KB HOME
Form 10-K
January 18, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2012
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File No. 001-09195
KB HOME
(Exact name of registrant as specified in its charter)

Delaware	95-3666267
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10990 Wilshire Boulevard, Los Angeles, California 90024
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (310) 231-4000
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value $1.00 per share)	New York Stock Exchange
Rights to Purchase Series A Participating Cumulative Preferred Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The aggregate market value of voting stock held by non-affiliates of the registrant on May 31, 2012 was $637,684,763, including 10,839,351 shares held by the registrant's grantor stock ownership trust and excluding 27,214,174 shares held in treasury.

There were 77,221,785 shares of the registrant's common stock, par value $1.00 per share, outstanding on December 31, 2012. The registrant's grantor stock ownership trust held an additional 10,615,934 shares of the registrant's common stock on that date.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders (incorporated into Part III).

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PART I

Item 1. BUSINESS

General

KB Home is one of the largest and most recognized homebuilding companies in the U.S. and has been building homes for more than 50 years. We construct and sell homes through our operating divisions under the name KB Home. Unless the context indicates otherwise, the terms “we,” “our” and “us” used in this report refer to KB Home, a Delaware corporation, and its predecessors and subsidiaries.

Beginning in 1957 and continuing until 1986, our business was conducted by various subsidiaries of Kaufman and Broad, Inc. (“KBI”) and its predecessors. In 1986, KBI transferred all of its homebuilding and mortgage banking operations to us. Shortly after the transfer, we completed an initial public offering of 8% of our common stock and began operating under the name Kaufman and Broad Home Corporation. In 1989, we were spun-off from KBI, which then changed its name to Broad Inc., and we became an independent public company, operating primarily in California and France. In 2001, we changed our name to KB Home. Today, having sold our French operations in 2007, we operate a homebuilding and financial services business serving homebuyers in various markets across the U.S.

Our homebuilding operations offer a variety of new homes designed primarily for first-time, move-up and active adult homebuyers, including attached and detached single-family residential homes, townhomes and condominiums. We offer homes in development communities, at urban in-fill locations and as part of mixed-use projects. In this report, we use the term “home” to refer to a single-family residence, whether it is a single-family home or other type of residential property, and we use the term “community” to refer to a single development in which homes are constructed as part of an integrated plan.

Through our homebuilding reporting segments, we delivered 6,282 homes at an average selling price of $246,500 during the year ended November 30, 2012, compared to 5,812 homes delivered at an average selling price of $224,600 during the year ended November 30, 2011. Our homebuilding operations represent most of our business, accounting for 99.3% of our total revenues in 2012 and 99.2% of our total revenues in 2011.

Our financial services reporting segment provides insurance services to our homebuyers in the same markets where we build homes and provides title services in the majority of our markets located within our Central and Southeast homebuilding reporting segments. In addition, since the third quarter of 2011, this segment has earned revenues pursuant to the terms of a marketing services agreement with a preferred mortgage lender that offers mortgage banking services, including mortgage loan originations, to our homebuyers. Our financial services operations accounted for .7% of our total revenues in 2012 and .8% of our total revenues in 2011.

In 2012, we generated total revenues of $1.56 billion and a net loss of $59.0 million, compared to total revenues of $1.32 billion and a net loss of $178.8 million in 2011.

Our principal executive offices are located at 10990 Wilshire Boulevard, Los Angeles, California 90024. The telephone number of our corporate headquarters is (310) 231-4000 and our primary website address is www.kbhome.com. In addition, community location and information is available at (888) KB-HOMES.

Markets

Reflecting the geographic reach of our homebuilding business, as of the date of this report, our principal operations are in the 10 states and 33 major markets presented below. We also operate in various submarkets within these major markets. For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast.

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Segment	State(s)	Major Market(s)
West Coast	California	Fresno, Los Angeles, Madera, Oakland, Orange County, Riverside, Sacramento, San Bernardino, San Diego, San Jose, Santa Rosa-Petaluma, Stockton, Ventura and Yuba City
Southwest	Arizona	Phoenix and Tucson
	Nevada	Las Vegas and Reno
	New Mexico	Albuquerque
Central	Colorado	Denver
	Texas	Austin, Dallas/Fort Worth, Houston and San Antonio
Southeast	Florida	Daytona Beach, Fort Myers, Jacksonville, Lakeland, Orlando, Sarasota and Tampa
	Maryland	Washington, D.C.
	North Carolina	Raleigh
	Virginia	Washington, D.C.

Segment Operating Information. The following table presents certain operating information for our homebuilding reporting segments for the years ended November 30, 2012, 2011 and 2010:

	Years Ended November 30,					
	2012		2011		2010	
West Coast:						
Homes delivered	1,945		1,757		2,023	
Percentage of total homes delivered	31	%	30	%	27	%
Average selling price	$388,300		$335,500		$346,300	
Total revenues (in millions) (a)	$755.3		$589.4		$700.7	
Southwest:						
Homes delivered	683		843		1,150	
Percentage of total homes delivered	11	%	15	%	16	%
Average selling price	$193,900		$165,800		$158,200	
Total revenues (in millions) (a)	$132.4		$139.9		$187.7	
Central:						
Homes delivered	2,566		2,155		2,663	
Percentage of total homes delivered	41	%	37	%	36	%
Average selling price	$170,100		$171,500		$163,700	
Total revenues (in millions) (a)	$436.4		$369.7		$436.4	
Southeast:						
Homes delivered	1,088		1,057		1,510	
Percentage of total homes delivered	17	%	18	%	21	%
Average selling price	$206,200		$195,500		$170,200	
Total revenues (in millions) (a)	$224.3		$206.6		$257.0	
Total:						
Homes delivered	6,282		5,812		7,346	
Average selling price	$246,500		$224,600		$214,500	
Total revenues (in millions) (a)	$1,548.4		$1,305.6		$1,581.8	

(a) Total revenues include revenues from housing and land sales.

Unconsolidated Joint Ventures. The above table does not include homes delivered from unconsolidated joint ventures in which we participate. These unconsolidated joint ventures acquire and develop land and, in some cases, build and deliver homes on the land developed. Over the last five years, we have reduced the number of homebuilding joint ventures in which we participate. Our unconsolidated joint ventures delivered no homes in 2012, one home in 2011, and 102 homes in 2010.

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Strategy

Since 1997, we have operated our homebuilding business following the principles of an operational business model that we call KBnxt. KBnxt provides the core framework under which we have established our main operational objectives and near-term strategic goals. We believe the principles of KBnxt set us apart from other large-production homebuilders and provide the foundation for our long-term growth.

KBnxt. With KBnxt, we seek to generate greater operating efficiencies and return on investment through a disciplined, fact-based and process-driven approach to homebuilding that is founded on a constant and systematic assessment of consumer preferences and market opportunities. The key principles of KBnxt include the following:

- gaining a detailed understanding of consumer location and home design and interior/exterior design option preferences through regular surveys and research. In this report and elsewhere, we refer to our home designs and design options as our "products;"
- managing our working capital and reducing our operating risks by acquiring primarily developed and entitled land at reasonable prices in preferred markets with perceived high growth potential that meet our investment return and market positioning (or "marketing") standards ;
- using our knowledge of consumer preferences to design, offer, construct and deliver products that homebuyers desire;
- in general, commencing construction of a home only after a purchase contract has been signed and preliminary credit approval has been received;
- building a backlog of net orders and minimizing the cycle time from initial construction to delivery of homes to customers;
- establishing an even flow of production of high-quality homes at the lowest possible cost; and
- offering customers affordable base prices and the opportunity to customize their homes through choice of location within a community, elevation and floor plans, and choices for design options at our KB Home Studios.

While we consider KBnxt to be integral to our success in the homebuilding industry, there have been instances where market conditions have made it necessary, in our view, to temporarily deviate from certain of its principles. For example, at times we have been unable to maintain an even flow production of homes in a particular area because of slow sales activity. Also, in specific targeted communities with strong demand, we have started construction on a small number of homes before a corresponding purchase contract was signed to more quickly meet the delivery expectations of homebuyers and generate revenues. These and other market-driven circumstances may arise in the future and lead us to make specific short-term shifts from the principles of KBnxt.

Operational Objectives. Guided by KBnxt, our main areas of operational focus are as follows:

- Asset Positioning. We seek to maintain a long-term growth platform of new home communities through land and land development investments that enable us to own or control a forecasted three-to-five year supply of developed or developable land in preferred locations in our served markets. We manage this growth platform through an ongoing allocation of resources to capitalize on identified opportunities, which may involve withdrawing and reallocating resources from underperforming markets. We also will expand and contract our geographic footprint and corresponding resource commitments over time in line with housing market conditions, particularly prevailing and expected levels of home sales activity.
- Product Sales and Customer Satisfaction. We aim to generate sales volume and high levels of customer satisfaction by providing the best combination of value, quality and choice in homes and design options along with attentive service to our core customers — first-time, move-up and active adult homebuyers. In addition to our focus on operating from new home communities in attractive locations, we believe we stand out from other homebuilders and resale homes through our distinct Built to Order™ approach to homebuying and our longstanding commitment to sustainability. With Built to Order, we offer customers affordable base prices and the opportunity to significantly customize the floor plans and design options for their new homes. With our homes, we also offer several standard features and options that are among the most energy- and water-efficient commercially available. These features and options provide increased value to our homebuyers by helping to lower the relative cost of homeownership over time.
- Organizational and Production Efficiency. We strive to enhance our performance by aligning our management resources, personnel levels and overhead costs with our growth platform, sales activity expectations and business needs, and by streamlining and constantly improving, to the extent possible, our home construction process. In

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production scheduling, our home construction process includes developing and refining a set of value-engineered home designs in ways that allow us to meet the needs of consumers in a variety of different markets, shorten cycle times and lower direct construction costs. It also includes taking advantage of economies of scale in contracting for building materials and skilled trade labor.

Near-Term Strategic Goals. As 2012 unfolded, the overall housing market showed increasing signs that it had stabilized and was recovering from the severe and widespread downturn that began in mid-2006, and some stronger housing markets experienced sustained positive momentum in sales activity and selling prices. Optimistic that the housing recovery could be at the beginning of a new upward business cycle for homebuilding, but mindful of the several challenges facing housing markets, we continued to execute on the following three primary integrated strategic goals that have been our focus during the past few years of the housing downturn:

- achieving and maintaining profitability at the scale of prevailing market conditions, our highest priority in 2012;
- generating cash and strengthening our balance sheet; and
- positioning our business to capitalize on future growth opportunities.

In pursuing these goals, we have broadly transformed and refocused the scope, scale and position of our business both geographically and operationally, compared to the peak pre-housing downturn years of the prior decade, to adapt to changing housing market dynamics and volatile home sales activity. Several housing markets experienced challenging conditions during the housing downturn, which was deepened and extended by the negative impacts of the 2007-2009 economic recession and subsequent slow recovery, including high unemployment; sluggish economic growth; weak consumer confidence; elevated residential consumer mortgage loan delinquencies, defaults and foreclosures; turbulent financial and credit markets and tight mortgage lending standards and practices. These factors, to varying degrees, still affect housing markets. Given the difficult homebuilding environment, we, among other things, shifted resources from underperforming areas to markets offering perceived higher growth prospects, particularly land-constrained locations in coastal areas of California and in Texas, to maintain a solid growth platform; implemented measures to generate and conserve cash through reduced spending and asset sales, strengthen our balance sheet, improve our operating efficiencies and lower our overhead costs; and redesigned and re-engineered our products.

While these efforts to refocus our operations contributed to reduced inventory levels, lower community counts, and declines in our backlog, deliveries and revenues, and we posted operating losses, we believe they have strengthened our overall business relative to where we stood at the outset of the housing downturn and have positioned us to operate profitably to the extent there is continued progress in the present housing recovery. We generated net income in the second half of 2012 and our full-year deliveries and revenues were each higher than in 2011. In addition, our backlog at November 30, 2012, in terms of both homes and potential future housing revenues, was significantly higher than our backlog at November 30, 2011. We expect our community count to increase in 2013 largely as a result of a land acquisition initiative we began in late 2009 and accelerated in 2012, and the investments in land and land development we plan to make in 2013. We use the term “community count” to refer to the number of new home communities we have open for sales in a given period, and for this report our community count reflects as of a given period or date the number of our new home communities with at least one home left to sell.

Encouraged by the results of our efforts to reposition the company during the housing downturn and the steadily emerging indications during 2012 that the housing market is now past stabilization and into recovery, in the latter part of 2012, we expanded our primary integrated strategic goals to target both profitability and growing our business and, among other things, implemented the following initiatives:

- Building on our focused geographic and operational positioning strategy of the past few years by aggressively investing in land and land development, subject to our investment return and marketing standards, in higher-performing, choice locations that feature higher household incomes within our core homebuyer demographic. These consumers are more likely to choose larger home sizes and purchase more design options, key drivers for our home selling prices and housing gross profit margins. This investment orientation, which we began in late 2009, yielded improved results in 2012, contributing to our higher revenues and average selling prices. During 2012, we invested approximately $565 million in land and land development.
- Optimizing our assets by increasing revenues per new home community open for sales through an intense focus on sales performance and continued improvement in our product offerings, including our energy- and water-efficient

product offerings, to meet higher-income consumers' demand for larger home sizes and more design options. We consider a community that has one or more homes left to sell at the end of a quarter to be a "new home community open for sales."

- Broadening our performing asset base by activating certain inventory in stabilizing markets that was previously held for future development. In 2012, we identified 21 communities for activation, primarily in Florida and Arizona, representing more than 1,000 lots. We expect to generate deliveries and to realize the associated revenues from these activated assets in 2013.

- Bringing additional resources to targeted markets where we operate to further strengthen our local field management teams and talent where appropriate, while leveraging our existing infrastructure and carefully managing overhead costs, to help ensure the effective and efficient execution of our strategic initiatives. In 2012, we expanded our management teams in Northern California, Southern California and Central Texas to provide heightened attention to key submarkets within those regions.

In 2013, we intend to continue and may expand on our strategic growth initiatives, subject to conditions in the housing markets, the overall economy and the capital, credit and financial markets.

Promotional Marketing Strategy. Our promotional marketing efforts are centered on differentiating the KB Home brand in the minds of our core homebuyer demographic from resale homes and from new homes sold by other homebuilders. These efforts increasingly involve using interactive Internet-based applications, social media channels and resources and other technologies. We believe that our Built to Order message and approach generate a high perceived value for our products and our company among consumers and are unique among large-production homebuilders. In marketing our Built to Order approach, we emphasize how we partner with our homebuyers to create a home built to their individual preferences in design, layout, square footage and lot location, and give them the ability to significantly customize their home with design options that suit their needs and interests. In essence, Built to Order serves as the consumer face of core elements of our KBnxt operational business model and is designed to ensure that our promotional marketing strategy and advertising campaigns are closely aligned with our overall operational focus. For greater consistency with our promotional marketing messages and in the execution of our Built to Order approach, the selling of our homes is carried out by in-house teams of sales representatives and other personnel who work personally with each homebuyer to create a home that meets the homebuyer’s preferences and budget.

Our KB Home Studios are a key component of the Built to Order experience we offer to our homebuyers and help increase the revenues we generate from home sales. These showrooms, which are generally located close to our new home communities open for sales, allow our homebuyers to select from a wide variety of design options that are available for purchase as part of the original construction of their homes. The coordinated efforts of our sales representatives and KB Home Studio consultants are intended to generate higher customer satisfaction and lead to enhanced customer retention and referrals.

Sustainability. We have made a dedicated effort to further differentiate ourselves from other homebuilders and resale homes through our ongoing commitment to become a leading national company in environmental sustainability. Under this commitment, we:

- refined our products to reduce the amount of building materials needed to construct them, and have taken steps to reduce construction waste;
- build all of our new homes to U.S. Environmental Protection Agency’s (“EPA”) ENERGY STAR® standards;
- build an increasing percentage of our homes to meet the U.S. EPA’s Watersense® specifications for water use efficiency;
- build our homes with Watersense labeled fixtures;
- developed an Energy Performance Guide®, or EPG®, that informs our homebuyers of the relative energy efficiency (and related estimated monthly energy costs and potential energy cost savings) of each of our homes as designed compared to typical new and existing homes; and
- introduced net-zero energy design options, in a program called ZeroHouse 2.0™, in select markets.

This commitment and the related initiatives we have implemented stem in part from growing sensitivities and regulatory attention to the potential impact that the construction and use of homes can have on the environment, and from our homebuyers’ interest in reducing this impact and in lowering their consumption of energy and water resources and their utility bills. More information about our sustainability commitment can be found in our annual sustainability reports, which we have published on our website since 2008. To date, we are the only national homebuilder to publish a comprehensive annual sustainability report. As we see environmental issues related to housing becoming increasingly important to consumers and government authorities at all levels, we intend to continue to research, evaluate and utilize new or improved products and construction and business practices consistent with our commitment. In addition to making good business sense, we believe our sustainability initiatives can help put us in a better position, compared to resales and homebuilders with less-developed programs, to comply with evolving local, state and federal rules and regulations intended to protect natural resources and to address climate change and similar environmental concerns.

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Customer Service and Quality Control

Customer satisfaction is a high priority for us. Our goal is for our customers to be 100% satisfied with their new homes. Our on-site construction supervisors perform regular pre-closing quality checks and our sales representatives maintain regular contact with our homebuyers during the home construction process in an effort to ensure our homes meet our standards and our homebuyers' expectations. We believe our prompt and courteous responses to homebuyers' needs throughout the homebuying process help reduce post-closing repair costs, enhance our reputation for quality and service, and help encourage repeat and referral business from homebuyers and the real estate community. We also have employees who are responsible for responding to homebuyers' post-closing needs, including warranty claims.

We provide a limited warranty on all of our homes. The specific terms and conditions vary depending on the market where we do business. We generally provide a structural warranty of 10 years, a warranty on electrical, heating, cooling, plumbing and other building systems each varying from two to five years based on geographic market and state law, and a warranty of one year for other components of a home.

Local Expertise

To maximize KBnxt's effectiveness and help ensure its consistent execution, our employees are continuously trained on KBnxt principles and are evaluated based on their achievement of relevant operational objectives. We also believe that our business requires in-depth knowledge of local markets in order to acquire land in preferred locations and on favorable terms, to engage subcontractors, to develop communities that meet local demand, to anticipate consumer tastes in specific markets, and to assess local regulatory environments. Accordingly, we operate our business through divisions with trained personnel who have local market expertise. We have experienced management teams in each of our divisions. Though we centralize certain functions (such as promotional marketing, legal, purchasing administration, product development, architecture and accounting) to benefit from economies of scale, our local management exercises considerable autonomy in identifying land acquisition opportunities, developing and implementing product and sales strategies, and controlling costs.

Community Development and Land Inventory Management

Our community development process generally consists of four phases: land acquisition, land development, home construction and deliveries. Historically, our community development process has ranged from six to 24 months in our West Coast segment, with a somewhat shorter duration in our other homebuilding segments. The community development process varies based on, among other things, the extent of government approvals required, the overall size of a particular community, necessary site preparation activities, the type of product(s) that will be offered, weather conditions, promotional marketing results, consumer demand and local and general economic and housing market conditions.

Although they vary significantly in size and complexity, our communities typically consist of 50 to 250 lots ranging in size from 2,200 to 13,000 square feet. In our communities, we typically offer from three to 15 home design choices. We also generally build one to three model homes at each community so that prospective buyers can preview various products available. Depending on the community, we may offer premium lots containing more square footage, better views and/or location benefits.

The following table summarizes our community count in each of our homebuilding reporting segments:

As of November 30,	West Coast	Southwest	Central	Southeast	Total
2012	46	17	91	37	191
2011	72	25	93	44	234

Land Acquisition and Land Development. We continuously evaluate land acquisition opportunities as they arise against our investment return and marketing standards, balancing competing needs for financial strength, liquidity and land inventory for future growth. When we acquire land, we generally focus on land parcels containing fewer than 250 lots that are fully entitled for residential construction and are either physically developed to start home construction (referred to as "finished lots") or partially finished. Acquiring finished or partially finished lots enables us to construct and deliver homes with minimal additional development work or expenditures. We believe this is a more efficient way to use our working capital and reduces the operating risks associated with having to develop and/or entitle land, such as unforeseen improvement costs and/or changes in market conditions. However, depending on market conditions and available opportunities, including opportunities to secure certain finished lots, we may acquire undeveloped and/or unentitled land. We expect that the overall balance of undeveloped, unentitled, entitled and finished lots in our inventory will vary over time, and in implementing our strategic growth initiatives, we may acquire a greater proportion of undeveloped or unentitled land in the future.

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Consistent with our KBnxt operational business model, we target geographic areas for potential land acquisitions and community development, based on the results of periodic surveys of both new and resale homebuyers in particular markets, prevailing local economic conditions, the supply and type of homes available for sale, and other research activities. Local, in-house land acquisition specialists analyze specific geographic areas to identify desirable land acquisition targets or to evaluate whether to dispose of an existing land interest. We also use studies performed by third-party specialists. Using this internal and external data, some of the factors we consider in evaluating land acquisition targets are consumer preferences; general economic conditions; prevailing and expected home sales activity and the selling prices and pricing trends of comparable new and resale homes in the subject submarket; proximity to metropolitan areas and employment centers; population, household formation and employment and commercial growth patterns; household income levels; availability of developable land parcels at reasonable cost, including estimated costs of completing land development and selling homes; our operational scale and experience in the subject submarket; and environmental compliance matters.

We generally structure our land acquisitions and land development activities to minimize, or to defer the timing of, expenditures, which enhances our returns associated with land-related investments. While we use a variety of techniques to accomplish this, we typically use contracts that give us an option or similar right to acquire land at a future date, usually at a predetermined price and for a small initial option or earnest money deposit payment. These contracts may also permit us to partially develop the underlying land prior to our acquisition. We refer to land subject to such option or similar rights as being “controlled.” Our decision to exercise a particular land option or similar right is based on the results of due diligence and continued market viability analysis we conduct after entering into a contract. In some cases, our decision to exercise a land option or similar right 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.

In addition, we may acquire land under contracts that condition our acquisition obligation on our satisfaction with the feasibility of developing the subject land and selling homes on the land by a certain future date, consistent with our investment return and marketing standards. Our land option contracts and other similar contracts may also allow us to phase our land acquisitions and/or land development over a period of time and/or upon the satisfaction of certain conditions. We may also acquire land with seller financing that is non-recourse to us, or by working in conjunction with third-party land developers. The use of these land option contracts and other similar contracts generally allows us to reduce the market risks associated with direct land ownership and development, and to reduce our capital and financial commitments, including interest and other carrying costs.

Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance. However, depending on the circumstances, our initial option or earnest money deposit may or may not be refundable to us if we abandon the related land option contract or other similar contract and do not complete the acquisition of the underlying land. In addition, if we abandon a land option contract or other similar contract, we usually cannot recover the pre-acquisition costs we incurred after we entered into the contract, including those related to our due diligence and other evaluation activities and/or partial development of the subject land, if any.

Before we commit to any land acquisition, our senior corporate and regional management evaluate the asset based on the results of our local specialists’ due diligence, third-party data and a set of defined financial measures, including, but not limited to, housing gross profit margin analyses and specific discounted, after-tax cash flow internal rate of return requirements. The criteria guiding our land acquisition and disposition decisions have resulted in our maintaining inventory in areas that we believe generally offer better returns for lower risk and lower our upfront investment in inventory.

Our inventories include land we are holding for future development, which is comprised of land where we have suspended development activity or development has not yet begun but is expected to occur in the future. These assets held for future development are located in various submarkets where conditions do not presently support further investment or development, or are subject to a building permit moratorium or regulatory restrictions, or are portions of larger land parcels that we plan to build out over several years and/or parcels that have not yet been entitled and, therefore, have an extended development timeline. Land we are holding for future development also includes land where we have deferred development activity based on our belief that we can generate greater returns and/or maximize the economic performance of a community by delaying improvements for a period of time to allow earlier phases of a long-term, multi-phase community or a neighboring community to generate sales momentum or for market conditions to improve.

The following table presents the number of inventory lots we owned, in various stages of development, or controlled under land option contracts and other similar contracts in our homebuilding reporting segments as of November 30, 2012 and 2011. The table does not include approximately 326 acres owned as of November 30, 2012 and November 30, 2011 that are not currently expected to be approved for subdivision into lots.

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	Homes Under Construction and Land Under Development		Land Held for Future Development		Land Under Option		Total Land Owned or Under Option	
	2012	2011	2012	2011	2012	2011	2012	2011
West Coast	2,899	3,424	3,936	4,102	3,613	1,491	10,448	9,017
Southwest	1,275	1,013	7,743	8,219	534	33	9,552	9,265
Central	7,859	7,681	2,055	1,837	4,612	3,215	14,526	12,733
Southeast	1,922	1,123	4,934	5,567	3,370	2,465	10,226	9,155
Total	13,955	13,241	18,668	19,725	12,129	7,204	44,752	40,170

Reflecting our geographic diversity and relatively balanced operational footprint, as of November 30, 2012, 23% of the inventory lots we owned or controlled were located in our West Coast homebuilding reporting segment, 21% were in our Southwest homebuilding reporting segment, 33% were in our Central homebuilding reporting segment and 23% were in our Southeast homebuilding reporting segment.

The following table presents the carrying value of inventory we owned, in various stages of development, or controlled under land option contracts and other similar contracts in our homebuilding reporting segments as of November 30, 2012 and 2011 (in thousands):

	Homes Under Construction and Land Under Development		Land Held for Future Development		Land Under Option		Total Land Owned or Under Option	
	2012	2011	2012	2011	2012	2011	2012	2011
West Coast	$471,650	$508,731	$337,229	$344,702	$33,718	$62,370	$842,597	$915,803
Southwest	63,456	66,770	156,159	163,413	1,830	307	221,445	230,490
Central	292,475	265,946	21,806	23,086	5,443	2,834	319,724	291,866
Southeast	154,992	87,144	153,661	195,542	14,152	10,784	322,805	293,470
Total	$982,573	$928,591	$668,855	$726,743	$55,143	$76,295	$1,706,571	$1,731,629

Home Construction and Deliveries. Following the acquisition of land and, if necessary, the development of the land into finished lots, we typically begin constructing model homes and marketing homes for sale. The time required for construction of our homes depends on the weather, time of year, availability of local trade labor and building materials and other factors. To minimize the costs and risks of unsold homes in production, we generally begin construction of a home only when we have a signed purchase contract with a homebuyer. However, cancellations of home purchase contracts prior to the delivery of the underlying homes, the construction of attached products with some unsold units or specific strategic considerations, will result in our having unsold homes in production.

We act as the general contractor for the majority of our communities and hire experienced subcontractors to supply the trade labor and to procure some of the building materials required for all production activities. Our contracts with our subcontractors require that they comply with all laws applicable to their work, including labor laws, meet performance standards, and follow local building codes and permits. We have established national and regional purchasing programs for certain building materials, appliances, fixtures and other items to take advantage of economies of scale and garner better pricing and more reliable supply and, where available, participate in manufacturers' or suppliers' rebate programs. At all stages of production, our administrative and on-site supervisory personnel coordinate the activities of subcontractors to meet our production schedules and quality standards.

Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer to pay a deposit at the time of signing. The amount of the deposit required varies among markets and communities. Homebuyers also may be required to pay additional deposits when they select design options for their homes. Most of our home purchase contracts stipulate that if a homebuyer cancels a contract with us, we have the right to retain the homebuyer's deposits. However, we generally permit our homebuyers to cancel their obligations and obtain refunds of all or a portion of their deposits in the event mortgage financing cannot be obtained within a certain period of time, as specified in their contract. We define our cancellation rate in a given period as the total number of contracts for new homes canceled divided by the total new (gross) orders for homes during the same period. For further discussion of our cancellation rates and the factors affecting our cancellation rates, see below under “Item 1A. Risk Factors” and “Part II — Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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Our “backlog” consists of homes that are under a home purchase contract but have not yet been delivered to a homebuyer. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less cancellations) generated during the current period minus the number of homes delivered during the current period. Our backlog at any given time will be affected by cancellations and by our community count. The number of homes delivered has historically increased from the first to the fourth quarter in any year.

Our backlog at November 30, 2012 consisted of 2,577 homes, an increase of 20% from the 2,156 homes in backlog at November 30, 2011. Our backlog at November 30, 2012 represented potential future housing revenues of approximately $618.6 million, a 35% increase from potential future housing revenues of approximately $459.0 million at November 30, 2011, resulting from the higher number of homes in backlog and a higher overall average selling price. Our backlog ratio, defined as homes delivered in the quarter as a percentage of backlog at the beginning of the quarter, will vary from quarter to quarter, depending on what portion of our backlog is under construction, and how many unsold homes we may sell and close within a quarter.

Our net orders for the year ended November 30, 2012 increased to 6,703 from 6,632 for the year ended November 30, 2011, representing the second consecutive year that full-year net orders have increased from the previous year. The value of the net orders we generated for the year ended November 30, 2012 increased 15% to $1.73 billion from $1.51 billion in the prior year. Our cancellation rate for the year was 31% in 2012, compared to a cancellation rate of 29% in 2011. Our cancellation rate was 35% in the fourth quarter of 2012, compared to 34% in the fourth quarter of 2011.

The following tables present homes delivered, net orders and cancellation rates by homebuilding reporting segment for each quarter during the years ended November 30, 2012 and 2011, and our ending backlog at the end of each quarter within those years:

	West Coast	Southwest	Central	Southeast	Total
Homes delivered					
2012					
First	309	170	487	184	1,150
Second	330	157	536	267	1,290
Third	541	186	700	293	1,720
Fourth	765	170	843	344	2,122
Total	1,945	683	2,566	1,088	6,282
2011					
First	224	158	363	204	949
Second	353	183	475	254	1,265
Third	524	232	611	236	1,603
Fourth	656	270	706	363	1,995
Total	1,757	843	2,155	1,057	5,812
Net orders					
2012					
First	289	140	547	221	1,197
Second	600	229	900	320	2,049
Third	658	154	765	323	1,900
Fourth	619	140	485	313	1,557
Total	2,166	663	2,697	1,177	6,703
2011					
First	404	206	448	244	1,302
Second	542	270	838	348	1,998
Third	581	259	677	321	1,838
Fourth	490	172	517	315	1,494
Total	2,017	907	2,480	1,228	6,632

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	West Coast	Southwest	Central	Southeast	Total
Cancellation rates					
2012					
First	34 %	24 %	39 %	37 %	36 %
Second	24	17	28	28	26
Third	23	16	35	27	29
Fourth	25	21	47	31	35
Total	26 %	19 %	37 %	30 %	31 %
2011					
First	15 %	18 %	39 %	33 %	29 %
Second	22	18	29	24	25
Third	27	20	34	30	29
Fourth	28	27	41	33	34
Total	24 %	21 %	35 %	30 %	29 %
Ending backlog — homes					
2012					
First	443	173	1,078	509	2,203
Second	713	245	1,442	562	2,962
Third	830	213	1,507	592	3,142
Fourth	684	183	1,149	561	2,577
2011					
First	383	187	778	341	1,689
Second	572	274	1,141	435	2,422
Third	629	301	1,207	520	2,657
Fourth	463	203	1,018	472	2,156
Ending backlog — value, in thousands					
2012					
First	$150,638	$32,139	$177,998	$99,176	$459,951
Second	301,652	43,518	237,558	110,680	693,408
Third	327,528	40,727	251,900	124,589	744,744
Fourth	248,790	40,206	204,473	125,157	618,626
2011					
First	$126,258	$27,970	$132,164	$67,242	$353,634
Second	172,147	43,572	199,350	86,475	501,544
Third	211,360	51,262	199,503	97,205	559,330
Fourth	161,987	37,071	168,512	91,380	458,950

Land and Raw Materials

Based on our current strategic plans, we strive to own or control land sufficient to meet our forecasted production goals for the next three to five years. As discussed above under “Strategy,” in 2013 we intend to acquire additional land subject to conditions in the housing markets, the overall economy and the capital, credit and financial markets. However, we may also decide to sell certain land or land interests as part of our marketing strategy or for other reasons.

The principal raw materials used in the construction of our homes are concrete and forest products. In addition, we use a variety of other construction materials in the homebuilding process, including drywall and plumbing and electrical items. We attempt to enhance the efficiency of our operations by using, where practical, standardized materials that are commercially available on competitive terms from a variety of sources. In addition, our national and regional purchasing programs for certain building

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materials, appliances, fixtures and other items allow us to benefit from large quantity purchase discounts and, where available, manufacturer or supplier rebates. When possible, we arrange for bulk purchases of these products at favorable prices from manufacturers and suppliers. Although our purchasing strategies have helped us in negotiating favorable prices for raw materials, in 2012, we encountered higher prices for lumber, drywall, concrete and other materials, and labor due to increased residential construction activity, and we expect to see additional cost increases if and as the present housing recovery progresses, as discussed further below under "Competition, Seasonality, Delivery Mix and Other Factors."

Customer Financing

Our homebuyers may obtain mortgage financing to purchase our homes from any provider of their choice. We do not directly offer mortgage banking services or originate residential consumer mortgage loans ("mortgage loans") for our customers. Prior to late June 2011, KBA Mortgage, LLC ("KBA Mortgage"), a former unconsolidated mortgage banking joint venture of a subsidiary of ours and a subsidiary of Bank of America, N.A., provided mortgage banking services to a significant proportion of our homebuyers. KBA Mortgage ceased offering mortgage banking services after June 30, 2011.

Since the third quarter of 2011, we have had a marketing services agreement with a preferred mortgage lender that offers mortgage banking services, including mortgage loan originations, to our homebuyers who elect to use the lender. The mortgage banking services are described further below under "Part II — Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Services Segment." Our preferred mortgage lender and its respective parent company are not affiliates of ours or any of our subsidiaries. We do not have any ownership, joint venture or other interests in or with our preferred mortgage lender or its respective parent company or with respect to the revenues or income that may be generated from our preferred mortgage lender providing mortgage banking services to, or originating mortgage loans for, our homebuyers. Until the first quarter of 2012, our preferred mortgage lender was MetLife Home Loans, a division of MetLife Bank, N.A., which announced in January 2012 that it was ceasing to offer forward mortgage banking services as part of its business. In March 2012, Nationstar Mortgage LLC ("Nationstar") became our preferred mortgage lender. Nationstar began accepting new mortgage loan applications from our homebuyers on May 1, 2012.

Employees

We employ a trained staff of land acquisition specialists, architects, planners, engineers, construction supervisors, marketing and sales personnel, and finance and accounting personnel, supplemented as necessary by outside consultants, who guide the development of our communities from their conception through the promotional marketing and delivery of completed homes.

At both December 31, 2012 and 2011, we had approximately 1,200 full-time employees. None of our employees are represented by a collective bargaining agreement.

Competition, Seasonality, Delivery Mix and Other Factors

The homebuilding industry and housing market are highly competitive with respect to selling homes; hiring trade labor, such as carpenters, roofers, electricians and plumbers; and acquiring attractive developable land. We compete for homebuyers, skilled trade workers and management talent and desirable land against numerous homebuilders, ranging from regional and national firms to small local enterprises. As to homebuyers, we primarily compete with other homebuilders on the basis of selling price, community location, availability of financing options, design, reputation, quality and amenities, including within larger residential development projects containing separate sections designed, planned and developed by such other homebuilders. In addition, we compete for homebuyers against housing alternatives other than new homes, including resale homes, apartments, single-family rentals and other rental housing. In certain markets and at times when housing demand is high, we also compete with other homebuilders and commercial and remodeling contractors to hire skilled trade labor, primarily on the basis of preexisting relationships, contract price and volume and consistency of available work. During the housing downturn, many skilled workers left construction for other industries, and in markets where there was increased residential construction activity in 2012, the smaller workforce and higher demand for trade labor created shortages of certain skilled workers, driving up costs and/or extending land development and home construction schedules. This elevated residential construction activity also caused notable increases in the cost of certain building materials, such as lumber, drywall and concrete, reflecting in part a smaller supplier base and lower production capacity than existed before the housing downturn. In 2012, we also saw higher prices for desirable land amid heightened competition with homebuilders and other developers and investors, particularly in the land-constrained areas we are strategically targeting. We expect these upward trends in construction labor, building materials and land costs to continue, and possibly intensify, in 2013 if and as the present housing recovery progresses and there is greater competition for these resources.

Our performance is affected by seasonal demand trends for housing. Traditionally, there has been more consumer demand for home purchases and we tend to generate more net orders in the mid- to late-spring and early summer months (corresponding to most of our second and part of our third quarters) than at other times of the year. With our Built to Order approach and typical

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home construction cycle times, this “selling season” demand results in our delivering more homes and generating higher revenues from late summer through the fall months (corresponding to part of our third and our fourth quarters). On a relative basis, the winter and early spring months within our first and part of our second quarters usually produce the fewest net orders, homes delivered and revenues, and the sequential difference from our fourth quarter to our first quarter can be significant. During the housing downturn and in 2012, these seasonal trends were somewhat less pronounced, and our overall net orders, homes delivered and revenues were generally lower than before the housing downturn. We currently expect the traditional seasonality cycle and its impact on our results to become more prominent if and as the present housing recovery progresses and the housing markets and homebuilding industry return to a more normal operating environment.

In addition to the overall volume of homes we sell and deliver, our results in a given period are significantly affected by the geographic mix of submarkets in which we operate; the number and characteristics of the new home communities we have open for sales in those submarkets; and the products we sell from those communities during the period. While there are some similarities, there are differences within and between our served markets and submarkets in terms of the quantity, size and nature of the new home communities we operate and the products we offer to consumers. These differences reflect, among other things, local homebuyer preferences; household demographics (e.g., large families or working professionals; income levels); and geographic context (e.g., urban or suburban; availability of reasonably-priced finished lots; development constraints; residential density), and the shifts that can occur in these factors over time. These structural factors in each market and submarket will affect the costs we incur and the time it takes to locate, acquire rights to and develop land, open new home communities for sales and market and build homes; the size of our homes; our selling prices (including the contribution from homebuyers’ purchases of design options); and the pace at which we sell homes and close out communities. Therefore, our results in any given period will fluctuate compared to other periods based on the proportion of homes delivered from areas with higher or lower selling prices and on the corresponding land and overhead costs incurred to generate those deliveries, as well as from our overall community count. In 2012, we targeted opening more of our new home communities for sales in higher-performing, choice locations — predominately in land-constrained areas that feature higher household incomes — where customers are more likely to choose larger home sizes and purchase more design options, key drivers for our home selling prices and housing gross profit margins. Due in part to this strategic focus, in the second, third and fourth quarters of 2012, we posted favorable year-over-year results in revenues as we delivered more homes from these submarkets. At the same time, we had modest year-over-year growth in net orders in each period due largely to sequential declines in our overall community count, as we closed out older communities more quickly than we were able to develop and open new communities in our strategically-targeted areas. In 2013, we plan to continue our approach of opening new home communities for sales in locations with the above-described demand characteristics, and we anticipate that we will have more new home communities open for sales than we did in 2012.

Financing

We do not generally finance the development of our communities with project financing. By “project financing,” we mean proceeds of loans from parties other than land sellers that are specifically obtained for, or secured by, particular communities or other inventory assets. Instead, our operations have historically been funded by results of operations, public debt and equity financing. Depending on market conditions in 2013, we may obtain project financing, or secure external financing with community or other inventory assets that we own or control. We may also arrange or engage in equity or debt capital markets, bank loan, credit facility, project debt or other financial transactions. These transactions may include repurchases from time to time of our outstanding senior notes or other debt through tender offers, exchange offers, private exchanges, open market purchases or other means, and may include potential new issuances of equity or senior notes or other debt through public offerings, private placements or other arrangements to raise new capital for land acquisition, land development and other business purposes and/or to effect repurchases of our outstanding senior notes or other debt. Our ability to engage in such financial transactions, however, may be constrained by economic or capital markets or bank lending conditions, investor interest and/or our current leverage ratios, and we can provide no assurance of the success or costs of any such transactions.

Environmental Compliance Matters

As part of our due diligence process for land acquisitions, we often use third-party environmental consultants to investigate potential environmental risks, and we require disclosures and representations and warranties from land sellers regarding environmental risks. Despite these efforts, there can be no assurance that we will avoid material liabilities relating to the existence or removal of toxic wastes, site restoration, monitoring or other environmental matters affecting properties currently or previously owned or controlled by us. No estimate of any potential liabilities can be made although we may, from time to time, acquire property that requires us to incur environmental clean-up costs after conducting appropriate due diligence, including, but not limited to, using detailed investigations performed by environmental consultants. In such instances, we take steps prior to acquisition of the land to gain reasonable assurance as to the precise scope of work required and the costs associated with removal, site restoration and/or monitoring. To the extent contamination or other environmental issues have occurred in the past, we will attempt to recover restoration costs from third parties, such as the generators of hazardous waste, land sellers or others in the prior

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chain of title and/or their insurers. Based on these practices, we anticipate that it is unlikely that environmental clean-up costs will have a material effect on our consolidated financial statements. We have not been notified by any governmental agency of any claim that any of the properties owned or formerly owned by us are identified by the EPA as being a "Superfund" clean-up site requiring remediation, which could have a material effect on our future consolidated financial statements. Costs associated with the use of environmental consultants are not material to our consolidated financial statements.

Access to Our Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). We make our public SEC filings available, at no cost, through our investor relations website at www.investor.kbhome.com, as soon as reasonably practicable after the report is electronically filed with, or furnished to, the SEC. We will also provide these reports in electronic or paper format free of charge upon request made to our investor relations department at investorrelations@kbhome.com or at our principal executive offices. We intend for our investor relations website to be the primary location where investors and the general public can obtain announcements regarding and can learn more about our financial and operational performance, business plans and prospects, and our board of directors, our senior executive management team, and our corporate governance policies, including our articles of incorporation, by-laws, corporate governance principles, board committee charters, and ethics policy. We webcast and archive quarterly earnings calls and other investor events in which we participate or host, and post related materials, on our investor relations website. Interested persons can register on our investor relations website to receive prompt notifications of new SEC filings, press releases and other information posted there. However, the content available on or through our primary website at www.kbhome.com or our investor relations website, including our sustainability reports, is not incorporated by reference in this report or in any other filing we make with the SEC. Our references in our SEC filings or otherwise to materials posted on or to any content available on or through our websites are intended to be inactive textual or oral references only. Our SEC filings are also available to the public over the Internet at the SEC's website at www.sec.gov. The public may also read and copy any document we file at the SEC's public reference room located at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Item 1A. RISK FACTORS

The following important factors could adversely impact our business. These factors could cause our actual results to differ materially from the forward-looking and other statements that (i) we make in registration statements, periodic reports and other filings with the SEC and from time to time in our news releases, annual reports and other written reports or communications, (ii) we post on or make available through our primary website at www.kbhome.com or our investor relations website at www.investor.kbhome.com, and (iii) our personnel and representatives make orally from time to time.

The recent improvement in housing market conditions following a prolonged and severe housing downturn may not continue, and any slowing or reversal of the present housing recovery generally, or in our served markets, or for the homebuilding industry may materially and adversely affect our business and consolidated financial statements.

In 2012, several housing markets stabilized and began recovering after years of weak demand and excess supply during the housing downturn. In these markets, there were generally more sales of new and resale homes, higher selling prices and fewer homes available for sale, in each case as compared to the prior year. There were also more overall housing starts and construction permits authorized in the U.S., reflecting increased residential construction activity. These trends have been driven in large part by record-low interest rates for mortgage loans that, in combination with relatively low home selling prices, have made homeownership more affordable compared to historical levels and to rental housing costs, which have been rising over the past few years.

With the emerging housing recovery, we and other homebuilders for the most part reported higher orders and deliveries and better financial results in 2012 than in 2011, a year in which a record-low number of new homes were sold in the country. However, the improved conditions did not (and may not) extend to a number of housing markets we serve, and some markets have been stronger than others. We expect that such unevenness will continue in 2013 and beyond whether or not the present housing recovery progresses, and that prevailing conditions in various housing markets will fluctuate, perhaps significantly and unfavorably in future periods. In addition, while some of the many negative factors that contributed to the housing downturn may have moderated in 2012, several remain, and they could return and/or intensify to inhibit any future improvement in housing market conditions in 2013. These negative factors include (a) weak general economic and employment growth that, among other things, restrains consumer incomes, consumer confidence and demand for homes; (b) elevated levels of mortgage loan delinquencies, defaults and foreclosures that could add to a “shadow inventory” of lender-owned homes that may be sold in competition with new and other resale homes at low “distressed” prices or that generate short sales activity at such price levels; (c) a significant number of homeowners whose outstanding principal balance on their mortgage loan exceeds the market value of their home, which undermines

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their ability to purchase another home that they otherwise might desire and be able to afford; (d) volatility and uncertainty in domestic and international financial, credit and consumer lending markets amid slow growth or recessionary conditions in various regions around the world; and (e) tight lending standards and practices for mortgage loans that limit consumers' ability to qualify for mortgage financing to purchase a home, including increased minimum credit score requirements, credit risk/mortgage loan insurance premiums and/or other fees and required down payment amounts, more conservative appraisals, higher loan-to-value ratios and extensive buyer income and asset documentation requirements. Additional headwinds may come from the efforts and proposals of lawmakers to reduce the debt of the federal government through tax increases and/or spending cuts, and financial markets' and businesses' reactions to those efforts and proposals, which could impair economic growth. Given these factors, we can provide no assurance that the present housing recovery will continue or gain further momentum, whether overall or in our served markets.

The present housing recovery is relative to an extremely low level of consumer demand for homes, home sales and new residential construction activity, reflecting the severity of the housing downturn. Even with the upturn in 2012, our and the homebuilding industry's sales, deliveries, revenues and profitability remain well below, and may not return to, the peak levels reached shortly before the housing downturn began. If, on an overall basis or in our served markets, the present housing recovery stalls or does not continue at the same pace, or any or all of the negative factors described above persist or worsen, particularly if there is limited economic growth or a decline, low growth or decreases in employment and consumer incomes, and/or continued tight mortgage lending standards and practices, there would likely be a corresponding adverse effect on our business and our consolidated financial statements, including, but not limited to, the number of homes we deliver, our average selling prices, the amount of revenues we generate and our ability to operate profitably, and the effect may be material.

Continued or additional tightening of mortgage lending standards and practices or mortgage financing requirements or volatility in financial, credit and consumer lending markets could adversely affect the availability of mortgage loans for potential purchasers of our homes and thereby reduce our sales.

Since 2008, the mortgage lending and mortgage finance industries have experienced significant instability due to, among other things, relatively high rates of delinquencies, defaults and foreclosures on mortgage loans and a corresponding decline in their market value and the market value of securities backed by such loans, although there was some modest improvement in these areas in 2012. The delinquencies, defaults and foreclosures have been driven in part by persistent poor economic and employment conditions, which have negatively affected borrowers' incomes, and by a decline in the values of many existing homes in various markets below the principal balance of the mortgage loans secured by such homes. A number of providers, purchasers and insurers of mortgage loans and mortgage loan-backed securities have gone out of business or exited the market, with most mortgage loans currently being originated under programs offered or supported by government agencies or government-sponsored enterprises — principally, the Federal Housing Administration ("FHA"), the Veterans Administration ("VA"), the Federal National Mortgage Association (also known as "Fannie Mae") and the Federal Home Loan Mortgage Corporation (also known as "Freddie Mac"). Compared to prior periods, this instability and increased government role in the mortgage financing market has led to reduced availability of mortgage loan products (particularly subprime and nonconforming loans), and tighter lending standards and practices for mortgage loans, as described above. As a result, it is generally more difficult for some categories of borrowers to finance the purchase of homes, including our homes. Overall, these factors have slowed the housing market's recovery, caused volatility in and generally elevated cancellation rates for us and other homebuilders, and reduced demand for homes, including our homes. If these factors continue, or if mortgage lending standards and practices further tighten, we expect that there would be a material adverse effect on our business and our consolidated financial statements, particularly since we depend on third-party lenders (including our preferred mortgage lender Nationstar) to provide mortgage loans to our homebuyers.

Further tightening of mortgage lending standards and practices and/or reduced credit availability for mortgages may also result from the implementation of regulations under the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Among other things, the Dodd-Frank Act established several requirements (including risk retention obligations) relating to the origination, securitizing and servicing of, and consumer disclosures for, mortgage loans. In addition, U.S. and international banking regulators have proposed or enacted higher capital standards and requirements for financial institutions. These standards and requirements, as and when implemented, are expected to further reduce the availability of and/or increase the costs to borrowers to obtain mortgage loans. Federal regulators and lawmakers are also considering steps that may significantly reduce the ability or authority of the FHA, Fannie Mae and Freddie Mac to purchase or insure mortgage loans under the programs that many lenders use to originate mortgage loans. Further, since 2010, lenders and other mortgage banking services providers, brokers and other institutions, or their agents, have been under intense regulatory scrutiny and the targets of several civil actions by investors and government agencies regarding mortgage loan underwriting practices and/or representations made in connection with selling mortgage loans into private or Fannie Mae- or Freddie Mac-backed securitized pools. If such scrutiny and civil actions result in lenders and other mortgage banking services providers and brokers having to adjust their operations and/or pay significant amounts in damages or fines, they may further curtail or cease their mortgage loan origination activities due to reduced liquidity or to mitigate perceived risks.

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In 2012, the Federal Reserve announced that it would purchase each month billions of dollars of longer-term Treasury securities and mortgage loan-backed securities of Fannie Mae, Freddie Mac and the Government National Mortgage Association (or "Ginnie Mae," which guarantees securities composed of FHA- and VA-qualified mortgage loans) until it determines that there is sufficient improvement in U.S. employment levels. It expects that this action will maintain downward pressure on longer-term interest rates, support mortgage markets and help to make broader financial conditions more accommodative. While the Federal Reserve's action has helped to lower mortgage loan interest rates, it is unclear whether the program will be successful in keeping such interest rates low or in meeting the Federal Reserve's policy goals, or for how long it will be in place. Even if the program does keep mortgage loan interest rates at low levels, many potential homebuyers may still be unable to obtain mortgage loans to purchase homes, including our homes, if mortgage lending standards and practices remain tight or tighten further, or if lenders curtail or cease mortgage loan origination activity due to regulatory requirements and/or liquidity or risk concerns.

Third-party lenders may not complete mortgage loan originations for our homebuyers in a timely manner or at all, which can lead to cancellations and lower our backlog of net orders, or to significant delays in delivering homes and our recognizing revenues from those home sales.

Our homebuyers may obtain mortgage financing for their home purchases from any lender or other provider of their choice. If, due to credit or consumer lending market conditions, reduced liquidity, increased risk retention or minimum capital level obligations and/or regulatory restrictions related to the Dodd-Frank Act or other laws, or other factors or business decisions, these lenders refuse or are unable to provide mortgage loans to our homebuyers, the number of homes we deliver and our consolidated financial statements may be materially and adversely affected. For instance, tight mortgage lending standards and practices for mortgage loans have in recent periods led to significant delays in delivering homes and/or have caused some potential homebuyers to cancel their home purchase contracts with us. We can provide no assurance that these tight mortgage lending conditions will relax or reverse in the foreseeable future.

In addition, in the first half of 2012, as we ended a preferred mortgage lender relationship with a provider that had decided to cease offering forward mortgage banking services and were transitioning to Nationstar as our preferred mortgage lender, we experienced significant disruptions to our business due to the inability or unwillingness of several independent third-party lenders to complete in a timely fashion or at all the mortgage loan originations they had started for our homebuyers. As a result, in our first quarter and for part of the second quarter of 2012, we had an elevated level of cancellations and delayed closings, which negatively affected our net orders and revenues. Nationstar began accepting new mortgage loan applications from our homebuyers on May 1, 2012, and is providing more consistent execution and completion of mortgage loan originations for our homebuyers who choose to use Nationstar. Based on the number of homes delivered in the month of November 2012, approximately 58% of our homebuyers used Nationstar to finance the purchase of their home. Compared to most of the first half of 2012, Nationstar's performance as our preferred lender has helped to provide more stability in the conversion of our backlog into home deliveries and revenues. Although we expect continued improvement in this area as our relationship with Nationstar as our preferred mortgage lender further matures and Nationstar becomes more closely integrated with our operations, we can provide no assurance as to Nationstar's ability or willingness to provide mortgage loans and other mortgage banking services to our homebuyers in future periods (whether due to the factors discussed above or otherwise), or as to its performance in doing so, or that Nationstar will remain our preferred mortgage lender. If Nationstar's performance declines or Nationstar decides to end, or we decide to terminate, our relationship, we may experience mortgage loan funding issues similar to those we experienced in the first half of 2012 (as described in Note 6. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report), which would likely have a material adverse impact on our business and our consolidated financial statements. Our strategic intention is to reestablish a mortgage banking joint venture with a lender or other provider, but we can provide no assurance that we will be able to do so.

Our current strategies may not generate improved financial and operational performance, and the continued implementation of these and other strategies may not be successful.

We believe the integrated strategic actions we have taken during the housing downturn strengthened our overall business and that our current primary strategies, as described above under "Item 1. Business — Strategy," will enable us to grow our business and achieve and maintain profitability at the scale of prevailing market conditions for 2013. However, these strategies may prove to be unsuitable for some or all of our served markets in 2013, and we can provide no guarantee that these strategies will be successfully or productively implemented or, even if they are implemented as designed, that they will generate growth and earnings, or that we will achieve in 2013 or beyond positive operational or financial results or results in any particular metric or measure equal to or better than our 2012 performance, or perform in any period as well as other homebuilders. In particular, our strategic effort to broaden our performing asset base by activating certain inventory that was previously held for future development may not generate positive results as many of these assets are located in submarkets that have only recently begun to stabilize. We also cannot provide any assurance that we will be able to maintain these strategies in 2013 and, due to unexpectedly favorable or unfavorable market conditions or other factors, we may determine that we need to adjust, refine or abandon all or portions of these

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strategies, although we cannot guarantee that any such changes will be successful. The failure of any one or more of our present strategies, or the failure of any adjustments or alternative strategies that we may pursue or implement, to be successful will likely have an adverse effect on our ability to grow and increase the value of our business and on our consolidated financial statements, as well as on our overall liquidity, and the effect could be material.

The success of our present strategies and our long-term performance depends on the availability of finished and partially finished lots and undeveloped land that meet our investment return and marketing standards.

The availability of finished and partially finished lots and undeveloped land that meet our investment return and marketing standards depends on a number of factors outside of our control, including land availability in general, geographical/topographical constraints, land sellers’ business relationships with other homebuilders, developers or investors, climate conditions, competition with other homebuilders and land buyers for desirable property, financial and credit market conditions, legal or government agency processes (particularly for land that is part of bankruptcy estates or is held by financial institutions taken over by government agencies), inflation in land prices, zoning, allowable housing density, our ability and the costs to obtain building permits, the amount of environmental impact fees, property tax rates and other regulatory requirements. Should suitable lots or land become less available, the number of homes that we may be able to build and sell could be reduced, and the cost of attractive land could increase, perhaps substantially, which could adversely impact our consolidated financial statements including, but not limited to, our housing gross profit margins, and our ability to maintain ownership or control of a sufficient supply of developed or developable land inventory. The availability of suitable land could also affect the success of our current strategies, and if we decide to reduce our acquisition of new land in 2013 due to a lack of available assets that meet our standards, our ability to increase our community count, to grow our revenues and housing gross profit margins, and to achieve or maintain profitability, would likely be constrained and could have a material adverse effect on our consolidated financial statements.

The value of the land and housing inventory we own or control may fall significantly.

The value of the inventory we currently own or control depends on market conditions, including estimates of future demand for, and the revenues that can be generated from, this inventory. The market value of our inventory can vary considerably because there is often a significant amount of time between our acquiring control or taking ownership of land and the delivery of homes on that land. The negative conditions of the housing downturn, which generally depressed home sales and selling prices, caused the fair value of certain of our owned or controlled inventory to fall, in some cases well below the estimated fair value at the time we acquired ownership or control. Even with the improved housing market conditions in 2012, local submarket-specific or other factors led to a decrease in the fair value of certain of our inventory and such decreases may occur in 2013 whether or not the present housing recovery progresses. Based on our periodic assessments of inventory for recoverability, during the housing downturn and in 2012, we have written down the carrying value of certain of our inventory to its estimated fair value, including inventory that we have previously written down, and recorded corresponding charges against our earnings to reflect the impaired value. We have also taken charges in connection with abandoning our interests in certain land controlled under land option contracts and other similar contracts that no longer met our investment return or marketing standards. If in 2013 the present housing recovery slows or reverses, or if particular submarkets experience challenging or unfavorable changes in prevailing conditions, we may need to take additional charges against our earnings for inventory impairments or land option contract abandonments, or both, to reflect changes in fair value of land or land interests in our inventory, including assets we have previously written down. Any such charges could have a material adverse effect on our consolidated financial statements, including our ability to achieve or maintain profitability.

Our business is cyclical and is significantly affected by changes in general and local economic conditions.

Our operations and consolidated financial statements can be substantially affected by adverse changes in general economic or business conditions that are outside of our control, including changes in:

- short- and long-term interest rates;
- employment levels and job and personal income growth;
- housing demand from population growth, household formation and other demographic changes, among other factors;
- availability and pricing of mortgage financing for homebuyers;

- consumer confidence generally and the confidence of potential homebuyers in particular;
- U.S. and global financial system and credit market stability;
- private party and government mortgage loan programs (including changes in FHA, Fannie Mae- and Freddie Mac-

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conforming mortgage loan limits, credit risk/mortgage loan insurance premiums and/or other fees, down payment requirements and underwriting standards), and federal and state regulation, oversight and legal action regarding lending, appraisal, foreclosure and short sale practices;

- federal and state personal income tax rates and provisions, including provisions for the deduction of mortgage loan interest payments, real estate taxes and other expenses;
- supply of and prices for available new or resale homes (including lender-owned homes) and other housing alternatives, such as apartments, single-family rentals and other rental housing;
- homebuyer interest in our current or new product designs and new home community locations, and general consumer interest in purchasing a home compared to choosing other housing alternatives; and
- real estate taxes.

Adverse changes in these conditions may affect our business nationally or may be more prevalent or concentrated in particular submarkets in which we operate.

Inclement weather, natural disasters (such as earthquakes, hurricanes, tornadoes, floods, droughts and fires), and other environmental conditions can delay the delivery of our homes and/or increase our costs. Civil unrest or acts of terrorism can also have a negative effect on our business.

The potential difficulties described above can cause demand and prices for our homes to fall or cause us to take longer and incur more costs to develop the land and build our homes. We may not be able to recover these increased costs by raising prices because of market conditions and because the price of each home we sell is usually set several months before the home is delivered, as our customers typically sign their home purchase contracts before home construction begins. The potential difficulties could also lead some homebuyers to cancel or refuse to honor their home purchase contracts altogether. Reflecting the difficult conditions in our served markets during the housing downturn, we have experienced volatility in our net orders and cancellation rates in recent years, and if the present housing recovery slows or reverses, we may experience similar or increased volatility in 2013. If we do, there could be a material adverse effect on our consolidated financial statements.

Home prices and sales activity in the particular markets and regions in which we do business materially affect our consolidated financial statements because our business is concentrated in these markets.

Home selling prices and sales activity in some of our key served markets have declined from time to time for market-specific reasons, including adverse weather, high levels of foreclosures, short sales and sales of lender-owned homes, and lack of affordability or economic contraction due to, among other things, the departure or decline of key industries and employers. If home selling prices or sales activity decline in one or more of our key served markets, including California, Florida, Nevada or Texas, our costs may not decline at all or at the same rate and, as a result, our consolidated financial statements may be materially and adversely affected. Adverse conditions in California, where we are the state's largest homebuilder based on new home sales, would have a particularly material effect on our consolidated financial statements as a significant proportion of our inventory-related investments since late 2009 were made, and in 2013 are expected to be made, in that state. California's state government and many of its regional and local governments have struggled to balance their budgets due to a number of factors that in part reflect the impact of the 2007-2009 economic recession. These include lower tax revenues; higher debt service, public employee pension and social welfare obligations; lower federal government support; and, for regional and local governments and redevelopment agencies, various reductions, eliminations or reversals of state government support. As a result, there have been, and lawmakers have proposed making additional, significant cuts to government departments, subsidies, programs and public employee staffing levels, and taxes and fees have been raised, and lawmakers have proposed additional tax and fee increases, in an effort to balance governmental budgets. A few municipalities have declared bankruptcy, and others are considering such a step. California lawmakers' efforts at all governmental levels to address ongoing and/or projected budget deficits through spending cuts and/or efforts to increase governmental revenues, could, among other things, cause businesses and residents to leave the state, or discourage businesses or households from coming to the state, which would limit economic growth; cause significant delays in obtaining required inspections, permits or approvals with respect to residential development at our new home communities located in the state, or result in higher costs for such permits or approvals; and could delay or prevent the release or repayment by applicable municipalities and other government agencies of performance bonds, letters of credit and/or similar deposits we have made in connection with our residential development activities. These negative impacts could adversely affect our ability to generate net orders and revenues and/or to maintain or increase our gross profit margins from our California operations.

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Supply shortages and other risks related to demand for building materials and/or skilled trade labor could increase costs and delay deliveries.

As discussed above under "Item 1. Business — Competition, Seasonality, Delivery Mix and Other Factors," there is a high level of competition in the homebuilding industry and the housing market for skilled trade labor and building materials that can, among other things, cause increases in land development and home construction costs and development and construction delays. Also, in 2012, a smaller pool of skilled trade labor due to the housing downturn led to shortages in some markets that experienced increased residential construction activity, and such shortages could occur in 2013 if and as the present housing recovery progresses. Shortages or upward price fluctuations in lumber, drywall, concrete and other building materials, and labor, whether due to a small supplier base or supplier capacity constraints, increased residential construction activity, international demand, the occurrence of or rebuilding after natural disasters or other reasons, can also have an adverse effect on our business. We generally are unable to pass on increases in land development and home construction costs to homebuyers who have already entered into home purchase contracts, as the purchase contracts generally fix the price of the home at the time the contract is signed, and may be signed well in advance of when home construction commences. We also may not be able to raise our selling prices to cover such increases in land development and home construction costs because of market conditions, including competition for homebuyers with other homebuilders and resale homes. Sustained increases in land development and home construction costs due to higher trade labor rates or elevated lumber, drywall, concrete and other building materials prices may, among other things, decrease our housing gross profit margins, while shortages of skilled trade labor or building materials due to competition or other factors may delay deliveries and our recognition of revenues. As a result, these negative items, individually or together, can have a material and adverse impact on our consolidated financial statements.

Inflation may adversely affect us by increasing costs that we may not be able to recover, particularly if selling prices decrease, and the impact on our performance and our consolidated financial statements could be material.

Inflation can have an adverse impact on our consolidated financial statements because increasing costs for land, skilled trade labor or building materials could require us to increase our home selling prices in an effort to maintain satisfactory housing gross profit margins. In 2010 and 2011, worldwide demand for certain commodities and monetary policy actions led to price increases and price volatility for raw materials that are used in land development and home construction, including lumber and metals. Additionally, increased residential construction activity in 2012 in combination with a relatively small supplier base boosted prices for lumber, drywall, concrete and other raw materials, and these trends are expected to continue in 2013 if and as the present housing recovery progresses. These pricing trends, taken together with U.S. and international central bank and governmental policies and programs designed to boost economic growth, may lead to a general increase in inflation. However, we may not be able to increase our home selling prices to cover cost inflation due to market conditions, and may need to hold or reduce our selling prices in order to compete for home sales. If determined necessary, our lowering of home selling prices, in addition to impacting our housing gross profit margins, may also reduce the value of our land inventory, including the assets we have purchased in recent years, and make it more difficult for us to fully recover the cost of previously purchased land with our home selling prices or, if we choose, in disposing of land. In addition, depressed land values may cause us to abandon and forfeit deposits on land option contracts and other similar contracts if we cannot satisfactorily renegotiate the purchase price of the subject land. We may incur charges against our earnings for inventory impairments if the value of our owned inventory is reduced or for land option contract abandonments if we choose not to exercise land option contracts or other similar contracts, and these charges may be substantial as we experienced in certain periods during the housing downturn. Inflation may also increase interest rates for mortgage loans and thereby reduce demand for our homes and lead to lower revenues, as well as increase the interest rates for external financing.

Reduced home sales may impair our ability to recoup development costs or force us to absorb additional costs.

We incur many costs before we begin to build homes in a community. Depending on the stage of development a land parcel is in when acquired, such costs may include costs of preparing land; finishing and entitling lots; installing roads, sewers, water systems and other utilities; taxes and other costs related to ownership of the land on which we plan to build homes; and promotional marketing and overhead expenses to prepare for the opening of a new home community for sales. In addition, local municipalities may impose requirements resulting in additional costs. If the rate at which we sell and deliver homes slows or falls, or if we delay the opening of new home communities for sales due to adjustments in our marketing strategy or other reasons, each of which has occurred throughout the housing downturn, we may incur additional costs and it will take a longer period of time for us to recover our costs, including the costs we incurred in acquiring and developing land in recent years. Furthermore, due to market conditions during the housing downturn, we have abandoned some land option contracts and other similar contracts to purchase land, resulting in the forfeiture of non-refundable deposits and unrecoverable pre-acquisition costs. If the present housing recovery slows or reverses in 2013, we may decide to abandon certain land option contracts and other similar contracts, and sell certain land at a loss, and the costs of doing so may be adverse and material to our consolidated financial statements.

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Some homebuyers may cancel their home purchases because the required deposits are small and sometimes refundable.

Our backlog at a given point in time reflects the number of homes under a home purchase contract that have not yet been delivered to a homebuyer. Our home purchase contracts typically require only a small deposit, and in some circumstances, the deposit is refundable prior to closing. If the prices for new homes decline, competitors increase their use of sales incentives, lenders and others increase their efforts to sell resale homes, trade labor or building materials shortages delay our home construction cycle times, mortgage loan interest rates increase, the availability of mortgage financing further diminishes or there is continued weakness or a downturn in local or regional economies or the national economy and in consumer confidence, customers may cancel their existing home purchase contracts with us because they have been unable to finalize their mortgage financing for the purchase, desire to move into a home earlier than we can deliver it, or in order to attempt to negotiate for a lower price or explore other options or for other reasons they are unable or unwilling to complete the purchase. In recent years, we have experienced volatile cancellation rates, in part due to these reasons and in part due to the mortgage loan funding issues arising from the 2012 transition of our preferred mortgage lending relationship. To the extent they continue, volatile cancellation rates resulting from these conditions, or otherwise, could have a material adverse effect on our business and our consolidated financial statements.

Interest rate increases or changes in federal lending programs or regulations could lower demand for our homes.

Nearly all of our customers finance the purchase of their homes. Before the housing downturn began, historically low interest rates and the increased availability of specialized mortgage loan products, including products requiring no or low down payments, and interest-only and adjustable-rate mortgage loans, made purchasing a home more affordable for a number of customers and more available to customers with lower credit scores. Increases in interest rates and/or decreases in the availability of mortgage financing or of certain mortgage loan products or programs may lead to fewer mortgage loans being provided, higher credit risk/mortgage loan insurance premiums and/or other fees, increased down payment and extensive buyer income and asset documentation requirements, or a combination of the foregoing, and, as a result, reduce demand for our homes and increase our cancellation rates.

Due to the volatility and uncertainty in the credit markets and in the mortgage lending and mortgage finance industries since 2008, the federal government has taken on a significant role in supporting mortgage lending through its conservatorship of Fannie Mae and Freddie Mac, both of which purchase or insure mortgage loans and mortgage loan-backed securities, and its insurance of mortgage loans through the FHA and the VA. FHA backing of mortgage loans has been particularly important to the mortgage finance industry and to our business. The availability and affordability of mortgage loans, including interest rates for such loans, could be adversely affected by a scaling back or termination of the federal government’s mortgage loan-related programs or policies. The FHA, for instance, intends to increase its annual insurance premiums in 2013, and could, among other actions, extend the period that such premiums are charged to borrowers, further increase such premiums or other fees and/or raise its standards on the loans it will insure in order to address the significant cash reserve deficit (relative to its projected losses from delinquent loans) it reported in November 2012. These steps, whether individually or collectively taken, could prevent some homebuyers from qualifying for mortgage loans to purchase homes, including our homes. In addition, given growing federal budget deficits, the U.S. Treasury may not be able to continue, or may be required by future legislation or regulation to cease, supporting the mortgage loan-related activities of Fannie Mae, Freddie Mac, the FHA and the VA at present levels.

Because Fannie Mae-, Freddie Mac-, FHA- and VA-backed mortgage loans have been an important factor in marketing and selling many of our homes, any limitations or restrictions in the availability of, or higher consumer costs for, such government-backed financing could reduce our net orders and adversely affect our consolidated financial statements, and the effect could be material.

Tax law changes could make home ownership more expensive or less attractive.

Under current tax law and policy, significant expenses of owning a home, including mortgage loan interest costs and real estate taxes, generally are deductible expenses for the purpose of calculating an individual’s or household’s federal, and in some cases state, taxable income subject to various limitations. For instance, under the American Taxpayer Relief Act of 2012, which was signed into law in January 2013, the federal government enacted higher income tax rates and limits on the value of tax deductions for certain high-income individuals and households. If the federal government or a state government changes or further changes its income tax laws, as some lawmakers have proposed, by eliminating, limiting or substantially reducing these income tax benefits, the after-tax cost of owning a home could increase substantially. Any additional increases in personal income tax rates and/or additional tax deduction limits or restrictions enacted at the federal or state levels, could adversely impact demand for and/or selling prices of new homes, including our homes, and the effect on our consolidated financial statements could be material.

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We are subject to substantial legal and regulatory requirements regarding the development of land, the homebuilding process and protection of the environment, which can cause us to suffer delays and incur costs associated with compliance and which can prohibit or restrict homebuilding activity in some regions or areas. The impact of such requirements, individually or collectively, could be adverse and material to the implementation of our strategic growth initiatives and our consolidated financial statements.

Our homebuilding business is heavily regulated and subject to a significant amount of local, state and federal regulation concerning zoning, natural and other resource protection, building designs, land development and home construction methods and similar matters, as well as governmental taxes, fees and levies on the acquisition and development of land parcels. These regulations often provide broad discretion to government authorities that oversee these matters, which can result in unanticipated delays or increases in the cost of a specified development project or a number of projects in particular markets. We may also experience delays due to a building permit moratorium or regulatory restrictions in any of the locations in which we operate, which can affect the balance of land held for future development in our inventory.

In addition, we are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the environment. As discussed below with respect to potential climate change impacts, these laws and regulations, and/or evolving interpretations thereof, may cause delays in our land development and in our construction and delivery of new homes, may cause us to incur substantial compliance and other costs, and can prohibit or restrict homebuilding activity in certain regions or areas.

As discussed above under “Item 1. Business — Environmental Compliance Matters,” environmental laws may also impose liability for the costs of removal or remediation of hazardous or toxic substances whether or not the developer or owner of the property knew of, or was responsible for, the presence of those substances. The presence of those substances on our properties may prevent us from selling our homes and we may also be liable, under applicable laws and regulations or lawsuits brought by private parties, for hazardous or toxic substances on land that we have sold in the past.

Further, a significant portion of our business is conducted in California, one of the most highly regulated and litigious states in the country. Therefore, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than other homebuilders with a less significant California presence.

The homebuilding industry and housing market are very competitive, and competitive conditions could adversely affect our business or our consolidated financial statements.

As discussed above under “Item 1. Business — Competition, Seasonality, Delivery Mix and Other Factors,” we face significant competition in several areas of our business from other homebuilders and participants in the overall housing industry. These competitive conditions can result in:

- our delivering fewer homes;
- our selling homes at lower prices;
- our offering or increasing sales incentives, discounts or price concessions for our homes;
- our experiencing lower housing gross profit margins, particularly if we cannot raise our selling prices to cover increased land development, home construction or overhead costs;
- our selling fewer homes or experiencing a higher number of cancellations by homebuyers;
- impairments in the value of our inventory and other assets;
- difficulty in acquiring desirable land that meets our investment return or marketing standards, and in selling our interests in land that no longer meet such standards on favorable terms;
- difficulty in our acquiring raw materials and skilled management and trade labor at acceptable prices;
- delays in the development of land and/or the construction of our homes; and/or
- difficulty in securing external financing, performance bonds or letter of credit facilities on favorable terms.

These competitive conditions may have a material adverse effect on our business and consolidated financial statements by decreasing our revenues, impairing our ability to successfully implement our current strategies, increasing our costs and/or diminishing growth in our local or regional homebuilding businesses. During the housing downturn in particular, actions taken by our new home and housing alternative competitors reduced the effectiveness of our efforts to achieve stability or increases in

home selling prices, to generate higher deliveries, revenues and housing gross profit margins, and to achieve and maintain profitability.

Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant.

In the ordinary course of our homebuilding business, we are subject to home warranty and construction defect claims. We record warranty and other liabilities for the homes we deliver based primarily on historical experience in our served markets and our judgment of the risks associated with the types of homes we build. As further described in Note 13. Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, we maintain, and require the majority of our subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers' compensation insurance. These insurance policies protect us against a portion of our risk of loss from claims related to our homebuilding activities, subject to certain self-insured retentions, deductibles and other coverage limits. In Arizona, California, Colorado and Nevada, our subcontractors' general liability insurance primarily takes the form of a wrap-up policy, where eligible subcontractors are enrolled as insureds on each project. We self-insure a portion of our overall risk through the use of a captive insurance subsidiary. We also maintain certain other insurance policies. Because of the uncertainties inherent to these matters, we cannot provide assurance that our various insurance arrangements and our liabilities will be adequate to address all our warranty and construction defect claims in the future, or that any potential inadequacies will not have an adverse effect on our consolidated financial statements. Additionally, the coverage offered by and the availability of general liability insurance for construction defects are currently limited and costly. There can be no assurance that coverage will not be further restricted, increasing our risks and financial exposure to claims, and/or become more costly.

We engage subcontractors to perform the actual construction of our homes, and in many cases, to obtain the necessary building materials. Our contracts with our subcontractors require that they comply with all laws applicable to their work, including labor laws, meet performance standards, and follow local building codes and permits. However, we may encounter improper construction practices or the installation of defective materials in our homes, among other things. When we discover these issues, we will evaluate and if necessary, repair the homes in accordance with our new home warranty and as required by law. The adverse costs of satisfying our warranty and other legal obligations in these instances may be significant and we may be unable to recover the costs of warranty-related repairs from subcontractors, suppliers and insurers, which could have a material impact on our consolidated financial statements.

Because of the seasonal nature of our business, our quarterly operating results fluctuate.

As discussed above under "Item 1. Business — Competition, Seasonality, Delivery Mix and Other Factors," we have experienced seasonal fluctuations in our quarterly operating results that can have a material impact on our results and our consolidated financial statements. Historically, a significant percentage of our home purchase contracts are entered into in the spring and early summer months, and we deliver a corresponding significant percentage of our homes in the late summer and fall months. As a result, we historically have experienced uneven quarterly results, with lower revenues and operating income generally during the first and second quarters of our fiscal year. During the housing downturn and in 2012, these seasonal trends were somewhat less pronounced, and our overall net orders, homes delivered and revenues were generally lower than before the housing downturn. We currently expect the traditional seasonality cycle and its impact on our results to become more prominent if and as the present housing recovery progresses and the homebuilding industry returns to a more normal operating environment, but we can make no assurances as to the degree to which our historical seasonal patterns will occur in 2013 and beyond, if at all.

We may be restricted in accessing external capital and to the extent we can access external capital, it may increase our costs of capital or result in stockholder dilution.

We have historically funded our operations with internally generated cash flows and external sources of debt and equity financing. However, during the housing downturn, we relied primarily on the positive operating cash flow we generated, principally through the receipt of federal income tax refunds, and from home and land sales and our efforts to reduce our overhead costs, to meet our working capital needs and repay outstanding indebtedness. In recent years, the impact of the housing downturn in reducing our stockholders' equity and increasing our debt-to-capital ratio and volatility in the financial and credit markets made external sources of liquidity less available and more costly to us. In 2012, relatively favorable housing and credit market conditions enabled us to refinance and measurably extend the maturity of certain of our senior notes due in 2014 and 2015 through the issuance of new senior notes, albeit at somewhat higher interest rates than the refinanced debt, and to raise unrestricted cash for general business purposes. We can provide no assurances, however, that we will be able to access external credit or equity markets in 2013 at favorable terms or at all.

Market conditions in 2013 and beyond may significantly limit our ability to replace or refinance indebtedness, particularly given the ratings of our senior notes by the three principal nationally recognized registered credit rating agencies, as discussed further below. The terms of potential future issuances of indebtedness by us may be more restrictive than the terms governing our current indebtedness, and the issuance, interest and debt service expenses are likely to be higher, as was the case with the new senior notes we issued in 2012. In addition, our low stock price compared to the level reached before the housing downturn began, volatility in the stock markets, the reduction in our stockholders' equity relative to our debt, and a decline in our unrestricted cash balance could also impede our access to the equity markets or increase the amount of dilution our stockholders would experience should we seek to raise capital through the issuance of new equity or convertible securities.

While we believe we can meet our forecasted capital requirements from our cash resources, expected future cash flow, capital markets access and the external financing sources that we anticipate will be available to us, we can provide no assurance that we will be able to do so, or do so without incurring substantially higher costs or significantly diluting existing stockholders' interests. The adverse effects of these conditions on our business, liquidity and consolidated financial statements could be material to us.

We have a substantial amount of indebtedness in relation to our tangible net worth and unrestricted cash balance, which may restrict our ability to meet our operational and strategic goals.

As of November 30, 2012, we had total outstanding debt of $1.72 billion, total stockholders' equity of $376.8 million, and an unrestricted cash balance of $524.8 million. The amount of our debt overall and relative to our total stockholders' equity and unrestricted cash balance could have important consequences. For example, it could:

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other business needs;
- limit our ability to renew or, if necessary or desirable, expand the capacity of any letter of credit facilities, to obtain a revolving credit facility, and to obtain performance bonds in the ordinary course of our business;
- require us to dedicate a substantial portion of our cash flow from operations to the collateralization or payment of our debt and reduce our ability to use our cash flow for other purposes;
- impact our flexibility in planning for, or reacting to, changes in our business;
- limit our ability to implement our present strategies, particularly our land acquisition and development plans and asset activation initiatives, in part due to competition from other homebuilders, developers and investors with greater available liquidity or balance sheet strength;
- place us at a competitive disadvantage because we have more debt or debt-related restrictions than some of our competitors; and
- make us more vulnerable in the event of weakness or a downturn in our business or in general economic or housing market conditions.

Our ability to meet our debt service and other obligations will depend on our future performance. Our business is substantially affected by changes in economic cycles. Our revenues, earnings and cash flows vary with the level of general economic activity and competition in the markets in which we operate. They could also be affected by financial, political, regulatory, environmental and other factors, many of which are beyond our control. A higher interest rate on our debt could materially and adversely affect our consolidated financial statements.

Our business may not generate sufficient cash flow from operations and external financing at a reasonable cost may not be available to us in an amount sufficient to meet our debt service obligations, fulfill the financial or operational obligations we may have under certain unconsolidated joint venture transactions, support our letter of credit facilities (including our cash-collateralized letter of credit facilities with various financial institutions (the "LOC Facilities")), or to fund our other liquidity or operational needs. Further, if a change of control were to occur as defined in the instrument governing our $265.0 million of 9.10% senior notes due 2017 (the "$265 Million 9.10% Senior Notes"), our $350.0 million of 8.00% senior notes due 2020 (the "$350 Million 8.00% Senior Notes") and our $350.0 million of 7.50% senior notes due 2022 (the "$350 Million 7.50% Senior Notes"), we would be required to offer to purchase these notes (but not our other outstanding senior notes) at 101% of their principal amount, together with all accrued and unpaid interest, if any. If we are unable to generate sufficient cash flow from operations, we may, given our unrestricted cash balance, need to refinance and/or restructure with our lenders or other creditors all or a portion of our outstanding debt obligations on or before their maturity, which we may not be able to do on favorable terms or at all, or raise capital through equity or convertible security issuances that would dilute existing stockholders' interests, and the impact on our consolidated financial statements would be material and adverse.

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Our ability to obtain external financing could be adversely affected by a negative change in our credit rating by a third-party rating agency.

Our ability to access the capital markets and external financing sources on favorable terms is a key factor in our ability to fund our operations and to grow our business. As of the date of this report, our credit rating by Fitch Ratings is B+, with a stable outlook, our credit rating by Moody's Investor Services is B2, with a stable outlook, and our credit rating by Standard and Poor's Financial Services is B, with a negative outlook. Downgrades of our credit rating by any of these principal nationally recognized registered credit rating agencies may make it more difficult and costly for us to access the capital markets and external financing sources, and could have a material adverse effect on our consolidated financial statements.

We may have difficulty in continuing to obtain the additional financing required to operate and develop our business.

Our homebuilding operations and our present strategies require significant amounts of cash and/or the availability of external financing. We have established our LOC Facilities in order to support certain aspects of our operations in the ordinary course of our business, including our acquisition of land and our development of new home communities. We anticipate that we will need to maintain these facilities in 2013, and, if necessary or desirable, we may seek to expand their capacities or enter into additional such facilities, or enter into a revolving credit facility. It is not possible to predict the future terms or availability of additional external capital or for maintaining or, if necessary or desirable, expanding the capacity of our LOC Facilities or entering into additional such facilities, or entering into a revolving credit facility. Moreover, our outstanding senior notes contain provisions that may restrict the amount and nature of debt we may incur in the future. As the financial and credit markets worldwide have been experiencing and may continue to experience volatility, there can be no assurance that we can at reasonable cost actually borrow additional funds, raise additional capital through other means, or successfully maintain or, if necessary or desirable, expand the capacity of our LOC Facilities or enter into additional such facilities or enter into a revolving credit facility, each of which depends, among other factors, on conditions in the capital markets and our perceived credit worthiness, as discussed above. If conditions in the financial and credit markets continue to be volatile or worsen, it could reduce our ability to generate sales and may hinder our future growth and impair our consolidated financial statements. Potential federal and state regulations limiting the investment activities of financial institutions, including regulations that have been or may be issued under the Dodd-Frank Act, could also impact our ability to access the capital markets, to obtain additional external financing and to maintain or, if necessary or desirable, expand our LOC Facilities or enter into additional such facilities or enter into a revolving credit facility, in each case on acceptable terms or at all.

Failure to comply with the covenants and conditions imposed by the agreements governing our indebtedness could restrict future borrowing or cause our debt to become immediately due and payable.

The indenture governing our outstanding senior notes imposes restrictions on our business operations and activities. Though it does not contain any financial maintenance covenants, the indenture contains certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness, to engage in sale-leaseback transactions involving property or assets above a specified value, and, as in the case of three of our outstanding senior notes, to engage in mergers, consolidations, and sales of assets. Due to financial and credit market conditions, we may also need to include additional covenants, obligations or restrictions in our indenture or with respect to a specific issuance of securities or to our currently outstanding securities. If we fail to comply with these covenants, obligations or restrictions, the holders of our senior notes could cause our debt to become due and payable prior to maturity or could demand that we compensate them for waiving instances of noncompliance, and, if they are successful in doing so, the impact on our consolidated financial statements would be material and adverse. In addition, a default under any series of our senior notes could cause a default with respect to our other senior notes and result in the acceleration of the maturity of all such defaulted indebtedness and other debt obligations, as well as penalties or additional fees, which would have a material adverse impact on our consolidated financial statements.

We may not realize our deferred income tax assets. In addition, our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.

Since the end of our 2007 fiscal year, we have generated significant net operating losses ("NOL"), and we may generate additional NOL in 2013. Under federal tax laws, we can use our NOL (and certain related tax credits) to reduce our future taxable income for up to 20 years, after which they expire for such purposes. Until they expire, we can carry forward our NOL (and certain related tax credits) that we do not use in any particular year to reduce our taxable income in future years, and we have recorded a valuation allowance against our net deferred tax assets that include the NOL (and certain related tax credits) that we have generated but have not yet realized. At November 30, 2012, we had deferred tax assets, net of deferred tax liabilities, totaling $880.1 million against which we have provided a full valuation allowance. Our ability to realize our net deferred tax assets is based on the extent to which we generate sustained profits and we cannot provide any assurances as to when and to what extent we will generate sufficient future taxable income to realize our net deferred tax assets, whether in whole or in part.

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The majority of our net deferred tax asset is federal related and is valued at a 35% corporate income tax rate. If, as some lawmakers have proposed, the U.S. corporate income tax rate is lowered, we would be required to write down a roughly proportionate amount of the value of our federal net deferred tax asset to account for this lower rate. We would also need to record a corresponding write down of our valuation allowance. The lower tax rate would reduce our future federal taxes, which may put a portion of our tax credits at risk of expiring before we could use them.

In addition, the benefits of our NOL, built-in losses and tax credits would be reduced or eliminated if we experience an "ownership change," as determined under Internal Revenue Code Section 382 ("Section 382"). A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change were to occur, Section 382 would impose an annual limit on the amount of NOL we could use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of complex rules apply in calculating this annual limit.

While the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly-traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limit Section 382 may impose could result in a material amount of our NOL expiring unused. This would significantly impair the value of our NOL and, as a result, have a material negative impact on our consolidated financial statements.

In 2009, our stockholders approved an amendment to our restated certificate of incorporation that is designed to block transfers of our common stock that could result in an ownership change, and a rights agreement pursuant to which we have issued certain stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change. However, these measures cannot guarantee complete protection against an ownership change and it remains possible that one may occur.

Our consolidated financial statements could be materially and adversely affected if we are unable to obtain performance bonds and/or letters of credit.

In the course of developing our communities, 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. We may also be required to provide performance bonds and/or letters of credit to secure our performance under various escrow agreements, financial guarantees and other arrangements. Our ability to obtain such bonds or letters of credit and the cost to do so depend on our credit rating, overall market capitalization, available capital, past operational and financial performance, management expertise and other factors, including prevailing surety market conditions, which have been tight since 2010 as providers have exited the market or substantially reduced their issuances of performance bonds and letters of credit, and the underwriting practices and resources of performance bond and/or letters of credit issuers. If we are unable to obtain performance bonds and/or letters of credit when required or the cost or operational restrictions or conditions imposed by issuers to obtain them increases significantly in 2013 or later, we may not be able to develop or we may be significantly delayed in developing a community or communities and/or we may incur significant additional expenses, and, as a result, our consolidated financial statements, cash flows and/or liquidity could be materially and adversely affected.

Our ability to attract and retain talent is critical to the success of our business and a failure to do so may materially and adversely affect our performance.

Our officers and employees are an important resource, and we see attracting and retaining a dedicated and talented team to execute our KBnxt operational business model as crucial to our ability to achieve and maintain an advantage over other homebuilders. We face intense competition for qualified personnel, particularly at senior management levels, from other homebuilders, from other companies in the housing and real estate industries, particularly with the increased residential construction activity in 2012, and from companies in various other industries with respect to certain roles or functions. Moreover, the prolonged housing downturn and the decline in the market value of our common stock during the housing downturn have made it difficult for us to attract and retain talent, even as we are making a targeted effort to strengthen and expand certain of our local field management teams and talent as part of our strategic growth initiatives. If we are unable to continue to retain and attract qualified employees, or if we need to significantly increase compensation and benefits to do so, or, alternatively, if we are required or believe it is appropriate to reduce our overhead expenses through significant personnel reductions, our performance, our ability to achieve and maintain a competitive advantage and our consolidated financial statements could be materially and adversely affected.

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Changes in global or regional environmental conditions and governmental actions in response to such changes may adversely affect us by increasing the costs of or restricting our planned or future growth activities.

There is growing concern from members of the scientific community and the general public that an increase in global average temperatures due to emissions of greenhouse gases and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of natural disasters. An increased frequency or duration of extreme weather conditions and environmental events could limit, delay and/or increase the costs to develop land and build new homes and reduce the value of our land and housing inventory in locations that become less desirable to consumers or blocked to development. Projected climate change, if it occurs, may exacerbate the scarcity of water and other natural resources in affected regions, which could limit, prevent or increase the costs of residential development in certain areas. In addition, government mandates, standards or regulations intended to mitigate or reduce greenhouse gas emissions or projected climate change impacts could result in prohibitions or severe restrictions on land development in certain areas, increased energy, transportation and raw material costs that make building materials less available or more expensive, or cause us to incur compliance expenses and other financial obligations to meet permitting or land development- or home construction-related requirements that we will be unable to fully recover (due to market conditions or other factors), and reduce our housing gross profit margins and adversely effect our consolidated financial statements, potentially to a material degree. As a result, climate change impacts, and laws and land development and home construction standards, and/or the manner in which they are interpreted or implemented, to address potential climate change impacts, could increase our costs and have a long-term adverse impact on our business and our consolidated financial statements. This is a particular concern with respect to our key West Coast homebuilding reporting segment, as California has instituted some of the most extensive and stringent environmental laws and residential building construction standards in the country.

Information technology failures and data security breaches could harm our business.

We use information technology, digital telecommunications and other computer resources to carry out important operational and promotional marketing activities and to maintain our business records. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify to varying degrees certain security and service level standards. Although we and our service providers employ what we believe are adequate security, disaster recovery and other preventative and corrective measures, our ability to conduct our business may be impaired if these resources, including our primary website, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure, intentional or unintentional personnel actions (including the failure to follow our security protocols), or lost connectivity to our networked resources. A significant and extended disruption in the functioning of these resources, including our primary website, could damage our reputation and cause us to lose customers, orders, deliveries and revenues, result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information (including information about our homebuyers and business partners), and require us to incur significant expense to address and remediate or otherwise resolve these kinds of issues. The release of confidential information may also lead to litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include penalties or fines and cause reputational harm, could have a material and adverse effect on our consolidated financial statements. In addition, the costs of maintaining adequate protection against such threats, depending on their evolution, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could be material to our consolidated financial statements in a particular period or over various periods.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We lease our corporate headquarters in Los Angeles, California. Our homebuilding division offices (except for our San Antonio, Texas office) and our KB Home Studios are located in leased space in the markets where we conduct business. We own the premises for our San Antonio office.

We believe that such properties, including the equipment located therein, are suitable and adequate to meet the needs of our businesses.

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Item 3. LEGAL PROCEEDINGS

Nevada Development Contract Litigation

On November 4, 2011, the Eighth Judicial District Court, Clark County, Nevada set for trial a consolidated action against KB HOME Nevada Inc., a wholly owned subsidiary of ours ("KB Nevada"), in a case entitled Las Vegas Development Associates, LLC, Essex Real Estate Partners, LLC, et al. v. KB HOME Nevada Inc. In 2007, Las Vegas Development Associates, LLC ("LVDA") agreed to purchase from KB Nevada approximately 83 acres of land located near Las Vegas, Nevada. LVDA subsequently assigned its rights to Essex Real Estate Partners, LLC ("Essex"). KB Nevada and Essex entered into a development agreement relating to certain major infrastructure improvements. LVDA's and Essex's complaint, initially filed in 2008, alleged that KB Nevada breached the development agreement, and also alleged that KB Nevada fraudulently induced them to enter into the purchase and development agreements. LVDA's and Essex's lenders subsequently filed related actions that were consolidated into the LVDA/Essex matter. The consolidated plaintiffs sought rescission of the agreements or, in the alternative, compensatory damages of $55 million plus unspecified punitive damages and other damages, and related loan interest charges in excess of $41 million (the "Claimed Damages"). KB Nevada has denied the allegations, and believes it has meritorious defenses to the consolidated plaintiffs' claims. At a November 19, 2012 hearing, the court denied all of the consolidated plaintiffs' motions for summary judgment on their claims. In addition, the court granted several of KB Nevada's motions for summary judgment, eliminating, among other of the consolidated plaintiffs' claims, all claims for fraud, negligent misrepresentation, and punitive damages. With the court's decisions, the only remaining claims against KB Nevada are for contract damages and rescission. While the ultimate outcome is uncertain — we believe it is reasonably possible that the loss in this matter could range from zero to the amount of the Claimed Damages (now excluding any punitive damages per the court's action) plus prejudgment interest, which could be material to our consolidated financial statements — KB Nevada believes it will be successful in defending against the consolidated plaintiffs' remaining claims and that the consolidated plaintiffs will not be awarded rescission or damages. A non-jury trial, originally set for September 2012 and then continued until January 2013, has now been further continued to October 15, 2013.

Other Matters

In addition to the specific proceeding described above, we are involved in other litigation and regulatory proceedings incidental to our business that are in various procedural stages. We believe that the accruals we have recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of November 30, 2012, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized on our consolidated financial statements. We evaluate our accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjust them to reflect (i) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments; (ii) the advice and analyses of counsel; and (iii) the assumptions and judgment of management. Similar factors and considerations are used in establishing new accruals for proceedings as to which losses have become probable and reasonably estimable at the time an evaluation is made. Based on our experience, we believe that the amounts that may be claimed or alleged against us in these proceedings are not a meaningful indicator of our potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses we may incur, however, is inherently uncertain and could differ significantly from the estimate reflected in a related accrual, if made. Therefore, it is possible that the ultimate outcome of any proceeding, if in excess of a related accrual or if no accrual had been made, could be material to our consolidated financial statements.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table presents certain information regarding our executive officers as of December 31, 2012:

Name	Age	Present Position	Year Assumed Present Position	Years at KB Home	Other Positions and Other Business Experience within the Last Five Years (a)	From – To
Jeffrey T. Mezger	57	President and Chief Executive Officer (b)	2006	19		
Jeff J. Kaminski	51	Executive Vice President and Chief Financial Officer	2010	2	Senior Vice President, Chief Financial Officer and Strategy Board member, Federal-Mogul Corporation (a global supplier of component parts and systems to the automotive, heavy-duty, industrial and transport markets)	2008-2010
					Senior Vice President, Global Purchasing and Strategy Board Member, Federal-Mogul Corporation	2005-2008
Albert Z. Praw	64	Executive Vice President, Real Estate and Business Development	2011	16 (c)	Chief Executive Officer, Landstone Communities, LLC (a real estate development company)	2006-2011
Brian J. Woram	52	Executive Vice President, General Counsel and Secretary	2010	2	Senior Vice President and Chief Legal Officer, H&R Block, Inc. (a provider of tax, banking and business and consulting services)	2009-2010
					Senior Vice President, Chief Legal Officer and Chief Compliance Officer, Centex Corporation (a homebuilder and provider of mortgage banking services)	2005-2009
William R. Hollinger	54	Senior Vice President and Chief Accounting Officer	2007	25		
Thomas F. Norton	42	Senior Vice President, Human Resources	2009	4	Chief Human Resources Officer, BJ’s Restaurants, Inc. (an owner and operator of national full service restaurants)	2006-2009
Tom Silk	44		2011	1		2009-2011

	Senior Vice President, Marketing and Communications	Vice President of Marketing for Hydration and Juice Brands, PepsiCo Beverages Americas (a beverage marketing and distribution company)	
		Senior Director, Global Brand Management, Activision Blizzard, Inc. (a game publisher of interactive entertainment software)	2006-2009

(a) All positions described were with us, unless otherwise indicated.
(b) Mr. Mezger has served as a director since 2006.
(c) Mr. Praw was employed by us from 1989-1992 and from 1994-2006. He was elected to his present position in October 2011.

There is no family relationship between any of our executive officers or between any of our executive officers and any of our directors.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of December 31, 2012, there were 735 holders of record of our common stock. Our common stock is traded on the New York Stock Exchange under the ticker symbol "KBH." The following table presents, for the periods indicated, the price ranges of our common stock, and cash dividends declared and paid per share:

	Year Ended November 30, 2012				Year Ended November 30, 2011			
	High	Low	Dividends Declared	Dividends Paid	High	Low	Dividends Declared	Dividends Paid
First Quarter	$12.91	$6.17	$.0625	$.0625	$16.11	$11.41	$.0625	$.0625
Second Quarter	13.12	6.77	.0250	.0250	13.67	10.86	.0625	.0625
Third Quarter	11.25	6.46	.0250	.0250	12.27	5.09	.0625	.0625
Fourth Quarter	17.30	10.89	.0250	.0250	8.00	5.02	.0625	.0625

The declaration and payment of cash dividends on shares of 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

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requirements, debt structure and adjustments thereto, operational and financial investment strategy and general financial condition, as well as general business conditions.

The description of our equity compensation plans required by Item 201(d) of Regulation S-K is incorporated herein by reference to “Part III — Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this report.

We did not repurchase any of our equity securities during the fourth quarter of 2012.

Stock Performance Graph

The graph below compares the cumulative total return of KB Home common stock, the S&P 500 Index, the S&P Homebuilding Index and the Dow Jones Home Construction Index for the last five year-end periods ended November 30.

Comparison of Five-Year Cumulative Total Return
Among KB Home, S&P 500 Index, S&P Homebuilding
Index and Dow Jones Home Construction Index

The above graph is based on the KB Home common stock and index prices calculated as of the last trading day before December 1 of the year-end periods presented. As of November 30, 2012, the closing price of KB Home common stock on the New York Stock Exchange was $14.36 per share. The performance of our common stock depicted in the graphs above represents past performance only and is not indicative of future performance. Total return assumes $100 invested at market close on November 30, 2007 in KB Home common stock, the S&P 500 Index, the S&P Homebuilding Index and the Dow Jones Home Construction Index including reinvestment of dividends.

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Item 6. SELECTED FINANCIAL DATA

The data in this table should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the Notes thereto, which are included in "Item 8. Financial Statements and Supplementary Data." Both are included in this report.

KB HOME

SELECTED FINANCIAL INFORMATION

(Dollars In Thousands, Except Per Share Amounts)

	Years Ended November 30,				
	2012	2011	2010	2009	2008
Statement of Operations Data:					
Revenues:					
Homebuilding	$1,548,432	$1,305,562	$1,581,763	$1,816,415	$3,023,169
Financial services	11,683	10,304	8,233	8,435	10,767
Total revenues	$1,560,115	$1,315,866	$1,589,996	$1,824,850	$3,033,936
Operating income (loss):					
Homebuilding	$(20,256)	$(103,074)	$(16,045)	$(236,520)	$(860,643)
Financial services	8,692	6,792	5,114	5,184	6,278
Operating loss	$(11,564)	$(96,282)	$(10,931)	$(231,336)	$(854,365)
Pretax loss	$(79,053)	$(181,168)	$(76,368)	$(311,184)	$(967,931)
Net loss	$(58,953)	$(178,768)	$(69,368)	$(101,784)	$(976,131)
Basic and diluted loss per share	$(.76)	$(2.32)	$(.90)	$(1.33)	$(12.59)
Cash dividends declared per common share	$.1375	$.2500	$.2500	$.2500	$.8125
Balance Sheet Data:					
Assets:					
Homebuilding	$2,557,243	$2,480,369	$3,080,306	$3,402,565	$3,992,148
Financial services	4,455	32,173	29,443	33,424	52,152
Total assets	$2,561,698	$2,512,542	$3,109,749	$3,435,989	$4,044,300
Mortgages and notes payable	$1,722,815	$1,583,571	$1,775,529	$1,820,370	$1,941,537
Stockholders' equity	$376,806	$442,657	$631,878	$707,224	$830,605
Homebuilding Data:					
Net orders	6,703	6,632	6,556	8,341	8,274
Unit backlog	2,577	2,156	1,336	2,126	2,269
Homes delivered	6,282	5,812	7,346	8,488	12,438

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Item 7. 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 for the years ended November 30, 2012, 2011 and 2010 (in thousands, except per share amounts):

	Years Ended November 30,			Variance	
	2012	2011	2010	2012 vs 2011	2011 vs 2010
Revenues:					
Homebuilding	$1,548,432	$1,305,562	$1,581,763	19 %	(17)%
Financial services	11,683	10,304	8,233	13	25
Total	$1,560,115	$1,315,866	$1,589,996	19 %	(17)%
Pretax income (loss):					
Homebuilding	$(89,936)	$(207,246)	$(88,511)	57 %	(134)%
Financial services	10,883	26,078	12,143	(58)	115
Total pretax loss	(79,053)	(181,168)	(76,368)	56	(137)
Income tax benefit	20,100	2,400	7,000	738	(66)
Net loss	$(58,953)	$(178,768)	$(69,368)	67 %	(158)%
Basic and diluted loss per share	$(.76)	$(2.32)	$(.90)	67 %	(158)%

In 2012, the overall housing market showed steadily encouraging signs of stabilizing and recovering from the severe downturn that began in mid-2006, with the benefits extending to both the new home and resale segments. The pace of stabilization and recovery between and within individual housing markets, however, was uneven, with certain markets and submarkets exhibiting greater upward momentum than others in housing starts, home sales and home selling prices. We expect these dynamics — overall improvement with regional and local market-to-market variability — to continue in 2013. We also believe that in this environment, our ongoing strategic focus on higher-performing, choice locations enabled us to achieve improved results in 2012, and has positioned us for growth in 2013 and beyond.

The present housing recovery that began in 2012 has been driven by growing demand and a tightening supply of homes available for sale. This demand has been fueled by historically high housing affordability, particularly compared to rising rental costs, reflecting record-low interest rates for mortgage loans and relatively low home selling prices due to the significant reductions that occurred during the housing downturn. Demand is also emerging with growth in household formations amid a gradually improving economic and employment environment. The number of homes available for sale has fallen in several markets with the upturn in demand, including from investors purchasing homes to convert into rental properties. Also affecting supply are a reduction in the number of lender-owned and other distressed homes available for sale, a reluctance of some current homeowners to sell at existing price levels, including homeowners who have mortgage loan balances that exceed such levels, and the impact of diminished new home construction activity during the housing downturn.

The present housing recovery has had a positive impact on our business and on the homebuilding industry, but the improvement was from a low base — annual U.S. new home sales in 2011 were the lowest on record — and we believe the favorable trends that emerged in 2012 will need to strengthen and continue for some time before the majority of housing markets return to a more historically typical state. Moreover, to varying degrees, many housing markets continue to face significant challenges. These include uncertain economic conditions, tepid job and wage growth, tight mortgage lending standards, reduced credit availability for mortgage loans, continued elevated levels of mortgage loan delinquencies and defaults, and increased construction labor and building materials costs. If these challenges do not abate, or if they deepen, they could slow or stop the present housing recovery and negatively affect our performance. Therefore, although we are encouraged by the healthier housing market environment, and believe that it could be the beginning of a new upward business cycle for homebuilding, and are planning to make additional investments in land and land development and other strategic growth initiatives in 2013 to further expand our business, our future performance and the success of the strategies we implement (and adjust or refine as necessary or appropriate) will significantly depend on prevailing economic and credit and financial market conditions.

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As discussed above under "Part I — Item 1. Business — Strategy," we transformed and refocused the scope, scale and position of our business both geographically and operationally, and executed on three primary and integrated strategic goals, with achieving and maintaining profitability at the scale of prevailing market conditions our highest priority. Within this strategic framework, we improved and refined our products; moved to align our overhead to market activity levels through a dedicated effort to control costs while maintaining a solid growth platform; improved our operating efficiencies; shifted resources from underperforming areas; and made investments in our business in preferred locations with perceived strong growth prospects. With these strategic actions, we believe we strengthened our overall business and felt we entered 2012 well-positioned for profitability if and as housing market conditions improved.

With the housing recovery gaining traction, in the latter half of 2012, we expanded on our primary strategic goals to target both profitability and growth. As further described above under "Part I — Item 1. Business — Strategy," this encompassed implementing four main strategic growth initiatives: (1) aggressively investing in land and land development in higher-performing, choice locations. In 2012, we invested approximately $565 million in land and land development in such preferred locations; (2) increasing revenues per new home community open for sales through an intense focus on sales performance; (3) activating certain inventory in stabilizing markets that was previously held for future development; and (4) bringing additional resources to targeted markets where we operate.

In addition to our strategic growth initiatives, we believe we further strengthened our business in 2012 by implementing an operational transition to Nationstar as our preferred mortgage lender. Since May 1, when it began accepting applications under our preferred relationship, Nationstar's performance as our preferred lender has helped to provide more stability in the conversion of our backlog into home deliveries and revenues. We also extended our senior debt maturity schedule through the issuance of the $350 Million 8.00% Senior Notes and the $350 Million 7.50% Senior Notes in the first and third quarters, respectively, to fund the related simultaneous applicable tender offers for certain of our senior notes due in 2014 and 2015 that were initially made on January 19, 2012 (the "January 2012 Tender Offers") and on July 11, 2012 (the "July 2012 Tender Offers").

We believe that through our execution of our strategic growth initiatives, combined with the actions we have taken through the housing downturn and the recent improvement in housing market conditions, we were able to generate positive year-over-year results in 2012 in several areas of our business, as discussed below.

- Revenues. Total revenues of $1.56 billion for the year ended November 30, 2012 increased 19% from $1.32 billion in 2011. The year-over-year increase in total revenues was primarily due to an increase in housing revenues to $1.55 billion from $1.31 billion in 2011, reflecting an increase in the number of homes delivered and an increase in the overall average selling price of those homes. We had no land sale revenues in 2012, compared to total land sale revenues of $.3 million in 2011. Included in our total revenues were financial services revenues of $11.7 million in 2012 and $10.3 million in 2011. The year-over-year increase in financial services revenues reflected higher marketing services fees as a result of our having a marketing services agreement in place for all of 2012, compared to only a portion of 2011, and higher title services revenues.

  Homes Delivered. We delivered 6,282 homes in 2012, up 8% from 5,812 homes delivered in 2011, partly due to our relatively higher backlog at the beginning of the year, which was up 61% on a year-over-year basis largely as a result of a 39% increase in net orders in the latter half of 2011.

  Average Selling Price. Our overall average selling price of homes delivered increased 10% in 2012 (and 5% in 2011 compared to 2010), primarily due to changes in community and product mix, as we delivered more homes from markets with stronger economies that featured higher household incomes, with customers who chose larger home sizes at higher selling prices and spent more on design options at our KB Home Studios.

- Operating Loss. Our homebuilding operating loss improved by $82.8 million to $20.3 million in 2012, compared to $103.1 million in 2011, reflecting higher housing gross profits, partly offset by higher selling, general and administrative expenses. The year-over-year improvement in 2012 also reflected a $30.8 million loss on loan guaranty recorded in 2011 related to our investment in a residential development joint venture located near Las Vegas, Nevada that underwent a bankruptcy reorganization in that year as discussed in Note 9. Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report. As a percentage of homebuilding revenues, our operating loss was 1.3% in 2012, compared to 7.9% in

2011.

Housing Gross Profits. Housing gross profits increased by $55.4 million to $230.9 million in 2012 from $175.5 million in 2011. Our housing gross profit margin was 14.9% in 2012 compared to 13.4% in 2011. Our housing gross profits for 2012 reflected insurance recoveries of $26.5 million related to repair costs and costs to handle claims with respect to previously delivered homes, including homes affected by allegedly defective drywall manufactured in China, and favorable net warranty adjustments of $8.6 million that reflected trends in our overall warranty claims experience, which were partly offset by inventory impairment and land option contract abandonment charges of $28.5

million. In 2011, our housing gross profits included $25.8 million of inventory impairment and land option contract abandonment charges, which were partially offset by $7.4 million of favorable warranty adjustments. Our housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, was 16.8% in 2012 compared to 15.4% in 2011. Our calculation of this measure of housing gross profit margin is described below under “Non-GAAP Financial Measures.”

- Selling, General and Administrative Expenses. Selling, general and administrative expenses totaled $251.2 million in 2012, up from $247.9 million in 2011. The year-over-year increase was primarily due to an $8.8 million charge recorded in 2012 as a result of an unfavorable court decision that is being appealed, as discussed in Note 14. Legal Matters in the Notes to Consolidated Financial Statements in this report, and costs associated with the year-over-year increase in the volume of homes delivered, partly offset by cost-saving initiatives. In addition, selling, general and administrative expenses for 2011 included the favorable impact of legal expense recoveries of $8.3 million. As a percentage of housing revenues, to which these expenses are most closely correlated, selling, general and administrative expenses improved to 16.2% in 2012, compared to 19.0% in 2011. The percentage improved in 2012 compared to 2011, primarily due to the 19% year-over-year increase in housing revenues.
- Net Loss. We generated a net loss of $59.0 million, or $.76 per diluted share, in 2012, compared to a net loss of $178.8 million, or $2.32 per diluted share, in 2011. Our 2012 net loss included insurance recoveries and favorable net warranty adjustments, which were partly offset by inventory impairment and land option contract abandonment charges and the court decision charge, all as noted above. The net loss in 2012 also included an income tax benefit of $20.1 million, reflecting the resolution of federal and state tax audits. In 2011, our net loss included inventory impairment and land option contract abandonment charges of $25.8 million, and a joint venture impairment charge of $53.7 million and a loss on loan guaranty of $30.8 million, both related to our investment in the residential development joint venture located near Las Vegas, Nevada noted above. Our net loss for 2011 also included a gain of $19.8 million associated with the wind down of KBA Mortgage, which ceased offering mortgage banking services in late June 2011, legal expense recoveries of $8.3 million, a favorable warranty adjustment of $7.4 million, and an income tax benefit of $2.4 million.
- Cash, Cash Equivalents and Restricted Cash. Our cash, cash equivalents and restricted cash totaled $567.1 million at November 30, 2012, up from $479.5 million at November 30, 2011. Of our total cash, cash equivalents and restricted cash at November 30, 2012 and 2011, $524.8 million and $415.1 million, respectively, was unrestricted.
- Inventories. While we made substantial investments in land and land development in 2012, our inventory balance of $1.71 billion at November 30, 2012 was slightly lower than the $1.73 billion balance at November 30, 2011. This decrease reflected the higher number of homes delivered and the inventory impairment and land option contract abandonment charges of $28.5 million recorded in 2012. It also reflected that our land investments during 2012 resulted in our having 4,925 more lots controlled under land option contracts or other similar contracts, which required a lower upfront investment, at November 30, 2012 than we had at November 30, 2011. Overall, we had a higher percentage of lots controlled under land option contracts or other similar contracts at the end of the year— 27% in 2012 compared to 18% in 2011. We ended our 2012 fiscal year with a land inventory portfolio comprised of 44,752 lots owned or controlled, representing an increase of 11% from the 40,170 lots owned or controlled at November 30, 2011.
- Mortgages and Notes Payable. Our debt balance at November 30, 2012 was $1.72 billion, up from $1.58 billion at November 30, 2011. Our debt balance at the end of our 2012 fiscal year reflected the issuance during the year of the $350 Million 8.00% Senior Notes and the $350 Million 7.50% Senior Notes, which was largely offset by the total purchase of $584.9 million in aggregate principal amount of certain of our senior notes due in 2014 and 2015 pursuant to the applicable tender offers noted above. Our ratio of debt to total capital was 82.1% at November 30, 2012, compared to 78.2% at November 30, 2011. Our ratio of net debt to total capital (a calculation that is described below under “Non-GAAP Financial Measures”) was 75.4% at November 30, 2012 and 71.4% at November 30, 2011.
- Net Orders and Backlog. Net orders from our homebuilding operations increased 1% in 2012, despite an 18% year-over-year decrease in our community count at the end of the year. Compared to the prior year, net orders in 2012 increased 7% and 9% in our West Coast and Central homebuilding reporting segments, respectively, and decreased 27% and 4% in our Southwest and Southeast homebuilding reporting segments, respectively. The year-over-year

decreases reflected our strategic repositioning from certain underperforming locations in the affected segments, and a significant downsizing of our business in Arizona and Charlotte, North Carolina in 2011 and into 2012. The value of the net orders we generated in 2012 increased 15% to $1.73 billion from $1.51 billion in 2011, also reflecting the impact of our strategic repositioning initiatives. Three of our four homebuilding reporting segments generated year-over-year increases in net order value, with our West Coast homebuilding reporting segment up 23% to $859.3 million, our Central homebuilding reporting segment up 16% to $484.6 million, and our Southeast homebuilding reporting segment up 5% to $254.2 million. The number of homes in our ending backlog rose 20% year over year, primarily due to a higher number of homes in backlog at the

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beginning of 2012 and the slight increase in our net orders for the year. The potential future housing revenues in backlog at November 30, 2012 increased 35% from the prior year, reflecting the higher number of homes in backlog and a higher overall average selling price.

The following table presents information concerning our net orders, cancellation rate, ending backlog and ending community count for the years ended November 30, 2012 and 2011 (dollars in thousands):

	Years Ended November 30,	
	2012	2011
Net orders	6,703	6,632
Net order value	$1,733,146	$1,511,654
Cancellation rate	31 %	29 %
Ending backlog — homes	2,577	2,156
Ending backlog — value	$618,626	$458,950
Ending community count	191	234

Our lower community count in 2012 compared to 2011 reflected the impact of our strategic repositioning efforts to focus on higher-performing, choice locations and, in part, the close-out of older communities during 2012 at a faster pace than openings of new communities for sales. With the substantial inventory-related investments we made in 2012 and are planning to make in 2013, however, we expect that our overall community count will increase in 2013. Our cancellation rate was 31% in 2012, which was slightly higher than the 29% in 2011, due in part to the mortgage loan funding issues we encountered in 2012 before we transitioned to Nationstar as our preferred mortgage lender, as further described in Note 6. Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report.

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HOMEBUILDING

We have grouped our homebuilding activities into four reportable segments, which we refer to as West Coast, Southwest, Central and Southeast. As of November 30, 2012, our homebuilding reporting segments consisted of ongoing operations located in the following states: West Coast — California; Southwest — Arizona, Nevada and New Mexico; Central — Colorado and Texas; and Southeast — Florida, Maryland, North Carolina and Virginia.

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

	Years Ended November 30,		
	2012	2011	2010
Revenues:			
Housing	$1,548,432	$1,305,299	$1,575,487
Land	—	263	6,276
Total	1,548,432	1,305,562	1,581,763
Costs and expenses:			
Construction and land costs			
Housing	(1,317,529)	(1,129,785)	(1,301,677)
Land	—	(200)	(6,611)
Total	(1,317,529)	(1,129,985)	(1,308,288)
Selling, general and administrative expenses	(251,159)	(247,886)	(289,520)
Loss on loan guaranty	—	(30,765)	—
Total	(1,568,688)	(1,408,636)	(1,597,808)
Operating loss	$(20,256)	$(103,074)	$(16,045)
Homes delivered	6,282	5,812	7,346
Average selling price	$246,500	$224,600	$214,500
Housing gross profit margin as a percentage of housing revenues	14.9%	13.4%	17.4%
Selling, general and administrative expenses as a percentage of housing revenues	16.2%	19.0%	18.4%
Operating loss as a percentage of homebuilding revenues	(1.3)%	(7.9)%	(1.0)%

Revenues. Homebuilding revenues totaled $1.55 billion in 2012, increasing 19% from $1.31 billion in 2011, which had decreased 17% from $1.58 billion in 2010. The year-over-year increase in homebuilding revenues in 2012 was due to higher housing revenues, while the year-over-year decrease in 2011 reflected lower housing and land sale revenues.

Housing revenues were $1.55 billion in 2012, compared to $1.31 billion in 2011 and $1.58 billion in 2010. Housing revenues rose 19% in 2012 from the previous year, reflecting an 8% increase in the number of homes delivered and a 10% increase in the overall average selling price of those homes. In 2011, housing revenues declined 17% from 2010 due to a 21% decrease in homes delivered, partly offset by a 5% increase in the overall average selling price.

We delivered 6,282 homes in 2012, up from 5,812 homes delivered in the previous year. The increase in the number of homes delivered was partly due to our relatively higher backlog at the beginning of the year, which was up 61% on a year-over-year basis largely as a result of a 39% increase in net orders in the latter half of 2011. Within our homebuilding reporting segments, the number of homes delivered in 2012 increased by 11%, 19% and 3% in our West Coast, Central and Southeast homebuilding reporting segments, respectively, and decreased by 19% in our Southwest homebuilding reporting segment, in each case as compared to the year-earlier period. The decrease in homes delivered in our Southwest homebuilding reporting segment reflected a strategic reduction in our investments in certain underperforming locations in the segment and the significant downsizing of our business in Arizona during 2011 and into 2012, each part of an overall repositioning of our operations to focus on better-performing markets.

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In 2011, we delivered 5,812 homes, down from 7,346 homes in 2010. The decrease in the number of homes delivered was partly due to our relatively low backlog level at the beginning of 2011, which was down 37% on a year-over-year basis. The lower beginning backlog reflected softness in net orders in the third and fourth quarters of 2010 due to generally weak housing market conditions, depressed demand and sales activity following a temporary surge in the first two quarters of 2010 that was motivated by the expiration of a federal homebuyer tax credit (the "Tax Credit"), and, to a lesser extent, the implementation of our strategic repositioning initiatives. Each of our homebuilding reporting segments delivered fewer homes in 2011 compared to 2010, with decreases ranging from 13% in our West Coast homebuilding reporting segment to 30% in our Southeast homebuilding reporting segment.

The overall average selling price of homes delivered increased to $246,500 in 2012 primarily due to changes in community and product mix, as we delivered more homes from markets with economic and consumer demand dynamics that supported larger home sizes and higher selling prices. Our higher overall average selling price of homes delivered in 2012 reflected year-over-year increases of 16%, 17% and 5% in our West Coast, Southwest and Southeast homebuilding reporting segments, respectively. In our Central homebuilding reporting segment, the average selling price of homes delivered in 2012 remained essentially even with 2011.

Our 2011 overall average selling price of homes delivered rose to $224,600 from $214,500 in 2010, as average selling prices increased in three of our four homebuilding reporting segments. Year over year, average selling prices in 2011 increased 5% in both our Southwest and Central homebuilding reporting segments and 15% in our Southeast homebuilding reporting segment. In our West Coast homebuilding reporting segment, the 2011 average selling price of homes delivered decreased 3% from the prior year. The increase in our overall average selling price in 2011 was mainly due to changes in the proportion of homes delivered from communities with higher-priced homes, and a shift in product mix to larger homes.

We had no land sales in 2012. Land sale revenues totaled $.3 million in 2011 and $6.3 million in 2010. Generally, land sale revenues fluctuate with our decisions to maintain or decrease our land ownership position in certain markets based upon the volume of our holdings, our marketing strategy, the strength and number of competing developers entering particular markets at given points in time, the availability of land at reasonable prices, and prevailing market conditions.

Operating Loss. Our homebuilding business generated operating losses of $20.3 million in 2012, $103.1 million in 2011 and $16.0 million in 2010. Our homebuilding operating loss as a percentage of homebuilding revenues was 1.3% in 2012, 7.9% in 2011, and 1.0% in 2010.

The year-over-year improvement in our 2012 operating results was primarily due to higher housing gross profits, partly offset by higher selling, general and administrative expenses. The improvement in 2012 also reflected the $30.8 million loss on loan guaranty recorded in 2011 related to our investment in a residential development joint venture located near Las Vegas, Nevada that underwent a bankruptcy reorganization in that year as discussed in Note 9. Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report. Our housing gross profits for 2012 increased by $55.4 million from $175.5 million for the year-earlier period. Housing gross profits for 2012 included $26.5 million of insurance recoveries related to repair costs and costs to handle claims with respect to previously delivered homes, including homes affected by allegedly defective drywall manufactured in China, and favorable net warranty adjustments of $8.6 million that reflected trends in our overall warranty claims experience. The impact of these items was mostly offset by inventory impairment and land option contract abandonment charges of $28.5 million. Our 2012 housing gross profit margin improved by 1.5 percentage points to 14.9% from 13.4% in 2011. Our housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, was 16.8% in 2012 and 15.4% in 2011.

In 2011, the year-over-year increase in our operating loss reflected lower housing gross profits compared to 2010 and the loss on loan guaranty, partly offset by reduced selling, general and administrative expenses. The decrease in housing gross profits in 2011 resulted from fewer homes delivered and a lower housing gross profit margin. Our housing gross profit margin was 13.4% in 2011, compared to 17.4% in 2010. In 2011, our housing gross profits included $25.8 million of inventory impairment and land option contract abandonment charges, which were partly offset by $7.4 million of favorable warranty adjustments that were made based on downward trends in our overall warranty claims experience on homes previously delivered. In 2010, our housing gross profits included $19.6 million of inventory impairment and land option contract abandonment charges. Our housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, was 15.4% in 2011, compared to 18.6% in 2010. The year-over-year decrease in our housing gross profit margin in 2011 reflected reduced operating leverage from the lower volume of homes delivered; comparatively fewer homes delivered from higher-margin communities in 2011, largely as a result of higher-margin communities that were closed out in 2010; and a shift in product mix.

We had no land sale income in 2012. Our land sales generated income of $.1 million in 2011 and losses of $.3 million in 2010. The land sale results in 2011 and 2010 included impairment charges of $.1 million and $.3 million, respectively, related to planned future land sales.

As described in Note 6. Inventory Impairment and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report, each community or land parcel in our owned inventory is assessed to determine if indicators of potential impairment exist. Based on our evaluations, we recognized charges for inventory impairments of $28.1 million in 2012, $22.7 million in 2011 and $9.8 million in 2010. The inventory impairment charges in all three years reflected challenging economic and housing market conditions in certain of our served markets. In addition, the inventory impairment charges we recognized in 2012 were partly due to changes to our operational or selling strategy for certain communities in an effort to accelerate our return on investment. In 2011, the inventory impairment charges included an $18.1 million adjustment to the fair value of real estate collateral that we took back on a note receivable. Deterioration in the supply and demand factors in the overall housing market or in an individual market, 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 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 may have a somewhat greater likelihood of being impaired than other of our active inventory.

When we decide not to exercise certain land option contracts or other similar contracts due to market conditions and/or changes in our marketing strategy, we write off the related inventory costs, including non-refundable deposits and unrecoverable pre-acquisition costs. We recognized abandonment charges associated with land option contracts and other similar contracts of $.4 million in 2012, $3.1 million in 2011 and $10.1 million in 2010. Inventory impairment and land option contract abandonment charges are included in construction and land costs in our consolidated statements of operations.

Selling, general and administrative expenses totaled $251.2 million in 2012, up from $247.9 million in 2011, which had decreased from $289.5 million in 2010. The year-over-year increase in 2012 was largely due to the above-mentioned court decision charge and costs associated with the year-over-year increase in the volume of homes delivered, partly offset by cost-saving initiatives. In addition, selling, general and administrative expenses for 2011 included the favorable impact of legal expense recoveries of $8.3 million. In 2011, the year-over-year decrease in selling, general and administrative expenses also reflected ongoing actions to streamline our organizational structure and reduce overhead costs, including personnel- and payroll-related costs, and the lower volume of homes delivered. As a percentage of housing revenues, to which these expenses are most closely correlated, selling, general and administrative expenses were 16.2% in 2012, 19.0% in 2011 and 18.4% in 2010. The percentage greatly improved in 2012 compared to 2011, primarily due to the 19% year-over-year increase in housing revenues. In 2011, the percentage increased from 2010 as the year-over-year decrease in our housing revenues was larger than the corresponding reduction in our expenses.

Loss on Loan Guaranty. As discussed in Note 9. Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report, the loss on loan guaranty of $30.8 million recognized in 2011 related to the Nevada joint venture noted above under “Operating Loss” and reflected the consummation of a consensual plan of reorganization of the venture, known as South Edge, that was confirmed by a bankruptcy court in November 2011 (the “South Edge Plan”) and included, among other things, the elimination of a limited several repayment guaranty (the “Springing Guaranty”) that we had provided to the administrative agent for the lenders to South Edge (the “Administrative Agent”).

Interest Income. Interest income, which is generated from short-term investments and mortgages receivable, totaled $.5 million in 2012, $.9 million in 2011 and $2.1 million in 2010. Generally, increases and decreases in interest income are attributable to changes in the interest-bearing average balances of short-term investments and mortgages receivable, as well as fluctuations in interest rates. Mortgages receivable are primarily related to land sales.

Interest Expense. Interest expense results principally from borrowings to finance land purchases, housing inventory and other operating and capital needs. Our interest expense, net of amounts capitalized, totaled $69.8 million in 2012, $49.2 million in 2011 and $68.3 million in 2010. Interest expense for 2012 included a $10.3 million loss on the early extinguishment of debt as a result of completing the applicable January 2012 and July 2012 Tender Offers. Interest expense for 2011 included a $3.6 million gain on the early extinguishment of secured debt. In 2010, interest expense included $1.8 million of debt issuance costs written off in connection with our voluntary reduction of the aggregate commitment under our unsecured revolving credit facility with various financial institutions (the “Credit Facility”) and our subsequent voluntary termination of the Credit Facility. The percentage of interest capitalized was 51% in 2012, 54% in 2011 and 45% in 2010. The percentage of interest capitalized generally fluctuates based on the amount of inventory qualifying for interest capitalization. Gross interest incurred during 2012 increased by $20.7 million to $132.7 million from $112.0 million in 2011 as a result of the $10.3 million loss on the early extinguishment of debt in 2012, compared to the $3.6 million gain on the early extinguishment of secured debt in 2011, a higher average debt level in 2012 and the higher interest rates on the senior notes we issued in 2012 compared to the interest rates on the senior notes we purchased under the applicable January 2012 and July 2012 Tender Offers. Gross interest incurred during 2011 decreased by $10.2 million, from $122.2 million in 2010, as a result of a lower average debt level and the $3.6 million gain on the early extinguishment of secured debt included in 2011, compared to the write off of $1.8 million of debt issuance costs included in 2010.

Equity in Loss of Unconsolidated Joint Ventures. Our unconsolidated joint ventures operate in various markets, typically

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where our homebuilding operations are located. These unconsolidated joint ventures posted combined revenues of $31.8 million in 2012, $.2 million in 2011 and $122.2 million in 2010. The year-over-year increase in 2012 was primarily due to land sales completed by our unconsolidated joint venture in Maryland. The marked year-over-year decrease in unconsolidated joint venture revenues in 2011 was primarily due to substantially fewer homes delivered by, and no land sales from, our unconsolidated joint ventures during 2011, reflecting the significant reduction in our participation in unconsolidated joint ventures over the past several years. Activities performed by our unconsolidated joint ventures generally include acquiring, developing and selling land, and, in some cases, constructing and delivering homes. Our unconsolidated joint ventures delivered no homes in 2012, one home in 2011 and 102 homes in 2010. Our unconsolidated joint ventures generated combined income of $8.3 million in 2012, compared to combined losses of $4.3 million in 2011 and $17.2 million in 2010. Our equity in loss of unconsolidated joint ventures totaled $.4 million in 2012, $55.8 million in 2011 and $6.3 million in 2010. The year-over-year change in our equity in loss of unconsolidated joint ventures in 2012 and 2011 was mainly due to a charge of $53.7 million incurred in 2011 to write off our remaining investment in South Edge, as discussed below under “Off-Balance Sheet Arrangements.” There were no such charges in 2012 or 2010.

Non-GAAP Financial Measures

This report contains information about our housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, and our ratio of net debt to total capital, both of which are not calculated in accordance with generally accepted accounting principles (“GAAP”). We believe these non-GAAP financial measures are relevant and useful to investors in understanding our operations and the leverage employed in our operations, and may be helpful in comparing us with other companies in the homebuilding industry to the extent they provide similar information. However, because the housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, and the ratio of net debt to total capital are not calculated in accordance with GAAP, these financial measures may not be completely comparable to other companies in the homebuilding industry and thus, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, these non-GAAP financial measures should be used to supplement their respective most directly comparable GAAP financial measures in order to provide a greater understanding of the factors and trends affecting our operations.

Housing Gross Profit Margin, Excluding Inventory Impairment and Land Option Contract Abandonment Charges. The following table reconciles our housing gross profit margin calculated in accordance with GAAP to the non-GAAP financial measure of our housing gross profit margin, excluding inventory impairment and land option contract abandonment charges (dollars in thousands):

	Years Ended November 30,		
	2012	2011	2010
Housing revenues	$1,548,432	$1,305,299	$1,575,487
Housing construction and land costs	(1,317,529)	(1,129,785)	(1,301,677)
Housing gross profits	230,903	175,514	273,810
Add: Inventory impairment and land option contract abandonment charges	28,533	25,740	19,577
Housing gross profits, excluding inventory impairment and land option contract abandonment charges	$259,436	$201,254	$293,387
Housing gross profit margin as a percentage of housing revenues	14.9 %	13.4 %	17.4 %
Housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, as a percentage of housing revenues	16.8 %	15.4 %	18.6 %

Housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, is a non-GAAP financial measure, which we calculate by dividing housing revenues less housing construction and land costs before inventory impairment and land option contract abandonment charges (as applicable) associated with housing operations recorded during a given period, by housing revenues. The most directly comparable GAAP financial measure is housing gross profit margin. We believe housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, is a relevant and useful financial measure to investors in evaluating our performance as it measures the gross profit we generated specifically on the homes delivered during a given period and enhances the comparability of housing gross profit margin between periods. This financial measure assists us in making strategic decisions regarding product mix, product pricing and construction pace. We also believe investors will find housing gross profit margin, excluding inventory impairment and land option contract abandonment charges, relevant and useful because it represents a profitability measure that may be compared to a prior period without regard to variability of charges for inventory impairments or land option contract abandonments.

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

	November 30, 2012	2011
Mortgages and notes payable	$1,722,815	$1,583,571
Stockholders' equity	376,806	442,657
Total capital	$2,099,621	$2,026,228
Ratio of debt to total capital	82.1 %	78.2 %
Mortgages and notes payable	$1,722,815	$1,583,571
Less: Cash and cash equivalents and restricted cash	(567,127)	(479,531)
Net debt	1,155,688	1,104,040
Stockholders' equity	376,806	442,657
Total capital	$1,532,494	$1,546,697
Ratio of net debt to total capital	75.4 %	71.4 %

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

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HOMEBUILDING SEGMENTS

The following table presents financial information related to our homebuilding reporting segments for the years indicated (dollars in thousands):

	Years Ended November 30,			Variance	
	2012	2011	2010	2012 vs 2011	2011 vs 2010
West Coast:					
Revenues	$755,259	$589,387	$700,645	28 %	(16)%
Construction and land costs	(658,586)	(488,883)	(545,983)	(35)	10
Selling, general and administrative expenses	(74,386)	(56,616)	(64,459)	(31)	12
Operating income	22,287	43,888	90,203	(49)	(51)
Other, net	(32,754)	(24,249)	(29,953)	(35)	19
Pretax income (loss)	$(10,467)	$19,639	$60,250	(153)%	(67)%
Southwest:					
Revenues	$132,438	$139,872	$187,736	(5)%	(25)%
Construction and land costs	(106,382)	(129,468)	(141,883)	18	9
Selling, general and administrative expenses	(17,989)	(29,402)	(45,463)	39	35
Loss on loan guaranty	—	(30,765)	—	100	(100)
Operating income (loss)	8,067	(49,763)	390	116	(12,860)
Other, net	(18,261)	(58,502)	(16,192)	69	(261)
Pretax loss	$(10,194)	$(108,265)	$(15,802)	91 %	(585)%
Central:					
Revenues	$436,407	$369,705	$436,404	18 %	(15)%
Construction and land costs	(371,875)	(316,408)	(364,736)	(18)	13
Selling, general and administrative expenses	(56,579)	(59,709)	(62,550)	5	5
Operating income (loss)	7,953	(6,412)	9,118	224	(170)
Other, net	(6,504)	(6,512)	(10,890)	—	40
Pretax income (loss)	$1,449	$(12,924)	$(1,772)	111 %	(629)%
Southeast:					
Revenues	$224,328	$206,598	$256,978	9 %	(20)%
Construction and land costs	(177,502)	(189,221)	(245,416)	6	23
Selling, general and administrative expenses	(34,694)	(39,347)	(36,055)	12	(9)
Operating income (loss)	12,132	(21,970)	(24,493)	155	10
Other, net	(13,315)	(16,013)	(18,308)	17	13
Pretax loss	$(1,183)	$(37,983)	$(42,801)	97 %	11 %

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The following table presents information concerning our housing revenues, homes delivered and average selling price by homebuilding reporting segment:

Years Ended November 30,	Housing Revenues (in thousands)	Percentage of Total Housing Revenues		Homes Delivered	Percentage of Total Homes Delivered		Average Selling Price
2012							
West Coast	$755,259	49	%	1,945	31	%	$388,300
Southwest	132,438	9		683	11		193,900
Central	436,407	28		2,566	41		170,100
Southeast	224,328	14		1,088	17		206,200
Total	$1,548,432	100	%	6,282	100	%	$246,500
2011							
West Coast	$589,387	45	%	1,757	30	%	$335,500
Southwest	139,762	11		843	15		165,800
Central	369,552	28		2,155	37		171,500
Southeast	206,598	16		1,057	18		195,500
Total	$1,305,299	100	%	5,812	100	%	$224,600
2010							
West Coast	$700,645	44	%	2,023	27	%	$346,300
Southwest	181,917	12		1,150	16		158,200
Central	435,947	28		2,663			