254 | $ 11,374 |
| Notes payable (a) | 22,045 | 17,956 |
| Equity | 111,122 | 120,841 |
| Total liabilities and equity | $ 144,421 | $ 150,171 |

(a) As of February 28, 2019 and November 30, 2018, one of our unconsolidated joint ventures had a construction loan agreement with a third-party lender to finance its land development activities, with the outstanding debt secured by the underlying property and related project assets and non-recourse to us. All of the outstanding secured debt at February 28,

17

2019 is scheduled to mature in February 2020. None of our other unconsolidated joint ventures had outstanding debt at February 28, 2019 or November 30, 2018.

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

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Number of investments in unconsolidated joint ventures | 6 | 6 |
| Investments in unconsolidated joint ventures | $ 57,134 | $ 61,960 |
| Number of unconsolidated joint venture lots controlled under land option contracts and other similar contracts | 25 | 36 |

We and our partner in the unconsolidated joint venture that has the above-noted outstanding construction loan agreement at February 28, 2019 provide certain guarantees and indemnities to the lender, including a guaranty to complete the construction of improvements for the project; a guaranty against losses the lender suffers due to certain bad acts or failures to act by the unconsolidated joint venture or its partners; and an indemnity of the lender from environmental issues. Our actual responsibility under the foregoing guaranty and indemnity obligations is limited to our pro rata interest in the unconsolidated joint venture. We do not have a guaranty or any other obligation to repay or to support the value of the collateral underlying the outstanding secured debt. However, various financial and non-financial covenants apply with respect to the outstanding secured debt and the related guaranty and indemnity obligations, and a failure to comply with such covenants could result in a default and cause the lender to seek to enforce such guaranty and indemnity obligations, if and as may be applicable. As of February 28, 2019, we were in compliance with the applicable terms of our relevant covenants with respect to the construction loan agreement. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the outstanding secured debt is material to our consolidated financial statements.

We are committed to purchase all 25 unconsolidated joint venture lots controlled under land option and other similar contracts at February 28, 2019 from one of our unconsolidated joint ventures. The purchase will be made in quarterly takedowns over the next year for an aggregate purchase price of $11.8 million under agreements that we entered into with the unconsolidated joint venture in 2016.

10. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Computer software and equipment | $ 22,953 | $ 20,940 |
| Model furnishings and sales office improvements (a) | 61,747 | — |
| Leasehold improvements, office furniture and equipment (b) | 15,385 | 23,491 |
| Subtotal | 100,085 | 44,431 |
| Less accumulated depreciation (a) | (44,755) | (20,148) |
| Total | $ 55,330 | $ 24,283 |

(a) The balance at February 28, 2019 reflects a change in the classification of certain community sales office and marketing- and model home-related costs and related accumulated amortization from inventories to property and equipment, net due to our adoption of ASC 606 effective December 1, 2018, as described in Note 1 – Basis of Presentation and Significant Accounting Policies.

(b) In January 2019, we completed the sale and leaseback of our office building in San Antonio, Texas. The sale generated net cash proceeds of $5.8 million and a gain of $2.2 million, which will be recognized on a straight-line basis over a 10-year lease term until our adoption of ASU 2016-02, when the remaining gain will be recognized as a transition adjustment to retained earnings.

11. Other Assets

Other assets consisted of the following (in thousands):

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Cash surrender value of corporate-owned life insurance contracts | $ 74,649 | $ 73,721 |
| Prepaid expenses and other | 14,911 | 9,379 |
| Total | $ 89,560 | $ 83,100 |

12. Accrued Expenses and Other Liabilities

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

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Self-insurance and other litigation liabilities | $ 297,361 | $ 283,651 |
| Employee compensation and related benefits | 101,444 | 148,549 |
| Warranty liability | 84,191 | 82,490 |
| Accrued interest payable | 46,498 | 31,180 |
| Inventory-related obligations (a) | 23,319 | 40,892 |
| Customer deposits | 20,122 | 19,491 |
| Real estate and business taxes | 9,529 | 16,639 |
| Other | 48,917 | 43,376 |
| Total | $ 631,381 | $ 666,268 |

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

13. Income Taxes

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

| | Three Months Ended February 28, 2019 | 2018 |
|---|---|---|
| Income tax expense | $4,500 | $117,300 |
| Effective tax rate | 13.0 % | 254.8 % |

Our income tax expense and effective tax rate for the three months ended February 28, 2019 included the favorable effects of a $3.3 million reversal of a deferred tax asset valuation allowance and $2.0 million of excess tax benefits related to stock-based compensation, which were partly offset by $.8 million of other items.

Our income tax expense and effective tax rate for the three months ended February 28, 2018 included a non-cash charge of $111.2 million for the estimated impacts of the TCJA, which was enacted into law on December 22, 2017. Of the total charge, $107.9 million related to the accounting re-measurement of our deferred tax assets based on the reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, under the TCJA. The remaining $3.3 million was due to our establishing a federal deferred tax asset valuation allowance for the sequestration of refundable alternative minimum tax ("AMT") credits. Our income tax expense and effective tax rate for the three months ended February 28, 2018 also reflected the favorable net impacts of federal energy tax credits of $4.0 million and excess tax benefits of $2.2 million related to stock-based compensation. The federal energy tax credits for the three-month period ended February 28, 2018 resulted from legislation enacted on February 9, 2018, which among other things, extended the availability of a business tax credit for

building new energy efficient homes through December 31, 2017. Prior to this legislation, the tax credit expired on December 31, 2016.

Deferred Tax Asset Valuation Allowance. We evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results, our expectation of future profitability, the duration of the applicable statutory carryforward periods, and conditions in the housing market and the broader economy. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related deferred tax assets become deductible. The value of our deferred tax assets depends on applicable income tax rates.

Our deferred tax assets of $453.6 million as of February 28, 2019 and $465.4 million as of November 30, 2018 were partly offset by valuation allowances of $20.3 million and $23.6 million, respectively. During the three-month period ended February 28, 2019, we reversed the above-mentioned $3.3 million federal deferred tax asset valuation allowance due to the Internal Revenue Service's announcement in January 2019 that refundable AMT credits will not be subject to sequestration for taxable years beginning after December 31, 2017. The deferred tax asset valuation allowances as of February 28, 2019 and November 30, 2018 were primarily related to certain state net operating losses ("NOLs") that had not met the "more likely than not" realization standard at those dates. Based on our evaluation of our deferred tax assets as of February 28, 2019, we determined that most of our deferred tax assets would be realized. Therefore, other than the $3.3 million reversal discussed above, no adjustments to our deferred tax valuation allowance were needed for the three months ended February 28, 2019.

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

Unrecognized Tax Benefits. As of February 28, 2019 and November 30, 2018, we had no gross unrecognized tax benefits (including interest and penalties). The fiscal years ending 2015 and later remain open to federal examinations, while 2014 and later remain open to state examinations.

14. Notes Payable

Notes payable consisted of the following (in thousands):

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Mortgages and land contracts due to land sellers and other loans | $ 12,018 | $ 40,038 |
| 4.75% Senior notes due May 15, 2019 | 399,764 | 399,483 |
| 8.00% Senior notes due March 15, 2020 | 348,199 | 347,790 |
| 7.00% Senior notes due December 15, 2021 | 447,554 | 447,359 |
| 7.50% Senior notes due September 15, 2022 | 347,861 | 347,731 |
| 7.625% Senior notes due May 15, 2023 | 352,081 | 248,074 |
| 6.875% Senior notes due June 15, 2027 | 296,112 | — |
| 1.375% Convertible senior notes due February 1, 2019 | — | 229,788 |
| Total | $ 2,203,589 | $ 2,060,263 |

The carrying amounts of our senior notes listed above are net of unamortized debt issuance costs, premiums and discounts, which totaled $8.4 million at February 28, 2019 and $9.8 million at November 30, 2018.

Unsecured Revolving Credit Facility. We have a $500.0 million unsecured revolving credit facility with various banks ("Credit Facility") that will mature on July 27, 2021. The Credit Facility contains an uncommitted accordion feature under which the aggregate principal amount of available loans can be increased to a maximum of $600.0 million under certain conditions, including obtaining additional bank commitments. The Credit Facility also contains a sublimit of $250.0 million for the issuance of letters of credit. Interest on amounts borrowed under the Credit Facility is payable at least quarterly in arrears at

20

a rate based on either a Eurodollar or a base rate, plus a spread that depends on our consolidated leverage ratio ("Leverage Ratio"), as defined under the Credit Facility. The Credit Facility also requires the payment of a commitment fee at a per annum rate ranging from .30% to .45% of the unused commitment, based on our Leverage Ratio. Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants relating to our consolidated tangible net worth, Leverage Ratio, and either a consolidated interest coverage ratio ("Interest Coverage Ratio") or minimum level of liquidity, each as defined therein. The amount of the Credit Facility available for cash borrowings or the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum available amount under the terms of the Credit Facility. As of February 28, 2019, we had no cash borrowings and $33.1 million of letters of credit outstanding under the Credit Facility. Therefore, as of February 28, 2019, we had $466.9 million available for cash borrowings under the Credit Facility, with up to $216.9 million of that amount available for the issuance of letters of credit.

Letter of Credit Facilities. On February 13, 2019, we entered into a new unsecured letter of credit agreement with a financial institution ("New LOC Facility"). Under the New LOC Facility, which expires on February 13, 2022, we may issue up to $50.0 million of letters of credit. We maintain the New LOC Facility and a cash-collateralized letter of credit facility (together, the "LOC Facilities") to obtain letters of credit from time to time in the ordinary course of operating our business. As of February 28, 2019, we had $.3 million letters of credit outstanding under the LOC Facilities. We had no letters of credit outstanding under the LOC Facilities at November 30, 2018.

Mortgages and Land Contracts Due to Land Sellers and Other Loans. As of February 28, 2019, inventories having a carrying value of $138.2 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

Shelf Registration. We have an automatically effective universal shelf registration statement that was filed with the SEC on July 14, 2017 ("2017 Shelf Registration"). Issuances of securities under our 2017 Shelf Registration require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. Our ability to issue securities is subject to market conditions and other factors impacting our borrowing capacity.

Senior Notes. On February 1, 2019, we repaid the entire $230.0 million in aggregate principal amount of our 1.375% Convertible Senior Notes due 2019 at their maturity.

On February 20, 2019, pursuant to the 2017 Shelf Registration, we completed concurrent public offerings of $300.0 million in aggregate principal amount of 6.875% senior notes due 2027 ("6.875% Senior Notes due 2027") at 100.000% of their aggregate principal amount, and an additional $100.0 million in aggregate principal amount of our existing series of 7.625% senior notes due 2023 ("7.625% Senior Notes due 2023") at 105.250% of their aggregate principal amount plus accrued interest from November 15, 2018 (the last date on which interest was paid on the existing 2023 senior notes) to the date of delivery. Net proceeds from these offerings totaled $400.0 million, after deducting the underwriting discount and our expenses relating to the offerings, and were applied towards the optional redemption of the entire $400.0 million in aggregate principal amount of our 4.75% senior notes due 2019 ("4.75% Senior Notes due 2019") before their May 15, 2019 maturity date, which redemption we announced on February 5, 2019 and completed on March 8, 2019.

All of our senior notes outstanding at February 28, 2019 and November 30, 2018 represent senior unsecured obligations that are guaranteed on an unsecured basis by certain of our subsidiaries that guarantee our obligations under the Credit Facility and rank equally in right of payment with all of our other unsecured and unsubordinated indebtedness. Interest on each of these senior notes is payable semi-annually.

The indenture governing our senior notes does not contain any financial covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness, or engage in sale and leaseback transactions involving property above a certain specified value. In addition, the indenture contains certain limitations related to mergers, consolidations, and sales of assets.

As of February 28, 2019, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance.

As of February 28, 2019, principal payments on senior notes, mortgages and land contracts due to land sellers and other loans are due as follows: 2019 – $412.0 million; 2020 – $350.0 million; 2021 – $0; 2022 – $800.0 million; 2023 – $350.0 million; and thereafter – $300.0 million.

15. Fair Value Disclosures

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

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

Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate that their carrying value is not recoverable. The following table presents the fair value hierarchy, pre-impairment value, inventory impairment charges and fair value for our assets measured at fair value on a nonrecurring basis for the three months ended February 28, 2019 and the year ended November 30, 2018 (in thousands):

| | | February 28, 2019 | | | November 30, 2018 | | |
|---|---|---|---|---|---|---|---|
| Description | Fair Value Hierarchy | Pre-Impairment Value | Inventory Impairment Charges | Fair Value (a) | Pre-Impairment Value | Inventory Impairment Charges | Fair Value (a) |
| Inventories | Level 3 | $9,917 | $ (3,196 ) | $6,721 | $70,156 | $ (26,104 ) | $44,052 |

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

The fair values for inventories that were determined using Level 3 inputs were based on the estimated future net cash flows discounted for inherent risk associated with each underlying asset.

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

| | | February 28, 2019 | | November 30, 2018 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Value (a) | Estimated Fair Value | Carrying Value (a) | Estimated Fair Value |
| Financial Liabilities: | | | | | |
| Senior notes | Level 2 | $2,191,571 | $2,298,750 | $1,790,437 | $1,853,438 |
| Convertible senior notes | Level 2 | — | — | 229,788 | 229,425 |

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

The fair values of our senior notes and convertible senior notes are generally estimated based on quoted market prices for these instruments. The carrying values reported for cash and cash equivalents, and mortgages and land contracts due to land sellers and other loans approximate fair values. The carrying value of corporate-owned life insurance is based on the cash surrender value of the policies and, accordingly, approximates fair value.

16. Commitments and Contingencies

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

Warranty. We provide a limited warranty on all of our homes. The specific terms and conditions of our limited warranty program vary depending upon the markets in which we do business. We generally provide a structural warranty of 10 years,

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

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

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Balance at beginning of period | $82,490 | $69,798 |
| Warranties issued | 6,294 | 7,764 |
| Payments | (4,593 ) | (5,717 ) |
| Balance at end of period | $84,191 | $71,845 |

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

Self-Insurance. We maintain, and require the majority of our independent subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers' compensation insurance. These insurance policies protect us against a portion of our risk of loss from claims related to our homebuilding activities, subject to certain self-insured retentions, deductibles and other coverage limits. We also maintain certain other insurance policies. In Arizona, California, Colorado and Nevada, our subcontractors' general liability insurance primarily takes the form of a wrap-up policy under a program where eligible independent subcontractors are enrolled as insureds on each community. Enrolled subcontractors contribute toward the cost of the insurance and agree to pay a contractual amount in the future if there is a claim related to their work. To the extent provided under the wrap-up program, we absorb the enrolled subcontractors' general liability associated with the work performed on our homes within the applicable community as part of our overall general liability insurance and our self-insurance.

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

- Construction defect: Construction defect claims, which represent the largest component of our self-insurance liability, typically originate through a legal or regulatory process rather than directly by a homeowner and involve the alleged occurrence of a condition affecting two or more homes within the same community, or they involve a common area or homeowners association property within a community. These claims typically involve higher costs to resolve than individual homeowner warranty claims, and the rate of claims is highly variable.

- Bodily injury: Bodily injury claims typically involve individuals (other than our employees) who claim they were injured while on our property or as a result of our operations.



---

- Property damage: Property damage claims generally involve claims by third parties for alleged damage to real or personal property as a result of our operations. Such claims may occasionally include those made against us by owners of property located near our communities.

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

Our self-insurance liability is presented on a gross basis without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimated probable insurance and other recoveries of $57.2 million and $56.9 million are included in receivables in our consolidated balance sheets at February 28, 2019 and November 30, 2018, respectively. These self-insurance recoveries are principally based on actuarially determined amounts and depend on various factors, including, among other things, the above-described claim cost estimates, our insurance policy coverage limits for the applicable policy year(s), historical third-party recovery rates, insurance industry practices, the regulatory environment, and legal precedent, and are subject to a high degree of variability from period to period. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated.

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Balance at beginning of period | $176,841 | $177,695 |
| Self-insurance expense (a) | 3,747 | 4,401 |
| Payments (b) | (2,726) | (1,401) |
| Balance at end of period | $177,862 | $180,695 |

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

(b) Includes net changes in estimated probable insurance and other recoveries, which are recorded in receivables, to present our self-insurance liability on a gross basis.

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

The payments we make in connection with claims and related repair work, whether covered within our warranty liability and/or our self-insurance liability, may be recovered from our insurers to the extent such payments exceed the self-insured retentions or deductibles under our general liability insurance policies. Also, in certain instances, in the course of resolving a claim, we pay amounts in advance of and/or on behalf of a subcontractor(s) or their insurer(s) and believe we will be reimbursed for

such payments. Estimates of all such amounts, if any, are recorded as receivables in our consolidated balance sheets when any such recovery is considered probable. Such receivables associated with our warranty and other claims totaled $4.1 million at February 28, 2019 and $4.8 million at November 30, 2018. We believe the collection of these receivables is probable based on our history of collections for similar claims.

Northern California Claims. In the 2017 third quarter, we received claims from a homeowners association alleging approximately $100.0 million of damages from purported construction defects at a completed townhome community in Northern California. We continue to investigate these allegations, and to exchange information with the association, whose claims for damages have increased to $142.0 million in December 2018. Arbitral discovery begins in the second quarter of 2019 and we will be evaluating information revealed in discovery in the second and third quarters of 2019. At February 28, 2019, we had an accrual for our estimated probable loss in this matter and a receivable for estimated probable insurance recoveries. While it is reasonably possible that our loss could exceed the amount accrued and our recoveries could be less than the amount recorded, at this stage of our investigation into these allegations, we are unable to estimate the total amount of the loss in excess of the accrued amount and/or associated with a shortfall in the recoveries that is reasonably possible. Our investigation has involved identifying potentially responsible parties, including insurers, to pay for or perform any necessary repairs. In September 2018, a binding arbitration proceeding on this matter was scheduled to begin on July 1, 2019.

Florida Chapter 558 Actions (Individual and Homeowner Association Claims). We and certain of our subcontractors have received a growing number of claims from attorneys on behalf of individual owners of our homes and/or homeowners' associations that allege, pursuant to Chapter 558 of the Florida Statutes, various construction defects, with most relating to stucco and water-intrusion issues. The claims primarily involve homes in our Jacksonville, Orlando, and Tampa operations. Under Chapter 558, homeowners must serve written notice of a construction defect(s) and provide the served construction and/or design contractor(s) with an opportunity to respond to the noticed issue(s) before they can file a lawsuit. Although we have resolved many of these claims without litigation, and a number of others have been resolved with applicable subcontractors or their insurers covering the related costs, as of February 28, 2019, we had approximately 560 outstanding noticed claims, and some are scheduled for trial over the next few quarters and beyond. In addition, some of our subcontractors' insurers in some of these cases have informed us of their inability to continue to pay claims-related costs. At February 28, 2019, we had an accrual for our estimated probable loss for these matters and a receivable for estimated probable insurance recoveries. While it is reasonably possible that our loss could exceed the amount accrued and our recoveries could be less than the amount recorded, at this time, we are unable to estimate the total amount of the loss in excess of the accrued amount and/or associated with a shortfall in the recoveries that is reasonably possible.

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, 2019, we had $707.6 million of performance bonds and $33.4 million of letters of credit outstanding. At November 30, 2018, we had $689.3 million of performance bonds and $28.0 million of letters of credit outstanding. If any such performance bonds or letters of credit are called, we would be obligated to reimburse the issuer of the performance bond or letter of credit. We do not believe that a material amount of any currently outstanding performance bonds or letters of credit will be called. Performance bonds do not have stated expiration dates. Rather, we are released from the performance bonds as the underlying performance is completed. The expiration dates of some letters of credit issued in connection with community improvements coincide with the expected completion dates of the related projects or obligations. Most letters of credit, however, are issued with an initial term of one year and are typically extended on a year-to-year basis until the related performance obligations are completed.

Land Option Contracts and Other Similar Contracts. In the ordinary course of our business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. At February 28, 2019, we had total cash deposits of $49.8 million to purchase land having an aggregate purchase price of $1.23 billion. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

17. Legal Matters

We are involved in 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, 2019, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized or disclosed in our consolidated financial statements. We evaluate our accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjust them to reflect (a) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments; (b) the advice and analyses of counsel; and (c) the assumptions and judgment of management. Similar factors and considerations are used in establishing new accruals for proceedings as to which losses



---

have become probable and reasonably estimable at the time an evaluation is made. Our accruals for litigation and regulatory proceedings are presented on a gross basis without consideration of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable. Based on our experience, we believe that the amounts that may be claimed or alleged against us in these proceedings are not a meaningful indicator of our potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses we may incur, however, is inherently uncertain and could differ significantly from the estimate reflected in a related accrual, if made. Therefore, it is possible that the ultimate outcome of any proceeding, if in excess of a related accrual or if an accrual had not been made, could be material to our consolidated financial statements.

18. Stockholders' Equity

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

| | Three Months Ended February 28, 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | | | | | | | | | |
| | Common Stock | Grantor Stock Ownership Trust | Treasury Stock | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Grantor Stock Ownership Trust | Treasury Stock | Total Stockholders' Equity |
| Balance at November 30, 2018 | 119,196 | (8,157) | (24,113) | $119,196 | $753,570 | $1,897,168 | $(9,565) | $(88,472) | $(584,397) | $2,087,500 |
| Cumulative effect of adoption of ASC 606 | — | — | — | — | — | 11,610 | — | — | — | 11,610 |
| Net income | — | — | — | — | — | 30,011 | — | — | — | 30,011 |
| Dividends on common stock | — | — | — | — | — | (2,266) | — | — | — | (2,266) |
| Employee stock options/other | 62 | — | — | 62 | 770 | — | — | — | — | 832 |
| Stock awards | — | 297 | (151) | — | (3,151) | — | — | 3,226 | (75) | — |
| Stock-based compensation | — | — | — | — | 4,152 | — | — | — | — | 4,152 |
| Tax payments associated with stock-based compensation awards | — | — | — | — | — | — | — | — | (3,342) | (3,342) |
| Balance at February 28, 2019 | 119,258 | (7,860) | (24,264) | $119,258 | $755,341 | $1,936,523 | $(9,565) | $(85,246) | $(587,814) | $2,128,497 |

| | Three Months Ended February 28, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | | | | | | | | | |
| | Common Stock | Grantor Stock Ownership Trust | Treasury Stock | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Grantor Stock Ownership Trust | Treasury Stock | Total Stockholders' Equity |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at November 30, 2017 | 117,946 | (8,898) | (22,021) | $117,946 | $727,483 | $1,735,695 | $(16,924) | $(96,509) | $(541,380) | $1,926,311 |
| Net loss | — | — | — | — | — | (71,255) | — | — | — | (71,255) |
| Dividends on common stock | — | — | — | — | — | (2,322) | — | — | — | (2,322) |
| Employee stock options/other | 268 | — | — | 268 | 2,678 | — | — | — | — | 2,946 |
| Stock awards | — | 438 | (10) | — | (4,551) | — | — | 4,749 | (198) | — |
| Stock-based compensation | — | — | — | — | 3,829 | — | — | — | — | 3,829 |
| Tax payments associated with stock-based compensation awards | — | — | (217) | — | — | — | — | — | (6,787) | (6,787) |
| Balance at February 28, 2018 | 118,214 | (8,460) | (22,248) | $118,214 | $729,439 | $1,662,118 | $(16,924) | $(91,760) | $(548,365) | $1,852,722 |

On February 15, 2019, the management development and compensation committee of our board of directors approved the payout of 297,260 shares of our common stock in connection with the vesting of PSUs that were granted to certain employees on October 8, 2015. The shares paid out under the PSUs reflected our achievement of certain performance measures that were based on average return on invested capital and cumulative earnings per share, and revenue growth relative to a peer group of high-production public homebuilding companies over the three-year period from December 1, 2015 through November 30, 2018. Of the shares of common stock paid out, 147,382 shares or $3.3 million, were purchased by us in the 2019 first quarter to satisfy the recipients' withholding taxes on the vesting of the PSUs. The shares purchased were not considered repurchases under the authorizations described below.

As of February 28, 2019, we were authorized to repurchase 2,193,947 shares of our common stock under a board of directors approved share repurchase program. We did not repurchase any of our common stock under this program in the three months ended February 28, 2019.

Unrelated to the share repurchase program, our board of directors authorized in 2014 the repurchase of not more than 680,000 shares of our outstanding common stock, and also authorized potential future grants of up to 680,000 stock payment awards under the KB Home 2014 Equity Incentive Plan ("2014 Plan"), in each case solely as necessary to settle outstanding stock appreciation rights awards granted under our Non-Employee Directors Compensation Plan. As of February 28, 2019, we have not repurchased any shares and no stock payment awards have been granted under the 2014 Plan pursuant to the board of directors authorization.

During each of the three-month periods ended February 28, 2019 and 2018, our board of directors declared, and we paid, a quarterly cash dividend of $.025 per share of common stock.

19. Stock-Based Compensation

Stock Options. We estimate the grant-date fair value of stock options using the Black-Scholes option-pricing model. The following table summarizes stock option transactions for the three months ended February 28, 2019:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at beginning of period | 7,237,544 | $ 16.02 |
| Granted | — | — |
| Exercised | (62,292 ) | 13.36 |
| Cancelled | — | — |
| Options outstanding at end of period | 7,175,252 | $ 16.04 |
| Options exercisable at end of period | 6,886,378 | $ 16.04 |

As of February 28, 2019, the weighted average remaining contractual life of stock options outstanding and stock options exercisable was 3.8 years and 3.6 years, respectively. There was $.1 million of total unrecognized compensation expense related to unvested stock option awards as of February 28, 2019 that is expected to be recognized over a weighted average period of 0.6 years. For the three months ended February 28, 2019, stock-based compensation expense was nominal compared to $.2 million for the three months ended February 28, 2018. The aggregate intrinsic values of stock options outstanding and stock options exercisable were $62.3 million and $60.4 million, respectively, at February 28, 2019. (The intrinsic value of a stock option is the amount by which the market value of a share of the underlying common stock exceeds the exercise price of the stock option.)

Other Stock-Based Awards. From time to time, we grant restricted stock and PSUs to various employees as a compensation benefit. We recognized total compensation expense of $4.1 million and $3.7 million for the three months ended February 28, 2019 and 2018, respectively, related to restricted stock and PSUs.

20. 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, | |
|---|---|---|
| | 2019 | 2018 |
| Summary of cash and cash equivalents at end of period: | | |
| Homebuilding | $511,690 | $560,255 |
| Financial services | 717 | 551 |
| Total | $512,407 | $560,806 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid, net of amounts capitalized | $(15,318 ) | $(9,696 ) |
| Income taxes paid | 113 | 1,639 |

27

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Supplemental disclosures of non-cash activities: | | |
| Decrease in inventories due to adoption of ASC 606 | $(35,288) | $ — |
| Increase in property and equipment, net due to adoption of ASC 606 | 31,194 | — |
| Increase (decrease) in consolidated inventories not owned | (16,262 ) | 8,466 |
| Increase in inventories due to distributions of land and land development from an unconsolidated joint venture | 1,946 | 2,699 |
| Inventories acquired through seller financing | — | 36,697 |

21. Supplemental Guarantor Information

Our obligations to pay principal, premium, if any, and interest on the senior notes and borrowings, if any, under the Credit Facility are guaranteed on a joint and several basis by certain of our subsidiaries ("Guarantor Subsidiaries"). The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. Pursuant to the terms of the indenture governing the senior notes and the terms of the Credit Facility, if any of the Guarantor Subsidiaries ceases to be a "significant subsidiary" as defined by Rule 1-02 of Regulation S-X using a 5% rather than a 10% threshold (provided that the assets of our non-guarantor subsidiaries do not in the aggregate exceed 10% of an adjusted measure of our consolidated total assets), it will be automatically and unconditionally released and discharged from its guaranty of the senior notes and the Credit Facility so long as all guarantees by such Guarantor Subsidiary of any other of our or our subsidiaries' indebtedness are terminated at or prior to the time of such release.

We have determined that separate, full financial statements of the Guarantor Subsidiaries would not be material to investors and, accordingly, supplemental financial information for the Guarantor Subsidiaries is presented.

The supplemental financial information for all periods presented below reflects the relevant subsidiaries that were Guarantor Subsidiaries as of February 28, 2019.

Condensed Consolidating Statements of Operations (in thousands)

| | Three Months Ended February 28, 2019 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Total revenues | $— | $744,453 | $ 67,030 | $ — | $811,483 |
| Homebuilding: | | | | | |
| Revenues | $— | $744,453 | $ 64,335 | $ — | $808,788 |
| Construction and land costs | — | (611,041 ) | (59,814 ) | — | (670,855 ) |
| Selling, general and administrative expenses | (25,382 ) | (75,540 ) | (5,672 ) | — | (106,594 ) |
| Operating income (loss) | (25,382 ) | 57,872 | (1,151 ) | — | 31,339 |
| Interest income | 1,014 | — | 91 | — | 1,105 |
| Interest expense | (33,195 ) | (321 ) | (1,272 ) | 34,788 | — |
| Intercompany interest | 77,972 | (41,738 ) | (1,446 ) | (34,788 ) | — |
| Equity in loss of unconsolidated joint ventures | — | (406 ) | — | — | (406 ) |
| Homebuilding pretax income (loss) | 20,409 | 15,407 | (3,778 ) | — | 32,038 |
| Financial services pretax income | — | — | 2,473 | — | 2,473 |
| Total pretax income (loss) | 20,409 | 15,407 | (1,305 ) | — | 34,511 |
| Income tax expense | (700 ) | (3,400 ) | (400 ) | — | (4,500 ) |
| Equity in net income of subsidiaries | 10,302 | — | — | (10,302 ) | — |
| Net income (loss) | $30,011 | $12,007 | $ (1,705 ) | $ (10,302 ) | $30,011 |

28

| | Three Months Ended February 28, 2018 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Total revenues | $— | $ 794,689 | $ 76,934 | $ — | $ 871,623 |
| Homebuilding: | | | | | |
| Revenues | $— | $ 794,689 | $ 74,516 | $ — | $ 869,205 |
| Construction and land costs | — | (664,096 ) | (65,382 ) | — | (729,478 ) |
| Selling, general and administrative expenses | (22,166 ) | (67,117 ) | (6,441 ) | — | (95,724 ) |
| Operating income (loss) | (22,166 ) | 63,476 | 2,693 | — | 44,003 |
| Interest income | 998 | 5 | — | — | 1,003 |
| Interest expense | (37,972 ) | (689 ) | (1,283 ) | 39,944 | — |
| Intercompany interest | 72,846 | (30,954 ) | (1,948 ) | (39,944 ) | — |
| Equity in loss of unconsolidated joint ventures | — | (845 ) | — | — | (845 ) |
| Homebuilding pretax income (loss) | 13,706 | 30,993 | (538 ) | — | 44,161 |
| Financial services pretax income | — | — | 1,884 | — | 1,884 |
| Total pretax income | 13,706 | 30,993 | 1,346 | — | 46,045 |
| Income tax expense | (44,700 ) | (48,100 ) | (24,500 ) | — | (117,300 ) |
| Equity in net loss of subsidiaries | (40,261 ) | — | — | 40,261 | — |
| Net loss | $ (71,255 ) | $ (17,107 ) | $ (23,154 ) | $ 40,261 | $ (71,255 ) |

Condensed Consolidating Balance Sheets (in thousands)

| | February 28, 2019 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Assets | | | | | |
| Homebuilding: | | | | | |
| Cash and cash equivalents | $415,471 | $80,346 | $ 15,873 | $— | $511,690 |
| Receivables | 4,291 | 228,879 | 80,439 | — | 313,609 |
| Inventories | — | 3,435,361 | 248,402 | — | 3,683,763 |
| Investments in unconsolidated joint ventures | — | 57,134 | — | — | 57,134 |
| Property and equipment, net | 20,363 | 32,002 | 2,965 | — | 55,330 |
| Deferred tax assets, net | 80,339 | 299,769 | 53,187 | — | 433,295 |
| Other assets | 84,083 | 3,419 | 2,058 | — | 89,560 |
| | 604,547 | 4,136,910 | 402,924 | — | 5,144,381 |
| Financial services | — | — | 29,275 | — | 29,275 |
| Intercompany receivables | 3,757,220 | — | 174,018 | (3,931,238 ) | — |
| Investments in subsidiaries | 104,040 | — | — | (104,040 ) | — |
| Total assets | $4,465,807 | $4,136,910 | $ 606,217 | $(4,035,278 ) | $5,173,656 |
| Liabilities and stockholders’ equity | | | | | |
| Homebuilding: | | | | | |
| Accounts payable, accrued expenses and other liabilities | $122,161 | $443,269 | $ 274,966 | $— | $840,396 |
| Notes payable | 2,166,461 | 12,018 | 25,110 | — | 2,203,589 |
| | 2,288,622 | 455,287 | 300,076 | — | 3,043,985 |
| Financial services | — | — | 1,174 | — | 1,174 |
| Intercompany payables | 48,688 | 3,666,215 | 216,335 | (3,931,238 ) | — |
| Stockholders’ equity | 2,128,497 | 15,408 | 88,632 | (104,040 ) | 2,128,497 |
| Total liabilities and stockholders’ equity | $4,465,807 | $4,136,910 | $ 606,217 | $(4,035,278 ) | $5,173,656 |

| | November 30, 2018 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Assets | | | | | |
| Homebuilding: | | | | | |
| Cash and cash equivalents | $429,977 | $114,269 | $ 30,113 | $— | $574,359 |
| Receivables | 5,135 | 198,465 | 89,230 | — | 292,830 |
| Inventories | — | 3,314,386 | 268,453 | — | 3,582,839 |
| Investments in unconsolidated joint ventures | — | 61,960 | — | — | 61,960 |
| Property and equipment, net | 18,450 | 5,523 | 310 | — | 24,283 |
| Deferred tax assets, net | 84,564 | 303,669 | 53,587 | — | 441,820 |
| Other assets | 77,288 | 4,007 | 1,805 | — | 83,100 |
| | 615,414 | 4,002,279 | 443,498 | — | 5,061,191 |
| Financial services | — | — | 12,380 | — | 12,380 |
| Intercompany receivables | 3,569,422 | — | 158,760 | (3,728,182 ) | — |
| Investments in subsidiaries | 67,657 | — | — | (67,657 ) | — |
| Total assets | $4,252,493 | $4,002,279 | $ 614,638 | $(3,795,839 ) | $5,073,571 |
| Liabilities and stockholders' equity | | | | | |
| Homebuilding: | | | | | |
| Accounts payable, accrued expenses and other liabilities | $126,176 | $584,321 | $ 213,816 | $— | $924,313 |
| Notes payable | 1,995,115 | 40,038 | 25,110 | — | 2,060,263 |
| | 2,121,291 | 624,359 | 238,926 | — | 2,984,576 |
| Financial services | — | — | 1,495 | — | 1,495 |
| Intercompany payables | 43,702 | 3,377,920 | 306,560 | (3,728,182 ) | — |
| Stockholders' equity | 2,087,500 | — | 67,657 | (67,657 ) | 2,087,500 |
| Total liabilities and stockholders' equity | $4,252,493 | $4,002,279 | $ 614,638 | $(3,795,839 ) | $5,073,571 |

Condensed Consolidating Statements of Cash Flows (in thousands)

| | Three Months Ended February 28, 2019 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Net cash provided by (used in) operating activities | $13,062 | $(337,286) | $ 126,014 | $ — | $(198,210) |
| Cash flows from investing activities: | | | | | |
| Contributions to unconsolidated joint ventures | — | (2,527) | — | — | (2,527) |
| Return of investments in unconsolidated joint ventures | — | 5,001 | — | — | 5,001 |
| Proceeds from sale of building | — | 5,804 | — | — | 5,804 |
| Purchases of property and equipment, net | (2,068) | (2,032) | (5,925) | — | (10,025) |
| Intercompany | (190,765) | — | — | 190,765 | — |
| Net cash provided by (used in) investing activities | (192,833) | 6,246 | (5,925) | 190,765 | (1,747) |
| Cash flows from financing activities: | | | | | |
| Proceeds from issuance of debt | 405,250 | — | — | — | 405,250 |
| Payment of debt issuance costs | (5,209) | — | — | — | (5,209) |
| Repayment of senior notes | (230,000) | — | — | — | (230,000) |
| Borrowings under revolving credit facility | 140,000 | — | — | — | 140,000 |
| Repayments under revolving credit facility | (140,000) | — | — | — | (140,000) |
| Payments on mortgages and land contracts due to land sellers and other loans | — | (28,020) | — | — | (28,020) |
| Issuance of common stock under employee stock plans | 832 | — | — | — | 832 |
| Tax payments associated with stock-based compensation awards | (3,342) | — | — | — | (3,342) |
| Payments of cash dividends | (2,266) | — | — | — | (2,266) |
| Intercompany | — | 325,137 | (134,372) | (190,765) | — |
| Net cash provided by (used in) financing activities | 165,265 | 297,117 | (134,372) | (190,765) | 137,245 |
| Net decrease in cash and cash equivalents | (14,506) | (33,923) | (14,283) | — | (62,712) |
| Cash and cash equivalents at beginning of period | 429,977 | 114,269 | 30,873 | — | 575,119 |
| Cash and cash equivalents at end of period | $415,471 | $80,346 | $ 16,590 | $ — | $512,407 |

32

| | Three Months Ended February 28, 2018 | | | | |
|---|---|---|---|---|---|
| | KB Home Corporate | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Total |
| Net cash provided by (used in) operating activities | $3,066 | $(137,254) | $ (7,492) | $ — | $(141,680) |
| Cash flows from investing activities: | | | | | |
| Contributions to unconsolidated joint ventures | — | (8,025) | — | — | (8,025) |
| Return of investments in unconsolidated joint ventures | — | 1,099 | — | — | 1,099 |
| Sale (purchases) of property and equipment, net | (1,776) | (177) | 29 | — | (1,924) |
| Intercompany | (114,691) | — | — | 114,691 | — |
| Net cash provided by (used in) investing activities | (116,467) | (7,103) | 29 | 114,691 | (8,850) |
| Cash flows from financing activities: | | | | | |
| Payments on mortgages and land contracts due to land sellers and other loans | — | (2,442) | (920) | — | (3,362) |
| Issuance of common stock under employee stock plans | 2,946 | — | — | — | 2,946 |
| Tax payments associated with stock-based compensation awards | (6,787) | — | — | — | (6,787) |
| Payments of cash dividends | (2,322) | — | — | — | (2,322) |
| Intercompany | — | 118,004 | (3,313) | (114,691) | — |
| Net cash provided by (used in) financing activities | (6,163) | 115,562 | (4,233) | (114,691) | (9,525) |
| Net decrease in cash and cash equivalents | (119,564) | (28,795) | (11,696) | — | (160,055) |
| Cash and cash equivalents at beginning of period | 575,193 | 104,120 | 41,548 | — | 720,861 |
| Cash and cash equivalents at end of period | $455,629 | $75,325 | $ 29,852 | $ — | $560,806 |

22. Subsequent Event

On March 8, 2019, we optionally redeemed the entire $400.0 million in aggregate principal amount of our 4.75% Senior Notes due 2019, which were scheduled to mature on May 15, 2019.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations
OVERVIEW
Revenues are generated from our homebuilding and financial services operations. The following table presents a summary of our consolidated results of operations (dollars in thousands, except per share amounts):

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| Revenues: | | | |
| Homebuilding | $808,788 | $869,205 | (7) % |
| Financial services | 2,695 | 2,418 | 11 |
| Total revenues | $811,483 | $871,623 | (7) % |
| Pretax income: | | | |
| Homebuilding | $32,038 | $44,161 | (27) % |
| Financial services | 2,473 | 1,884 | 31 |
| Total pretax income | 34,511 | 46,045 | (25 ) |
| Income tax expense | (4,500 ) | (117,300 ) | (96) % |
| Net income (loss) | $30,011 | $(71,255 ) | (a) |
| Basic earnings (loss) per share | $.34 | $(.82 ) | (a) |
| Diluted earnings (loss) per share | $.31 | $(.82 ) | (a) |

(a) Percentage not meaningful.

While fundamental housing market factors were generally favorable in the 2019 first quarter, with strong employment levels, relatively high consumer confidence and a limited supply of homes available for sale, affordability concerns, stemming from several years of home price appreciation and a rise in mortgage interest rates, that emerged in the latter part of 2018 continued to temper homebuyer demand. The year-over-year decline in our net order and backlog values for the second half of 2018, which primarily resulted from our lower overall average community count for the year, together with the related homebuyer demand dynamics, negatively impacted our results for the 2019 first quarter compared to the year-earlier quarter, including with respect to our homes delivered, revenues, pretax income, net orders and backlog. In light of consumers’ heightened affordability concerns, we are implementing targeted product refinements in certain communities, including the addition of smaller square footage plans that offer comparable room count and livability, while retaining a wide range of choice for our customers. At the same time, we are encouraged that our net order activity improved over the course of the quarter as mortgage interest rates stabilized and moderated. We believe a continuation of these trends would enable us to generate year over year revenue growth in the 2019 second half.

Within our homebuilding operations, housing revenues for the 2019 first quarter declined 8% year over year to $798.2 million, as the number of homes we delivered decreased 3% to 2,152 and the overall average selling price of those homes declined 5% to $370,900. Homebuilding operating income for the quarter decreased 29% year over year to $31.3 million, and, as a percentage of related revenues, declined 120 basis points to 3.9%. Our housing gross profits for the quarter decreased compared to the year-earlier period mainly due to the lower volume of homes delivered and corresponding lower housing revenues, partially offset by a 100 basis point increase in our housing gross profit margin to 17.1%. The expansion of our housing gross profit margin primarily reflected a reduction in the amortization of previously capitalized interest and accounting changes resulting from our adoption of ASC 606, effective December 1, 2018, partly offset by other items. Our selling, general and administrative expense ratio increased 240 basis points to 13.4% of housing revenues, also reflecting our adoption of ASC 606, as well as increased marketing expenses to support new community openings in the quarter and the impact of legal recoveries and favorable legal settlements in the prior-year quarter. Further information regarding the accounting impacts resulting from our adoption of ASC 606 is provided in Note 1 – Basis of Presentation and Significant Accounting Policies in the Notes to Consolidated Financial Statements in this report.

Reflecting the continued effective execution of our three-year Returns-Focused Growth Plan, which is centered around enhancing asset efficiency, reducing leverage and improving returns, we invested $384.2 million in land and land development during the

34

2019 first quarter and repaid the entire $230.0 million in aggregate principal amount of our 1.375% Convertible Senior Notes due 2019 at their February 1, 2019 maturity.

On February 20, 2019, we completed concurrent public offerings of $300.0 million in aggregate principal amount of 6.875% Senior Notes due 2027 and an additional $100.0 million in aggregate principal amount of our existing series of 7.625% Senior Notes due 2023. Net proceeds from these offerings totaled $400.0 million, after deducting the underwriting discount and our expenses relating to the offerings, and were applied towards the optional redemption of the entire $400.0 million in aggregate principal amount of our 4.75% Senior Notes due 2019 before their May 15, 2019 maturity date, which redemption we announced on February 5, 2019 and completed on March 8, 2019.

Our financial leverage, as measured by the ratio of debt to capital, was 50.9% at February 28, 2019, compared to 49.7% at November 30, 2018. Our ratio of net debt to capital (a calculation that is described below under "Non-GAAP Financial Measures") at February 28, 2019 was 44.3%, compared to 41.6% at November 30, 2018, within the targeted range of 35% to 45% under our Returns-Focused Growth Plan.

The following table presents information concerning our net orders, cancellation rates, ending backlog and community count for the three-month periods ended February 28, 2019 and 2018 (dollars in thousands):

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Net orders | 2,675 | 2,784 |
| Net order value (a) | $1,022,087 | $1,173,092 |
| Cancellation rates (b) | 20 % | 20 % |
| Ending backlog — homes | 4,631 | 4,972 |
| Ending backlog — value | $1,658,284 | $1,966,683 |
| Ending community count | 248 | 219 |
| Average community count | 244 | 222 |

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

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

Net Orders. For the three months ended February 28, 2019, net orders from our homebuilding operations declined 4% from the year-earlier period, reflecting a 12% decrease in monthly net orders per community to 3.7, partly offset by a 10% increase in our overall average community count. The combination of fewer net orders and a 9% decrease in the overall average selling price of those orders, mainly stemming from a shift in geographic mix, resulted in the value of our 2019 first quarter net orders decreasing 13% from the year-earlier quarter. The year-over-year decline in overall net order value reflected decreases in our West Coast, Southwest and Central homebuilding reporting segments that were partly offset by a 27% increase in our Southeast segment. The largest decrease occurred in our West Coast segment, which posted a 28% year-over-year decline in net order value, reflecting a 13% decrease in net orders and a 16% decline in the average selling price of those orders mainly due to a mix shift, with a higher percentage of net orders generated from markets with lower average selling prices, and the close-out of certain higher priced communities in 2018. While the average community count in our West Coast segment increased, the decline in net orders reflected a 26% year-over-year decrease in net orders per community that was partly due to softer market conditions amid consumer affordability concerns. The year-over-year increase in net order value in our Southeast segment reflected 25% growth in net orders due to the higher average community count in the segment and a slight increase in the average selling price of those orders. Our cancellation rate as a percentage of gross orders for the three months ended February 28, 2019 was flat with the year-earlier quarter.

Backlog. The number of homes in our backlog at February 28, 2019 decreased 7% from February 28, 2018. The potential future housing revenues in our backlog at February 28, 2019 declined 16% from the prior-year period, reflecting the lower number of homes in our backlog and a 9% decrease in the average selling price of those homes primarily due to a shift in geographic mix. The decline in our backlog value reflected year-over-year decreases in our West Coast, Southwest and Central homebuilding reporting segments, partly offset by an increase in our Southeast

segment. Our backlog value declined largely as a result of the 14% year-over-year decrease we had at the beginning of the quarter, which primarily reflected our lower overall average community

35

---

count for 2018, along with the impact from certain West Coast segment communities with average selling prices of $1.1 million to $1.8 million that closed out in 2018.

Community Count. We use the term “community count” to refer to the number of communities with at least five homes/lots left to sell at the end of a reporting period. Our average community count for the 2019 first quarter increased 10% from the year-earlier period, with increases in all four of our homebuilding reporting segments. Our ending community count rose 13% year over year, with increases in all four of our homebuilding reporting segments, ranging from 4% in our Central segment to 26% in our Southeast segment. Sequentially, our overall 2019 first quarter average community count increased 5% and ending community count increased 3%, both as compared to the 2018 fourth quarter.

To drive future community openings in the remainder of 2019 and beyond, we invested $384.2 million in land and land development during the three months ended February 28, 2019, compared to $465.0 million in the corresponding 2018 period.

HOMEBUILDING

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues: | | |
| Housing | $798,171 | $866,540 |
| Land | 10,617 | 2,665 |
| Total | 808,788 | 869,205 |
| Costs and expenses: | | |
| Construction and land costs | | |
| Housing | (661,328) | (727,080) |
| Land | (9,527) | (2,398) |
| Total | (670,855) | (729,478) |
| Selling, general and administrative expenses | (106,594) | (95,724) |
| Total | (777,449) | (825,202) |
| Operating income | $31,339 | $44,003 |
| Homes delivered | 2,152 | 2,223 |
| Average selling price | $370,900 | $389,800 |
| Housing gross profit margin as a percentage of housing revenues | 17.1 % | 16.1 % |
| Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues | 17.6 % | 16.7 % |
| Adjusted housing gross profit margin as a percentage of housing revenues | 21.3 % | 21.4 % |
| Selling, general and administrative expenses as a percentage of housing revenues | 13.4 % | 11.0 % |
| Operating income as a percentage of homebuilding revenues | 3.9 % | 5.1 % |

For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast. As of February 28, 2019, our homebuilding reporting segments consisted of ongoing operations located in the following states: West Coast — California and Washington; Southwest — Arizona and Nevada; Central — Colorado and Texas; and Southeast — Florida and North Carolina. The following tables present homes delivered, net orders, cancellation rates as a percentage of gross orders, net order value, average community count and ending backlog (number of homes and value) by homebuilding reporting segment (dollars in thousands):

| | Three Months Ended February 28, | | | | | |
|---|---|---|---|---|---|---|
| | Homes Delivered | | Net Orders | | Cancellation Rates | |
| Segment | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| West Coast | 497 | 592 | 699 | 807 | 20 % | 12 % |
| Southwest | 483 | 500 | 533 | 568 | 13 | 16 |
| Central | 824 | 821 | 926 | 996 | 24 | 26 |
| Southeast | 348 | 310 | 517 | 413 | 20 | 22 |
| Total | 2,152 | 2,223 | 2,675 | 2,784 | 20 % | 20 % |

| | Net Order Value | | | Average Community Count | | |
|---|---|---|---|---|---|---|
| Segment | 2019 | 2018 | Variance | 2019 | 2018 | Variance |
| West Coast | $420,461 | $580,422 | (28) % | 61 | 52 | 17 % |
| Southwest | 170,839 | 176,942 | (3 ) | 38 | 36 | 6 |
| Central | 284,266 | 299,928 | (5 ) | 95 | 94 | 1 |
| Southeast | 146,521 | 115,800 | 27 | 50 | 40 | 25 |
| Total | $1,022,087 | $1,173,092 | (13) % | 244 | 222 | 10 % |

| | February 28, | | | | | |
|---|---|---|---|---|---|---|
| | Backlog – Homes | | | Backlog – Value | | |
| Segment | 2019 | 2018 | Variance | 2019 | 2018 | Variance |
| West Coast | 917 | 1,097 | (16) % | $533,076 | $800,065 | (33) % |
| Southwest | 976 | 1,156 | (16 ) | 315,797 | 352,560 | (10 ) |
| Central | 1,816 | 1,957 | (7 ) | 537,351 | 599,690 | (10 ) |
| Southeast | 922 | 762 | 21 | 272,060 | 214,368 | 27 |
| Total | 4,631 | 4,972 | (7) % | $1,658,284 | $1,966,683 | (16) % |

Revenues. Homebuilding revenues for the three months ended February 28, 2019 declined 7% from the year-earlier period to $808.8 million due to a decrease in housing revenues that was partly offset by an increase in land sale revenues.

Housing revenues for the three months ended February 28, 2019 decreased 8% year over year to $798.2 million due to a lower number of homes delivered and a decrease in the overall average selling price of those homes. We delivered 2,152 homes in the 2019 first quarter, down 3%, largely due to the 7% lower backlog level we had at the beginning of the quarter as compared to the year-earlier quarter, which reflected our lower overall average community count for 2018. The lower number of homes delivered was primarily from our West Coast homebuilding reporting segment due to softer market conditions amid consumer affordability concerns that impacted net orders in the latter half of 2018, along with specific community mix impacts. The overall average selling price of homes delivered decreased 5%, reflecting a shift in the geographic mix of homes delivered, with increases in both our Southwest and Southeast homebuilding reporting segments that were more than offset by a lower proportion of homes delivered from our West Coast segment, and the absence of certain West Coast segment communities with average selling prices of $1.1 million to $1.8 million that closed out in 2018. In addition, there was a mix shift within our Central segment, with a lower proportion of deliveries from our Colorado operations.

Land sale revenues totaled $10.6 million for the three months ended February 28, 2019 and $2.7 million for the three months ended February 28, 2018. Generally, land sale revenues fluctuate with our decisions to maintain or decrease our land ownership position in certain markets based upon the volume of our holdings, our business strategy, the strength and number of developers and other land buyers in particular markets at given points in time, the availability of opportunities to sell land at acceptable prices and prevailing market conditions.

Operating Income. Our homebuilding operating income decreased 29% year over year to $31.3 million for the three months ended February 28, 2019. Homebuilding operating income for the 2019 first quarter included total inventory-related charges of $3.6 million, compared to $5.0 million in the corresponding 2018 quarter. As a

percentage of homebuilding revenues, our

37

---

homebuilding operating income for the three months ended February 28, 2019 declined 120 basis points year over year to 3.9%. Excluding inventory-related charges, our homebuilding operating income margin was 4.3% for the three months ended February 28, 2019 and 5.6% for the three months ended February 28, 2018.

The year-over-year decline in our homebuilding operating income for the three months ended February 28, 2019 primarily reflected lower housing gross profits and higher selling, general and administrative expenses.

Housing gross profits of $136.8 million for the three months ended February 28, 2019 decreased 2% from $139.5 million for the year-earlier period, reflecting decreases in the number of homes delivered and housing revenues that were partly offset by a higher housing gross profit margin. Our housing gross profit margin for the 2019 first quarter increased 100 basis points year over year to 17.1%. The improvement in our housing gross profit margin reflected a decrease in the amortization of previously capitalized interest as a percentage of housing revenues resulting from a reduction in interest incurred (approximately 100 basis points), the impact of our adoption of ASC 606 (approximately 70 basis points) and a decrease in inventory-related charges (approximately 10 basis points), partly offset by decreased operating leverage on fixed costs (approximately 60 basis points) and an increase in sales incentives (approximately 20 basis points). In addition, the improvement partly resulted from shifts in the geographic mix of homes delivered between and within our homebuilding reporting segments.

We incur interest principally from our borrowings to finance land acquisitions, land development, home construction and other operating and capital needs. Interest incurred decreased to $34.8 million for the three months ended February 28, 2019 from $39.9 million for the year-earlier period, largely due to our lower average debt level. All interest incurred during the three-month periods ended February 28, 2019 and 2018 was capitalized as the average amount of our inventory qualifying for interest capitalization was higher than our average debt level for the period. As a result, we had no interest expense for these periods.

Interest amortized to construction and land costs associated with housing operations was $30.0 million and $41.4 million for the three-month periods ended February 28, 2019 and 2018, respectively. As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations was 3.7% and 4.7% for the three months ended February 28, 2019 and 2018, respectively.

Excluding the amortization of previously capitalized interest associated with housing operations and the above-mentioned inventory-related charges in the three months ended February 28, 2019 and 2018, our adjusted housing gross profit margin declined 10 basis points from the year-earlier quarter to 21.3%. The calculation of adjusted housing gross profit margin, which we believe provides a clearer measure of the performance of our business, is described below under “Non-GAAP Financial Measures.”

Selling, general and administrative expenses for the 2019 first quarter rose to $106.6 million from $95.7 million for the year-earlier quarter, mainly due to the above-mentioned accounting changes resulting from the adoption of ASC 606, increased marketing expenses to support new community openings in the quarter and the impact of legal recoveries and favorable legal settlements in the prior-year quarter. As a percentage of housing revenues, our selling, general and administrative expenses increased 240 basis points to 13.4%, reflecting lower housing revenues and higher expenses in the 2019 first quarter as compared to the year-earlier quarter.

Land sale profits totaled $1.1 million for the three months ended February 28, 2019, compared to $.3 million for the year-earlier period.

The estimated remaining life of each community or land parcel in our inventory depends on various factors, such as the total number of lots remaining; the expected timeline to acquire and entitle land and develop lots to build homes; the anticipated future net order and cancellation rates; and the expected timeline to build and deliver homes sold. While it is difficult to determine a precise timeframe for any particular inventory asset, based on current market conditions and expected delivery timelines, we estimate our inventory assets’ remaining operating lives to range generally from one year to in excess of 10 years and expect to realize, on an overall basis, the majority of our inventory balance as of February 28, 2019 within five years. The following table presents as of February 28, 2019, the estimated timeframe of delivery for the last home in an applicable community or land parcel and the corresponding percentage of total inventories such categories represent within our inventory balance (dollars in millions):

| 0-2 years | | 3-5 years | | 6-10 years | | Greater than 10 years | | |
|---|---|---|---|---|---|---|---|---|
| $ | % | $ | % | $ | % | $ | % | Total |

| Inventories | $1,867.1 | 50% | $1,538.3 | 42% | $259.6 | 7% | $18.8 | 1% | $3,683.8 |
|---|---|---|---|---|---|---|---|---|---|

The inventory balances in the 0-2 years and 3-5 years categories were located in all of our homebuilding reporting segments, though mostly in our West Coast and Central segments. These categories collectively represented 92% of our total inventories at February 28, 2019, compared to 91% at November 30, 2018. The inventory balances in the 6-10 years and greater than 10 years

categories were primarily located in our West Coast, Southwest and Central homebuilding reporting segments, and together totaled $278.4 million at February 28, 2019, compared to $309.7 million at November 30, 2018. The inventories in the 6-10 years and greater than 10 years categories were generally comprised of land held for future development and active, multi-phase communities with large remaining land positions.

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

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

We believe that the carrying value of our inventory balance as of February 28, 2019 is recoverable. Our considerations in making this determination include the factors and trends incorporated into our inventory impairment analyses and, as applicable, the prevailing regulatory environment, competition from other homebuilders, inventory levels and sales activity of resale homes, and the local economic conditions where an asset is located. In addition, we consider the financial and operational status and expectations of our inventories as well as unique attributes of each community or land parcel that could be indicators for potential future impairments. However, if conditions in the overall housing market or in a specific market or submarket worsen in the future beyond our current expectations, if future changes in our business strategy significantly affect any key assumptions used in our projections of future cash flows, or if there are material changes in any of the other items we consider in assessing recoverability, we may recognize charges in future periods for inventory impairments or land option contract abandonments, or both, related to our current inventory assets. Any such charges could be material to our consolidated financial statements.

Interest Income. Interest income, which is generated from short-term investments, totaled $1.1 million for the three months ended February 28, 2019 and $1.0 million for the three months ended February 28, 2018. Generally, increases and decreases in interest income are attributable to changes in the interest-bearing average balances of short-term investments and fluctuations in interest rates.

Equity in Loss of Unconsolidated Joint Ventures. Our equity in loss of unconsolidated joint ventures improved slightly to $.4 million for the three months ended February 28, 2019, compared to $.8 million for the three months ended February 28, 2018. Further information regarding our investments in unconsolidated joint ventures is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

NON-GAAP FINANCIAL MEASURES

This report contains information about our adjusted housing gross profit margin, adjusted income tax expense, adjusted net income, adjusted diluted earnings per share, adjusted effective tax rate and ratio of net debt to capital, none of which are calculated in accordance with GAAP. We believe these non-GAAP financial measures are relevant and useful to investors in understanding our operations and the leverage employed in our operations, and may be helpful in comparing us with other companies in the homebuilding industry to the extent they provide similar information. However, because they are not calculated in accordance with GAAP, these non-GAAP financial measures may not be completely comparable to other companies in the homebuilding industry and, thus, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, these non-GAAP financial measures should be used to supplement their respective most directly comparable GAAP financial measures in order to provide a greater understanding of the factors and trends affecting our operations.

Adjusted Housing Gross Profit Margin. The following table reconciles our housing gross profit margin calculated in accordance with GAAP to the non-GAAP financial measure of our adjusted housing gross profit margin (dollars in thousands):

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Housing revenues | $798,171 | $866,540 |
| Housing construction and land costs | (661,328 ) | (727,080 ) |
| Housing gross profits | 136,843 | 139,460 |
| Add: Inventory-related charges (a) | 3,555 | 4,985 |
| Housing gross profits excluding inventory-related charges | 140,398 | 144,445 |
| Add: Amortization of previously capitalized interest (b) | 29,986 | 41,369 |
| Adjusted housing gross profits | $170,384 | $185,814 |
| Housing gross profit margin as a percentage of housing revenues | 17.1 % | 16.1 % |
| Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues | 17.6 % | 16.7 % |
| Adjusted housing gross profit margin as a percentage of housing revenues | 21.3 % | 21.4 % |

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

(b) Represents the amortization of previously capitalized interest associated with housing operations.

Adjusted housing gross profit margin is a non-GAAP financial measure, which we calculate by dividing housing revenues less housing construction and land costs excluding (1) housing inventory impairment and land option contract abandonment charges (as applicable) recorded during a given period and (2) amortization of previously capitalized interest associated with housing operations, by housing revenues. The most directly comparable GAAP financial measure is housing gross profit margin. We believe adjusted housing gross profit margin is a relevant and useful financial measure to investors in evaluating our performance as it measures the gross profits we generated specifically on the homes delivered during a given period. This non-GAAP financial measure isolates the impact that the housing inventory impairment and land option contract abandonment charges, and the amortization of previously capitalized interest associated with housing operations, have on housing gross profit margins, and allows investors to make comparisons with our competitors that adjust housing gross profit margins in a similar manner. We also believe investors will find adjusted housing gross profit margin relevant and useful because it represents a profitability measure that may be compared to a prior period without regard to variability of housing inventory impairment and land option contract abandonment charges, and amortization of previously capitalized interest associated with housing operations. This financial measure assists us in making strategic decisions regarding community location and product mix, product pricing and construction pace.

Adjusted Income Tax Expense, Adjusted Net Income, Adjusted Diluted Earnings Per Share and Adjusted Effective Tax Rate. The following table reconciles our income tax expense, net income (loss), diluted earnings (loss) per share and effective tax rate calculated in accordance with GAAP to the non-GAAP financial measures of our adjusted income tax expense, adjusted net income, adjusted diluted earnings per share and adjusted effective tax rate, respectively (in thousands, except per share amounts and percentages):

| | Three Months Ended February 28, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | | |
| | As Reported | As Reported | TCJA Adjustment | As Adjusted |
| Total pretax income | $34,511 | $46,045 | $ — | $46,045 |
| Income tax expense (a) | (4,500 ) | (117,300 ) | 111,200 | (6,100 ) |
| Net income (loss) | $30,011 | $(71,255 ) | $ 111,200 | $39,945 |
| Diluted earnings (loss) per share | $.31 | $(.82 ) | | $.40 |
| Weighted average shares outstanding — diluted | 96,962 | 87,155 | | 101,401 |
| Effective tax rate (a) | 13.0 % | 254.8 % | | 13.2 % |

(a) For the three months ended February 28, 2019, income tax expense and the related effective tax rate included the favorable impacts of a $3.3 million reversal of a deferred tax asset valuation allowance and $2.0 million of excess tax benefits from stock-based compensation, partly offset by $.8 million of other items. For the three months ended February 28, 2018, income tax expense and adjusted income tax expense, as well as the related effective tax rate and adjusted effective tax rate, included the favorable impacts of $4.0 million of federal energy tax credits we earned from building energy efficient homes and $2.2 million of excess tax benefits from stock-based compensation.

Our adjusted income tax expense, adjusted net income, adjusted diluted earnings per share and adjusted effective tax rate are non-GAAP financial measures, which we calculate by excluding a non-cash charge of $111.2 million recorded in the 2018 first quarter from our reported income tax expense, net loss, diluted loss per share and effective tax rate, respectively. This charge was primarily due to our accounting re-measurement of our deferred tax assets based on the reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, under the TCJA. The most directly comparable GAAP financial measures are our income tax expense, net income (loss), diluted earnings (loss) per share and effective tax rate. We believe these non-GAAP measures are meaningful to investors as they allow for an evaluation of our operating results without the impact of the TCJA-related charge.

Ratio of Net Debt to Capital. The following table reconciles our ratio of debt to capital calculated in accordance with GAAP to the non-GAAP financial measure of our ratio of net debt to capital (dollars in thousands):

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Notes payable | $2,203,589 | $2,060,263 |
| Stockholders' equity | 2,128,497 | 2,087,500 |
| Total capital | $4,332,086 | $4,147,763 |
| Ratio of debt to capital | 50.9 % | 49.7 % |
| | | |
| Notes payable | $2,203,589 | $2,060,263 |
| Less: Cash and cash equivalents | (511,690 ) | (574,359 ) |
| Net debt | 1,691,899 | 1,485,904 |
| Stockholders' equity | 2,128,497 | 2,087,500 |
| Total capital | $3,820,396 | $3,573,404 |
| Ratio of net debt to capital | 44.3 % | 41.6 % |

The ratio of net debt to capital is a non-GAAP financial measure, which we calculate by dividing notes payable, net of homebuilding cash and cash equivalents, by capital (notes payable, net of homebuilding cash and cash equivalents, plus stockholders' equity). The most directly comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to capital is a relevant and useful financial measure to investors in understanding the degree of leverage employed in our operations.

HOMEBUILDING REPORTING SEGMENTS

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

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

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| Revenues | $305,810 | $386,652 | (21) % |
| Construction and land costs | (259,013 ) | (327,760 ) | 21 |
| Selling, general and administrative expenses | (28,721 ) | (26,997 ) | (6 ) |
| Operating income | $18,076 | $31,895 | (43) % |
| | | | |
| Homes delivered | 497 | 592 | (16) % |
| Average selling price | $607,500 | $652,800 | (7) % |
| Housing gross profit margin | 15.5 % | 15.2 % | 30 bps |

This segment's revenues for the three months ended February 28, 2019 and February 28, 2018 were generated from both housing operations and land sales. Housing revenues for the 2019 first quarter declined 22% to $301.9 million, from $386.5 million for the year-earlier quarter, reflecting decreases in both the number of homes delivered and the average selling price of those homes. The decrease in the number of homes delivered was primarily due to the 19% lower number of homes in backlog at the beginning of the 2019 first quarter, compared to the prior-year period, which resulted from the lower average community count and softer market conditions amid consumer affordability concerns that impacted net orders in the second half of 2018. The decline in the average selling price of homes delivered was due to a shift in product and geographic mix, particularly the absence of certain communities with average selling prices between $1.1 million and $1.8 million that closed out in 2018. Land sale revenues totaled $3.9 million and $.2 million for the three-month periods ended February 28, 2019 and 2018, respectively.

Operating income for the three months ended February 28, 2019 decreased by $13.8 million, or 43%, from the year-earlier period, primarily reflecting a decline in housing gross profits and an increase in selling, general and administrative expenses. Housing gross profits decreased as a result of a decline in both the number of homes delivered and the average selling price of those homes, partly offset by a 30 basis point improvement in the housing gross profit margin. The growth in the housing gross profit margin mainly reflected a reduction in the amortization of previously capitalized interest, accounting changes resulting from the above-described adoption of ASC 606 and a decrease in inventory-related charges impacting the housing gross profit margin to $3.3 million in the 2019 first quarter, compared to $4.9 million in the year-earlier quarter. These favorable impacts on housing gross profit margin were largely offset by an increase in construction and land costs as a percentage of housing revenues and decreased operating leverage on fixed costs due to the lower volume of homes delivered and corresponding lower housing revenues. Sales incentives as a percentage of housing revenues in the 2019 first quarter also increased from the year-earlier quarter. Land sales generated break-even results in the 2019 first quarter, compared to profits of $.2 million in the 2018 first quarter. Selling, general and administrative expenses for the three months ended February 28, 2019 increased from the year-earlier period, primarily due to the above-described adoption of ASC 606 and increased marketing expenses to support new community openings, partly offset by lower variable expenses associated with reduced housing revenues.

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

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| Revenues | $157,656 | $151,899 | 4 % |
| Construction and land costs | (121,218 ) | (124,608 ) | 3 |
| Selling, general and administrative expenses | (14,120 ) | (11,774 ) | (20 ) |
| Operating income | $22,318 | $15,517 | 44 % |
| | | | |
| Homes delivered | 483 | 500 | (3 ) % |
| Average selling price | $326,400 | $303,800 | 7 % |
| Housing gross profit margin | 23.1 % | 18.0 % | 510 bps |

This segment's revenues for the three months ended February 28, 2019 and 2018 were generated solely from housing operations. Housing revenues for the 2019 first quarter increased from the corresponding year-earlier period, reflecting an increase in the average selling price that was partly offset by a decrease in the number of homes delivered. The average selling price rose primarily due to a shift in product and geographic mix and generally favorable market conditions. The decline in the number of homes delivered was primarily due to the 15% lower number of homes in backlog at the beginning of the 2019 first quarter compared to the prior-year period, which primarily resulted from the lower average community count for 2018, and was attributable to our Arizona operations.
Operating income for the three months ended February 28, 2019 increased from the corresponding 2018 period due to higher housing gross profits, partly offset by higher selling, general and administrative expenses. The increase in housing gross profits primarily reflected a higher average selling price and a 510 basis point increase in the housing gross profit margin. The increase in the housing gross profit margin was largely due to a greater proportion of homes delivered from newer, higher-margin communities, a decrease in construction and land costs as a percentage of housing revenues, a decrease in the number of homes delivered from reactivated communities which typically have lower margins, a reduction in the amortization of previously capitalized interest and the above-described adoption of ASC 606. Inventory-related charges impacting the housing gross profit margin totaled $.1 million for the three months ended February 28, 2019, compared to no such charges in the year-earlier period. Selling, general and administrative expenses for the 2019 first quarter increased from the corresponding 2018 quarter, mainly due to the above-described adoption of ASC 606 and increased marketing expenses to support new community openings. In addition, selling, general and administrative expenses for the 2018 first quarter also included legal recoveries.
Central. The following table presents financial information related to our Central segment for the periods indicated (dollars in thousands, except average selling price):

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| Revenues | $241,592 | $244,181 | (1 ) % |
| Construction and land costs | (198,104 ) | (201,134 ) | 2 |
| Selling, general and administrative expenses | (24,905 ) | (23,954 ) | (4 ) |
| Operating income | $18,583 | $19,093 | (3 ) % |
| | | | |
| Homes delivered | 824 | 821 | — |
| Average selling price | $285,000 | $294,700 | (3 ) % |
| Housing gross profit margin | 18.1 % | 17.8 % | 30 bps |

This segment's revenues for the three months ended February 28, 2019 and 2018 were generated from both housing operations and land sales. Housing revenues for the 2019 first quarter declined 3% to $234.8 million from $241.9 million for the year-earlier quarter, primarily reflecting a decrease in the average selling price of homes delivered as the number of homes delivered was essentially flat. The average selling price declined primarily due to a shift in product mix and a lower proportion of deliveries from our Colorado operations. Land sale revenues totaled $6.8 million for the three months ended February 28, 2019, compared to $2.3 million for the year-earlier period.

43

Operating income for the three months ended February 28, 2019 decreased $.5 million from the year-earlier period, mainly due to higher selling, general and administrative expenses and a slight decrease in housing gross profits, partly offset by increased profits from land sales. Housing gross profits decreased due to a lower average selling price, partly offset by an increase in the housing gross profit margin as the number of homes delivered was flat year over year. The housing gross profit margin improved primarily due to the above-described adoption of ASC 606 and a reduction in the amortization of previously capitalized interest, partly offset by decreased operating leverage on fixed costs as a percentage of housing revenues. In addition, inventory-related charges impacting the housing gross profit margin totaled $.2 million for the three months ended February 28, 2019, compared to $.1 million in the year-earlier period. Land sales generated profits of $1.1 million and $.1 million in the three months ended February 28, 2019 and 2018, respectively. Selling, general and administrative expenses for the 2019 first quarter increased from the year-earlier quarter, mainly due to the above-described adoption of ASC 606.

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

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| Revenues | $103,730 | $86,473 | 20 % |
| Construction and land costs | (90,778 ) | (74,322 ) | (22 ) |
| Selling, general and administrative expenses | (13,497 ) | (10,831 ) | (25 ) |
| Operating income (loss) | $(545 ) | $1,320 | (a) |
| | | | |
| Homes delivered | 348 | 310 | 12 % |
| Average selling price | $298,100 | $278,200 | 7 % |
| Housing gross profit margin | 12.5 % | 14.1 % | (160)bps |

(a) Percentage not meaningful.

This segment's revenues for the three months ended February 28, 2019 were generated solely from housing operations. Revenues for the three months ended February 28, 2018 were generated from both housing operations and land sales. Housing revenues for the three months ended February 28, 2019 rose 20% year over year from $86.3 million for the 2018 first quarter, reflecting increases in both the number of homes delivered and the average selling price of those homes, largely attributable to our Florida operations. The growth in the number of homes delivered was primarily due to the 14% increase in the number of homes in backlog at the beginning of the 2019 first quarter as compared to the year-earlier quarter and an increase in homes delivered from newer communities. The increase in the average selling price was mainly due to a greater proportion of homes delivered from higher-priced communities. Land sale revenues for the three months ended February 28, 2018 totaled $.2 million.

This segment generated an operating loss for the three months ended February 28, 2019, compared to operating income in the year-earlier period mainly due to an increase in selling, general and administrative expenses. Housing gross profits increased slightly from the prior-year period as a 160 basis point decline in the housing gross profit margin was more than offset by an increase in the number of homes delivered and a higher average selling price. The housing gross profit margin decreased mainly due to higher construction and land costs as a percentage of housing revenues, partly offset by a reduction in the amortization of previously capitalized interest and the above-described adoption of ASC 606. Sales incentives as a percentage of housing revenues in the 2019 first quarter increased slightly from the year-earlier quarter. Land sales generated nominal income for the 2018 first quarter. Selling, general and administrative expenses increased in the 2019 first quarter from the year-earlier period, primarily due to the above-described adoption of ASC 606 as well as increased variable expenses associated with higher housing revenues, higher marketing costs from opening a greater number of new communities in the current period, the recent expansion of our Jacksonville, Florida operations and the impact of favorable legal settlements in the prior-year quarter.

FINANCIAL SERVICES REPORTING SEGMENT

The following table presents a summary of selected financial and operational data for our financial services reporting segment (dollars in thousands):

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues | $2,695 | $2,418 |
| Expenses | (1,024 ) | (953 ) |
| Equity in income of unconsolidated joint ventures | 802 | 419 |
| Pretax income | $2,473 | $1,884 |
| | | |
| Total originations: | | |
| Loans | 1,209 | 1,003 |
| Principal | $339,264 | $273,305 |
| Percentage of homebuyers using KBHS | 64 % | 50 % |
| Average FICO score | 718 | 720 |
| | | |
| Loans sold: | | |
| Loans sold to Stearns | 1,161 | 1,039 |
| Principal | $333,353 | $295,698 |
| Loans sold to third parties | 244 | 138 |
| Principal | $62,355 | $37,090 |

Revenues. Financial services revenues for the three months ended February 28, 2019 rose to $2.7 million from $2.4 million for the year-earlier period, primarily due to an increase in title services revenues and insurance commissions.

Expenses. General and administrative expenses totaled $1.0 million for each of the three-month periods ended February 28, 2019 and 2018.

Equity in Income of Unconsolidated Joint Ventures. The equity in income of unconsolidated joint ventures was $.8 million for the three months ended February 28, 2019 and $.4 million for the three months ended February 28, 2018.

INCOME TAXES

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Income tax expense | $4,500 | $117,300 |
| Effective tax rate | 13.0 % | 254.8 % |

Our income tax expense and effective tax rate for the three months ended February 28, 2019 included the favorable effects of a $3.3 million reversal of a deferred tax asset valuation allowance and $2.0 million of excess tax benefits related to stock-based compensation, which were partly offset by $.8 million of other items. Excluding all of these items, our effective tax rate for the three months ended February 28, 2019 was approximately 26%. For the three months ended February 28, 2018, our income tax expense and effective tax rate included a non-cash charge of $111.2 million for TCJA-related impacts, as discussed in Note 13 – Income Taxes in the Notes to Consolidated Financial Statements in this report; the favorable net impact of federal energy tax credits of $4.0 million; and excess tax benefits of $2.2 million related to stock-based compensation. The federal energy tax credits for the three-month period ended February 28, 2018 resulted from legislation enacted on February 9, 2018, which among other things, extended the availability of a business tax credit for building new energy efficient homes through December 31, 2017. Prior to this legislation, the tax credit expired on December 31, 2016.

Excluding the above-mentioned charge of $111.2 million, our adjusted income tax expense and adjusted effective tax rate for the three months ended February 28, 2018 were $6.1 million and 13.2%, respectively. The calculations of our adjusted income tax expense and adjusted effective tax rate are described above under “Non-GAAP Financial Measures.” Without the above-mentioned federal energy tax credits and excess stock-based compensation tax benefits, our adjusted effective tax rate for the three months ended February 28, 2018 would have approximated 27%.

At February 28, 2019 and November 30, 2018, we had deferred tax assets of $453.6 million and $465.4 million, respectively, that were partly offset by valuation allowances of $20.3 million and $23.6 million, respectively. During the three-month period ended February 28, 2019, we reversed the $3.3 million federal deferred tax asset valuation allowance established in the 2018 first quarter due to the Internal Revenue Service's announcement in January 2019 that refundable AMT credits will not be subject to sequestration for taxable years beginning after December 31, 2017. The deferred tax asset valuation allowances as of February 28, 2019 and November 30, 2018 were primarily related to certain state NOLs that had not met the "more likely than not" realization standard at those dates.

Further information regarding our income taxes is provided in Note 13 – Income Taxes in the Notes to Consolidated Financial Statements in this report.

Liquidity and Capital Resources

Overview. We have funded our homebuilding and financial services activities over the last several years with:

- internally generated cash flows;
- borrowings under the Credit Facility;
- public issuances of our common stock;
- public issuances of debt securities;
- land option contracts and other similar contracts and seller notes; and
- letters of credit and performance bonds.

We manage our use of cash in the operation of our business to support the execution of our primary strategic goals. Over the past several years, we have primarily used cash for:

- land acquisition and land development;
- home construction;
- operating expenses;
- principal and interest payments on notes payable; and
- repayments of borrowings under the Credit Facility.

Our investments in land and land development decreased 17% to $384.2 million for the three months ended February 28, 2019, compared to $465.0 million for the corresponding 2018 period. Approximately 49% of our total investments in the three months ended February 28, 2019 related to land acquisition, compared to approximately 61% in the year-earlier period. While we made strategic investments in land and land development in each of our homebuilding reporting segments during the first three months of 2019 and 2018, approximately 50% and 68%, respectively, of these investments for each period were made in our West Coast homebuilding reporting segment. Our investments in land and land development in the future will depend significantly on market conditions and available opportunities that meet our investment return standards to support home delivery and revenue growth in the remainder of 2019 and beyond.

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

| | February 28, 2019 | | November 30, 2018 | | Variance | |
|---|---|---|---|---|---|---|
| Segment | Lots | $ | Lots | $ | Lots | $ |
| West Coast | 12,611 | $1,773,691 | 12,680 | $1,727,993 | (69) | $45,698 |
| Southwest | 9,616 | 627,627 | 9,815 | 598,374 | (199) | 29,253 |
| Central | 23,025 | 889,745 | 22,237 | 865,184 | 788 | 24,561 |
| Southeast | 9,492 | 392,700 | 8,895 | 391,288 | 597 | 1,412 |
| Total | 54,744 | $3,683,763 | 53,627 | $3,582,839 | 1,117 | $100,924 |

The carrying value of the lots owned or controlled under land option contracts and other similar contracts at February 28, 2019 increased from November 30, 2018 primarily due to the investments in land and land development we made during the three months ended February 28, 2019, and an increase in the number of homes under construction. Overall, the number of lots we controlled under land option contracts and other similar contracts as a percentage of total lots was 26% at both February 28, 2019 and November 30, 2018. Generally, this percentage fluctuates with our decisions to control (or abandon) lots under land option contracts and other similar contracts or to

purchase (or sell owned) lots based on available opportunities and our investment return standards.

Liquidity. The table below summarizes our total cash and cash equivalents, and total liquidity (in thousands):

| | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Total cash and cash equivalents | $511,690 | $574,359 |
| Credit Facility commitment | 500,000 | 500,000 |
| Letters of credit outstanding under the Credit Facility | (33,144 ) | (28,010 ) |
| Credit Facility availability | 466,856 | 471,990 |
| Total liquidity | $978,546 | $1,046,349 |

The majority of our cash and cash equivalents at February 28, 2019 and November 30, 2018 was invested in interest-bearing bank deposit accounts.

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

| | February 28, 2019 | November 30, 2018 | Variance |
|---|---|---|---|
| Mortgages and land contracts due to land sellers and other loans | $ 12,018 | $ 40,038 | $(28,020 ) |
| Senior notes | 2,191,571 | 1,790,437 | 401,134 |
| Convertible senior notes | — | 229,788 | (229,788 ) |
| Total | $ 2,203,589 | $ 2,060,263 | $143,326 |

The change in our notes payable balance at February 28, 2019 compared to November 30, 2018 primarily reflected our completion of the following financing activities in the 2019 first quarter:

- On February 1, 2019, we repaid the entire $230.0 million in aggregate principal amount of our 1.375% Convertible Senior Notes due 2019 at their maturity.
- On February 20, 2019, pursuant to the 2017 Shelf Registration, we completed concurrent public offerings of $300.0 million in aggregate principal amount of 6.875% Senior Notes due 2027 and an additional $100.0 million in aggregate principal amount of our existing series of 7.625% Senior Notes due 2023. Net proceeds from these offerings totaled $400.0 million, after deducting the underwriting discount and our expenses relating to the offering, and were applied towards the optional redemption of the entire $400.0 million in aggregate principal amount of our 4.75% Senior Notes due 2019 before their May 15, 2019 maturity date, which redemption we announced on February 5, 2019 and completed on March 8, 2019.

Further information regarding our notes payable is provided in Note 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Our financial leverage, as measured by the ratio of debt to capital, was 50.9% at February 28, 2019, compared to 49.7% at November 30, 2018. Our ratio of net debt to capital (a calculation that is described above under “Non-GAAP Financial Measures”) at February 28, 2019 was 44.3%, compared to 41.6% at November 30, 2018.

LOC Facilities. We had $.3 million of letters of credit outstanding under the LOC Facilities at February 28, 2019 and no letters of credit outstanding under the LOC Facilities at November 30, 2018. Further information regarding our LOC Facilities is provided in Note 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Unsecured Revolving Credit Facility. We have a $500.0 million Credit Facility that will mature on July 27, 2021. The amount of the Credit Facility available for cash borrowings and the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum available amount under the terms of the Credit Facility. As of February 28, 2019, we had no cash borrowings and $33.1 million of letters of credit outstanding under the Credit Facility. Therefore, as of February 28, 2019, we had $466.9 million available for cash borrowings under the Credit Facility, with up to $216.9 million of that amount available for the issuance of additional letters of credit. The Credit Facility is further described in Note 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

There have been no changes to the terms of the Credit Facility during the three months ended February 28, 2019 from those disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2018.

The covenants and other requirements under the Credit Facility represent the most restrictive covenants that we are subject to with respect to our notes payable. The following table summarizes the financial covenants and other requirements under the Credit Facility, and our actual levels or ratios (as applicable) with respect to those covenants and other requirements, in each case as of February 28, 2019:

| Financial Covenants and Other Requirements | Covenant Requirement | Actual |
|---|---|---|
| Consolidated tangible net worth | >$1.46 billion | $2.13 billion |
| Leverage Ratio | <.650 | .509 |
| Interest Coverage Ratio (a) | >1.500 | 4.158 |
| Minimum liquidity (a) | >$140.2 million | $511.7 million |
| Investments in joint ventures and non-guarantor subsidiaries | <$530.5 million | $145.8 million |
| Borrowing base in excess of borrowing base indebtedness (as defined) | n/a | $799.3 million |

(a) Under the terms of the Credit Facility, we are required to maintain either a minimum Interest Coverage Ratio or a minimum level of liquidity, but not both. As of February 28, 2019, we met both the Interest Coverage Ratio and the minimum liquidity requirements.

The indenture governing our senior notes does not contain any financial covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness, or engage in sale and leaseback transactions involving property above a certain specified value. In addition, the indenture contains certain limitations related to mergers, consolidations and sales of assets.

Our obligations to pay principal, premium, if any, and interest under our senior notes and borrowings, if any, under the Credit Facility are guaranteed on a joint and several basis by the Guarantor Subsidiaries. The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. We may also cause other subsidiaries of ours to become Guarantor Subsidiaries if we believe it to be in our or the relevant subsidiary's best interests. Condensed consolidating financial information for our subsidiaries considered to be Guarantor Subsidiaries is provided in Note 21 – Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report.

As of February 28, 2019, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance. There are no agreements that restrict our payment of dividends other than the Credit Facility, which would restrict our payment of dividends (other than common stock dividends) if a default under the Credit Facility exists at the time of any such payment, or if any such payment would result in such a default (other than dividends paid within 60 days after declaration, if there was no default at the time of declaration).

Depending on available terms, we finance certain land acquisitions with purchase-money financing from land sellers or with other forms of financing from third parties. At February 28, 2019, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of $12.0 million, secured primarily by the underlying property, which had an aggregate carrying value of $138.2 million.

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

48

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Net cash provided by (used in): | | |
| Operating activities | $(198,210) | $(141,680) |
| Investing activities | (1,747) | (8,850) |
| Financing activities | 137,245 | (9,525) |
| Net decrease in cash and cash equivalents | $(62,712) | $(160,055) |

Operating Activities. Operating activities used net cash of $198.2 million in the three months ended February 28, 2019 and $141.7 million in the three months ended February 28, 2018. Generally, our net operating cash flows fluctuate primarily based on changes in our inventories and our profitability.

Our net cash used by operating activities for the three months ended February 28, 2019 primarily reflected net cash of $154.1 million used for investments in inventories, a net decrease in accounts payable, accrued expenses and other liabilities of $70.1 million and a net increase in receivables of $19.5 million, partly offset by net income of $30.0 million. In the three months ended February 28, 2018, our net cash used by operating activities mainly reflected net cash of $135.3 million used for investments in inventories, a net decrease in accounts payable, accrued expenses and other liabilities of $54.0 million, and a net increase in receivables of $6.0 million, partly offset by our net loss of $71.3 million adjusted for various non-cash items, including a net decrease of $117.1 million in our deferred tax assets.

Investing Activities. Investing activities used net cash of $1.7 million in the three months ended February 28, 2019 and $8.9 million in the year-earlier period. In the three months ended February 28, 2019, our uses of cash included $10.0 million for net purchases of property and equipment and $2.5 million for contributions to unconsolidated joint ventures. These uses of cash were partially offset by $5.8 million of proceeds from the sale of a building and a $5.0 million return of investments in unconsolidated joint ventures. In the three months ended February 28, 2018, the net cash used for investing activities reflected $8.0 million for contributions to unconsolidated joint ventures and $1.9 million for net purchases of property and equipment, which were partially offset by a $1.1 million return of investments in unconsolidated joint ventures.

Financing Activities. Financing activities provided net cash of $137.2 million in the three months ended February 28, 2019 and used net cash of $9.5 million in the three months ended February 28, 2018. The year-over-year change was mainly due to our concurrent public offerings of senior notes in the 2019 first quarter, partly offset by our repayment of the 1.375% Convertible Senior Notes due 2019. In the three months ended February 28, 2019, net cash was provided by our concurrent public offerings of $300.0 million in aggregate principal amount of 6.875% Senior Notes due 2027 and an additional $100.0 million in aggregate principal amount of our existing series of 7.625% Senior Notes due 2023, and $.8 million of issuances of common stock under employee stock plans. The cash provided was partially offset by cash used for our repayment of $230.0 million in aggregate principal amount of 1.375% Convertible Senior Notes due 2019, payments on mortgages and land contracts due to land sellers and other loans of $28.0 million, tax payments associated with stock-based compensation awards of $3.3 million, and dividend payments on our common stock of $2.3 million. In the three months ended February 28, 2018, cash was used for tax payments associated with stock-based compensation awards of $6.8 million, payments on mortgages and land contracts due to land sellers and other loans of $3.4 million, and dividend payments on our common stock of $2.3 million. The cash used was partly offset by $2.9 million of issuances of common stock under employee stock plans.

During the three months ended February 28, 2019 and 2018, our board of directors declared, and we paid, a quarterly cash dividend of $.025 per share of common stock. The declaration and payment of future cash dividends on our common stock, whether at current levels or at all, are at the discretion of our board of directors and depend upon, among other things, our expected future earnings, cash flows, capital requirements, access to external financing, debt structure and any adjustments thereto, operational and financial investment strategy and general financial condition, as well as general business conditions.

We believe we have adequate capital resources and sufficient access to the credit and capital markets and external financing sources to satisfy our current and reasonably anticipated long-term requirements for funds to acquire assets and land, to use and/or develop acquired assets and land, to construct homes, to finance our financial services operations and to meet other needs in the ordinary course of our business. In addition to acquiring and/or developing

land that meets our investment return standards, in the remainder of 2019, we may use or redeploy our cash resources or cash borrowings under the Credit Facility to support other business purposes that are aligned with our primary strategic growth goals. We may also arrange or engage in capital markets, bank loan, project debt or other financial transactions. These transactions may include repurchases from time to time of our outstanding common stock. They may also include repurchases from time to time of our outstanding senior notes or other debt through redemptions, tender offers, exchange offers, private exchanges, open market or private purchases or other means, as well as potential new

issuances of equity or senior or convertible senior notes or other debt through public offerings, private placements or other arrangements to raise or access additional capital to support our current land and land development investment targets, to complete strategic transactions and for other business purposes and/or to effect repurchases or additional redemptions of our outstanding senior notes or other debt. The amounts involved in these transactions, if any, may be material. As necessary or desirable, we may adjust or amend the terms of and/or expand the capacity of the Credit Facility or the LOC Facilities, or enter into additional letter of credit facilities, or other similar facility arrangements, in each case with the same or other financial institutions, or allow any such facilities to mature or expire. Our ability to engage in such transactions, however, may be constrained by economic, capital, credit and/or financial market conditions, investor interest and/or our current leverage ratios, and we can provide no assurance of the success or costs of any such transactions.

Off-Balance Sheet Arrangements, Contractual Obligations and Commercial Commitments

Unconsolidated Joint Ventures. As discussed in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report, we have investments in unconsolidated joint ventures in various markets where our homebuilding operations are located. Our unconsolidated joint ventures had total combined assets of $144.4 million at February 28, 2019 and $150.2 million at November 30, 2018. Our investments in unconsolidated joint ventures totaled $57.1 million at February 28, 2019 and $62.0 million at November 30, 2018. At February 28, 2019, one of our unconsolidated joint ventures had outstanding secured debt totaling $22.0 million under a construction loan agreement with a third-party lender to finance its land development activities, with the outstanding debt secured by the underlying property and related project assets and non-recourse to us. At November 30, 2018, this unconsolidated joint venture had outstanding debt totaling $18.0 million. The secured debt is scheduled to mature in February 2020. None of our other unconsolidated joint ventures had outstanding debt at February 28, 2019 or November 30, 2018. While we and our partner in the unconsolidated joint venture that has the outstanding construction loan agreement at February 28, 2019 provide certain guarantees and indemnities to the lender, we do not have a guaranty or any other obligation to repay or to support the value of the collateral underlying the outstanding secured debt. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the outstanding secured debt is material to our consolidated financial statements. As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, we determined that one of our joint ventures at February 28, 2019 and November 30, 2018 was a VIE, but we were not the primary beneficiary of this VIE. All of our joint ventures were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

We are committed to purchase all 25 unconsolidated joint venture lots controlled under land option and other similar contracts at February 28, 2019 from one of our unconsolidated joint ventures. The purchase will be made in quarterly takedowns over the next year for an aggregate purchase price of approximately $11.8 million under agreements that we entered into with the joint venture in 2016.

Land Option Contracts and Other Similar Contracts. As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, in the ordinary course of our business, we enter into land option contracts and other similar contracts with third parties and unconsolidated entities to acquire rights to land for the construction of homes. At February 28, 2019, we had total cash deposits of $49.8 million to purchase land having an aggregate purchase price of $1.23 billion. At November 30, 2018, we had total deposits of $53.8 million to purchase land having an aggregate purchase price of $1.37 billion. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance. Our decision to exercise a particular land option contract or other similar contract depends on the results of our due diligence reviews and ongoing market and project feasibility analysis that we conduct after entering into such a contract. In some cases, our decision to exercise a land option contract or other similar contract may be conditioned on the land seller obtaining necessary entitlements, such as zoning rights and environmental and development approvals, and/or physically developing the underlying land by a pre-determined date. We typically have the ability not to exercise our rights to the underlying land for any reason and forfeit our deposits without further penalty or obligation to the sellers. If we were to acquire all of the land we controlled under our land option contracts and other similar contracts at February 28, 2019, we estimate the remaining purchase price to be paid would be as follows: 2019 – $523.0 million; 2020 – $260.9 million; 2021 – $239.8 million; 2022 – $46.2 million; 2023 – $39.5 million; and thereafter – $75.0 million.

In addition to the cash deposits, our exposure to loss related to our land option contracts and other similar contracts consisted of pre-acquisition costs of $43.6 million at February 28, 2019 and $46.9 million at November 30, 2018. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

We determined that as of February 28, 2019 and November 30, 2018 we were not the primary beneficiary of any VIEs from which we have acquired rights to land under land option contracts and other similar contracts. We also evaluated our land option contracts and other similar contracts for financing arrangements and, as a result of our evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in our consolidated balance sheets by $5.5 million at February 28, 2019 and

50

$21.8 million at November 30, 2018, as further discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report.

Contractual Obligations. Due to our repayment of the entire $230.0 million in aggregate principal amount of our 1.375% Convertible Senior Notes due 2019 upon maturity, and our completion of concurrent public offerings of $300.0 million in aggregate principal amount of 6.875% Senior Notes due 2027 and an additional $100.0 million in aggregate principal amount of our existing series of 7.625% Senior Notes due 2023, all of which are further described in Note 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report, our contractual obligations as of February 28, 2019 have changed materially from those reported in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2018. The following table sets forth our future cash requirements related to the contractual obligations of our long-term debt and interest as of February 28, 2019 (in millions):

| | Total | 2019 | 2020-2021 | 2022-2023 | Thereafter |
|---|---|---|---|---|---|
| Contractual obligations: | | | | | |
| Long-term debt | $2,212.0 | $412.0 | $ 350.0 | $ 1,150.0 | $ 300.0 |
| Interest | 546.5 | 122.8 | 227.4 | 123.3 | 73.0 |
| Total | $2,758.5 | $534.8 | $ 577.4 | $ 1,273.3 | $ 373.0 |

There have been no other significant changes in our contractual obligations from those reported in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2018.

Critical Accounting Policies

The preparation of our consolidated financial statements requires the use of judgment in the application of accounting policies and estimates of uncertain matters. Except for accounting policies related to our adoption of ASC 606, as described in Note 1 – Basis of Presentation and Significant Accounting Policies in the Notes to Consolidated Financial Statements in this report, there have been no significant changes to our critical accounting policies and estimates during the three months ended February 28, 2019 from those disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in our Annual Report on Form 10-K for the year ended November 30, 2018.

Recent Accounting Pronouncements

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

Outlook

For the remainder of 2019, we intend to continue to execute on our Returns-Focused Growth Plan, which is described in the "Business" section of our Annual Report on Form 10-K for the year ended November 30, 2018. We believe that doing so will enable us to generate cash flows that we can deploy in a targeted manner to support our business and enhance our return on invested capital, as well as manage our debt, with the principal aim of driving long-term stockholder value. Our present 2019 second quarter outlook is as follows:

2019 Second Quarter:

- We expect to generate housing revenues in the range of $900.0 million to $950.0 million, compared to $1.09 billion in the year-earlier quarter, and anticipate our average selling price to be in the range of $375,000 to $380,000, representing a decrease in the range of 5% to 7% as compared to the year-earlier period.
- We expect our housing gross profit margin to be in the range of 17.0% to 17.6%, assuming no inventory-related charges.
- We expect our selling, general and administrative expenses as a percentage of housing revenues to be in the range of 12.3% to 12.9%.
- We expect our homebuilding operating income margin, excluding inventory-related charges, to range from 4.2% to 5.2%.
- We expect an effective tax rate, excluding potential impacts from stock-based compensation and/or tax credits, of approximately 26%.
- We expect a diluted weighted average share count of approximately 92 million.

51

- We expect our average community count will be up approximately 15% to 20% from the 2018 second quarter.

We believe we are well positioned for 2019 due to, among other things, our planned new home community openings, community reactivations, investments in land and land development and current positive economic and demographic trends, to varying degrees, in many of our served markets, and that we will be able to grow our average community count in the range of 10% to 15% for the 2019 full year. However, in the latter part of 2018, the homebuilding industry and our business saw a distinct tempering of homebuyer demand largely driven by several years of home price appreciation coupled with rising mortgage interest rates. In turn, the decrease in demand has increased new home inventories. In addition, the industry is experiencing labor constraints and volatile raw material prices, exacerbated by U.S. trade policies, including the imposition of tariffs and duties on homebuilding materials and products. If these demand, inventory and cost trends continue for an extended period beyond the 2019 first quarter, or worsen during 2019, our business would be negatively impacted. In this regard, we believe the strength of the full spring selling season will be an important factor for our overall performance for the year and with respect to our Returns-Focused Growth Plan, and we are encouraged by signs of improving demand and the moderation of mortgage interest rates in recent weeks.

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

Forward-Looking Statements

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

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

- general economic, employment and business conditions;
- population growth, household formations and demographic trends;
- conditions in the capital, credit and financial markets;
- our ability to access external financing sources and raise capital through the issuance of common stock, debt or other securities, and/or project financing, on favorable terms;

- the execution of any share repurchases pursuant to our board of directors' authorization;
- material and trade costs and availability;
- changes in interest rates;
- our debt level, including our ratio of debt to capital, and our ability to adjust our debt level and maturity schedule;

52

---

- our compliance with the terms of the Credit Facility;
- volatility in the market price of our common stock;
- weak or declining consumer confidence, either generally or specifically with respect to purchasing homes;
- competition from other sellers of new and resale homes;
- weather events, significant natural disasters and other climate and environmental factors;
- any failure of lawmakers to agree on a budget or appropriation legislation to fund the federal government's operations, and financial markets' and businesses' reactions to that failure;
- government actions, policies, programs and regulations directed at or affecting the housing market (including the TCJA, the Dodd-Frank Act, tax benefits associated with purchasing and owning a home, and the standards, fees and size limits applicable to the purchase or insuring of mortgage loans by government-sponsored enterprises and government agencies), the homebuilding industry, or construction activities;
- changes in existing tax laws or enacted corporate income tax rates, including those resulting from regulatory guidance and interpretations issued with respect to the TCJA;
- changes in U.S. trade policies, including the imposition of tariffs and duties on homebuilding materials and products, and related trade disputes with and retaliatory measures taken by other countries;
- the availability and cost of land in desirable areas and our ability to timely develop acquired land parcels and open new home communities;
- our warranty claims experience with respect to homes previously delivered and actual warranty costs incurred;
- costs and/or charges arising from regulatory compliance requirements or from legal, arbitral or regulatory proceedings, investigations, claims or settlements, including unfavorable outcomes in any such matters resulting in actual or potential monetary damage awards, penalties, fines or other direct or indirect payments, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices that are beyond our current expectations and/or accruals;
- our ability to use/realize the net deferred tax assets we have generated;
- our ability to successfully implement our current and planned strategies and initiatives related to our product, geographic and market positioning, gaining share and scale in our served markets and in entering into new markets;
- our operational and investment concentration in markets in California;
- consumer interest in our new home communities and products, particularly from first-time homebuyers and higher-income consumers;
- our ability to generate orders and convert our backlog of orders to home deliveries and revenues, particularly in key markets in California;
- our ability to successfully implement our Returns-Focused Growth Plan and achieve the associated revenue, margin, profitability, cash flow, community reactivation, land sales, business growth, asset efficiency, return on invested capital, return on equity, net debt to capital ratio and other financial and operational targets and objectives;
- income tax expense volatility associated with stock-based compensation;
- the ability of our homebuyers to obtain residential mortgage loans and mortgage banking services;
- the performance of mortgage lenders to our homebuyers;
- the performance of KBHS;
- information technology failures and data security breaches; and
- other events outside of our control.

Please see our Annual Report on Form 10-K for the year ended November 30, 2018 and other filings with the SEC for a further discussion of these and other risks and uncertainties applicable to our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We enter into debt obligations primarily to support general corporate purposes, including the operations of our subsidiaries. We are subject to interest rate risk on our senior notes. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. We generally have no obligation to prepay our debt before maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed rate debt until we are required or elect to refinance or repurchase such debt. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to changes in interest rates.

The following table presents principal cash flows by scheduled maturity, weighted average effective interest rates and the estimated fair value of our long-term fixed rate debt obligations as of February 28, 2019 (dollars in thousands):

| Fiscal Year of Expected Maturity | Fixed Rate Debt | Weighted Average Effective Interest Rate | |
|---|---|---|---|
| 2019 | $ 400,000 | 5.0 | % |
| 2020 | 350,000 | 8.5 | |
| 2021 | — | — | |
| 2022 | 800,000 | 7.4 | |
| 2023 | 350,000 | 7.6 | |
| Thereafter | 300,000 | 7.1 | |
| Total | $ 2,200,000 | 7.1 | |
| Fair value at February 28, 2019 | $ 2,298,750 | | |

For additional information regarding our market risk, refer to the “Quantitative and Qualitative Disclosures About Market Risk” section of our Annual Report on Form 10-K for the year ended November 30, 2018.

Item 4. Controls and Procedures

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and accumulated and communicated to management, including our Chief Executive Officer (“Principal Executive Officer”) and Chief Financial Officer (“Principal Financial Officer”), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and our Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of February 28, 2019.

There were no changes in our internal control over financial reporting during the quarter ended February 28, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of our legal proceedings, see Note 17 – Legal Matters in the Notes to Consolidated Financial Statements in this report.

Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended November 30, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The following table summarizes our purchases of our own equity securities during the three months ended February 28, 2019:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| December 1-31 | — | $ — | — | 2,193,947 |
| January 1-31 | — | — | — | 2,193,947 |
| February 1-28 | 147,382 | 22.67 | — | 2,193,947 |
| Total | 147,382 | $ 22.67 | — | |

In January 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. As of November 30, 2016, we had repurchased 8,373,000 shares of our common stock pursuant to this authorization, at a total cost of $85.9 million. On May 14, 2018 our board of directors reaffirmed the remainder of the 2016 authorization and approved and authorized the repurchase of 2,373,000 additional shares of our outstanding common stock, for a total of up to 4,000,000 shares authorized for repurchase. As of November 30, 2018, we had repurchased 1,806,053 shares of our common stock pursuant to this authorization, at a total cost of $35.0 million. During the three months ended February 28, 2019, no shares were repurchased pursuant to this authorization. The shares purchased during the three months ended February 28, 2019, as reflected in the above table, were previously issued shares delivered to us by employees to satisfy withholding taxes on the vesting of PSUs. These transactions are not considered repurchases under the board of directors' authorization.

Item 6. Exhibits
Exhibits

| | |
|---|---|
| 4.22 | Form of officers' certificates and guarantors' officers' certificates establishing the form and terms of the 6.875% Senior Notes due 2027, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein. |
| 4.23 | Form of officers' certificates and guarantors' officers' certificates establishing the form and terms of the 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein. |
| 4.24 | Form of 6.875% Senior Notes due 2027, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein. |
| 4.25 | Form of 7.625% Senior Notes due 2023, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein. |
| 31.1 | Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | |

| | |
|---|---|
| | Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from KB Home's Quarterly Report on Form 10-Q for the quarter ended February 28, 2019, formatted in eXtensible Business Reporting Language (XBRL): (a) Consolidated Statements of Operations for the three months ended February 28, 2019 and 2018, (b) Consolidated Balance Sheets as of February 28, 2019 and November 30, 2018, (c) Consolidated Statements of Cash Flows for the three months ended February 28, 2019 and 2018, and (d) Notes to Consolidated Financial Statements. |

55

SIGNATURES

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

KB HOME
Registrant

Dated April 5, 2019 By: /s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated April 5, 2019 By: /s/ WILLIAM R. HOLLINGER
William R. Hollinger
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

56