KB HOME
Form 10-K
January 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2017
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 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
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 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the voting common stock held by non-affiliates of the registrant on May 31, 2017 was $1,986,837,449, including 9,153,296 shares held by the registrant’s grantor stock ownership trust and excluding 21,844,825 shares held in treasury.
There were 87,048,265 shares of the registrant’s common stock, par value $1.00 per share, outstanding on December 31, 2017. The registrant’s grantor stock ownership trust held an additional 8,897,954 shares of the registrant’s common stock on that date.
Documents Incorporated by Reference
Portions of the registrant’s definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (incorporated into Part III).

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FOR THE YEAR ENDED NOVEMBER 30, 2017
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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 60 years, with more than 600,000 homes delivered since our founding. We sell and build a variety of new homes designed primarily for first-time, first 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. Our homebuilding operations represent most of our business, accounting for 99.7% of our total revenues in 2017. Our financial services operations, which accounted for the remaining .3% of our total revenues in 2017, offer various insurance products to our homebuyers in the markets where we build homes and provide title services in certain of those markets. Our financial services operations provide mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through KBHS Home Loans, LLC (“KBHS”), an unconsolidated joint venture we formed with Stearns Lending, LLC (“Stearns”), which became operational in 2017.

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. Also, as used in this report, “home” is a single-family residence, whether it is a single-family home or other type of residential property; “community” is a single development in which new homes are constructed as part of an integrated plan; and “community count” is the number of communities we have open for sales with at least five homes/lots left to sell.

The following charts present homes delivered and homebuilding revenues for the years ended November 30, 2015, 2016 and 2017:

Markets

Reflecting the geographic reach of our homebuilding business, we have ongoing operations in the seven states and 35 major markets presented below. We also operate in various submarkets within these major markets. From time to time, we refer to these markets and submarkets collectively as our "served markets." For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast.

Segment	State(s)	Major Market(s)
West Coast	California	Contra Costa County, Fresno, Los Angeles, Madera, Oakland, Orange County, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Jose, Santa Rosa-Petaluma, Stockton, Vallejo, Ventura and Yuba City
Southwest	Arizona	Phoenix and Tucson
	Nevada	Las Vegas
Central	Colorado	Denver
	Texas	Austin, Dallas, Fort Worth, Houston and San Antonio
Southeast	Florida	Daytona Beach, Jacksonville, Lakeland, Orlando, Punta Gorda, Sarasota, Sebastian-Vero Beach and Tampa
	North Carolina	Raleigh

Segment Operating Information. The following table presents certain operating information for our homebuilding reporting segments for the years ended November 30, 2017, 2016 and 2015 (dollars in millions, except average selling price):

	Years Ended November 30,		
	2017	2016	2015
West Coast:			
Homes delivered	3,387	2,825	2,258
Percentage of total homes delivered	31 %	29 %	27 %
Average selling price	$644,900	$579,900	$587,000
Total revenues (a)	$2,186.4	$1,638.1	$1,402.3
Southwest:			
Homes delivered	1,837	1,559	1,311
Percentage of total homes delivered	17 %	16 %	16 %
Average selling price	$290,200	$287,000	$284,600
Total revenues (a)	$533.1	$447.5	$398.2
Central:			
Homes delivered	4,136	3,744	3,183
Percentage of total homes delivered	38 %	38 %	39 %
Average selling price	$284,800	$270,100	$252,200
Total revenues (a)	$1,188.8	$1,018.5	$809.7
Southeast:			
Homes delivered	1,549	1,701	1,444
Percentage of total homes delivered	14 %	17 %	18 %
Average selling price	$284,100	$281,400	$281,900
Total revenues (a)	$448.0	$478.9	$410.8
Total:			
Homes delivered	10,909	9,829	8,196
Average selling price	$397,400	$363,800	$354,800
Total revenues (a)	$4,356.3	$3,582.9	$3,021.0

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

Additional financial and operational information related to our homebuilding reporting segments, including revenues, pretax income (loss), inventories and assets, is provided below in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 – Segment Information in the Notes to Consolidated Financial Statements in this report.

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Unconsolidated Joint Ventures. The above table does not include homes delivered or revenues from unconsolidated joint ventures in which we participate. These unconsolidated joint ventures acquire and develop land in various markets where our homebuilding operations are located and, in some cases, build and deliver homes on the land developed.

Strategy

Since 2016, we have implemented a Returns-Focused Growth Plan that is designed to drive higher revenues and improvement in our homebuilding operating income margin, return on invested capital, return on equity and leverage ratio, and to achieve certain financial targets for these and related metrics in 2019. The plan's main components are (1) executing our core business strategy, (2) improving our asset efficiency and (3) monetizing our significant deferred tax assets.

Executing Our Core Business Strategy. Our core business strategy, which we call KB2020, is to expand our scale within our current geographic footprint to establish a top-five market share position in each of our served markets (based on homes delivered) by building communities that offer a compelling combination of affordability, choice and personalization. This strategy is grounded in a systematic, fact-based and process-driven approach to homebuilding and encompasses the following key principles with respect to customers, land, products and operations:

- Customers. For each of our served markets, we gain a detailed understanding of consumers' location and product preferences, as well as product price-to-value perceptions, through ongoing customer surveys and other market research. Our primary focus is on first-time and first move-up homebuyers. First-time homebuyers have comprised nearly 60% of our homes delivered over the past 10 years. In addition, our Built-to-Order™ homebuying process provides our homebuyers with a wide range of choices in the major aspects of their future home, together with a personalized customer experience through our in-house community teams. These teams are made up of sales representatives, design consultants and other personnel who partner closely with each homebuyer and maintain constant communication from the initial sale of their home to its delivery. We believe this highly consumer-centric approach helps enhance customer satisfaction by enabling our homebuyers to design a home with the features and amenities they want based on what they value.
- Land. We seek to manage our working capital and reduce our operating risks by primarily acquiring entitled land parcels at reasonable prices within attractive submarkets as identified by our market research activities. We typically focus on metropolitan areas with favorable long-term economic and population growth prospects that we believe have the potential to sustain a minimum of 800 homes delivered per year, and target land parcels that provide a two- to three-year supply of lots per community and meet our investment return standards. Identified consumer preferences and home sales activity largely direct where our land acquisition teams search for available land. We leverage the relationships we have with land owners, developers and brokers in our served markets to acquire land, and use our experience in working with municipalities to efficiently obtain entitlements and any other required development approvals, typically before or concurrently with closing on a parcel.
- Products. We offer our customers a base product with a standardized set of functions and features that is generally priced to be affordable for the local area's median household income level. Our Built-to-Order approach provides customers the opportunity to select their lot location, floor plan, elevation and structural options, and to personalize their homes with numerous interior design options and upgrades in our design studios. Our design studios, generally centrally located within our served markets, are a key component of our Built-to-Order process, and the mix of design options and upgrades they offer are primarily based on the preferences identified by consumer survey and purchase frequency data. We utilize a centralized internal architectural group that designs homes to meet or exceed customers' price-to-value expectations while being as efficient as possible to construct. Our architectural group has developed a core series of flexible floor plans and elevations that we can offer across many of our served markets, which helps us understand the cost to build our products and enables us to compare and implement best practices across divisions or communities. We also incorporate energy-efficient features into our product designs to help lower the total cost of homeownership for our homebuyers and to reduce our homes' impact on the environment, as further discussed below. As used in this report and elsewhere, the term "product" encompasses a home's floor plan design and interior/exterior style, amenities, functions and features.
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Operations. In addition to differentiating us from other high-production homebuilders, our Built-to-Order process helps to drive low-cost production. We generally commence construction of a home only after we have a signed purchase contract with a homebuyer and have obtained preliminary credit approval or other evidence of the homebuyer’s financial ability to purchase the home, and seek to build a backlog of sold homes. By maintaining a healthy five-to-six-month backlog, along with centralized scheduling and standardized reporting processes, we have been able to establish a disciplined and scalable operational platform that helps us sustain an even-flow production of pre-sold homes, which reduces our inventory risk, enhances efficiencies in the construction process and our relationships with independent subcontractors, and provides us with greater visibility and predictability on future deliveries as we grow.

We consider our strategy to be integral to our success in the homebuilding industry. However, there may be market-driven circumstances where we believe it is necessary or appropriate to temporarily deviate from certain of its principles. These deviations may include starting construction on a small number of homes in a community before corresponding purchase contracts are signed with homebuyers to more quickly meet customer delivery expectations and generate revenues; or acquiring land parcels in peripheral neighborhoods of a core metropolitan area that otherwise fit our growth strategy and meet our investment return standards. In addition, other circumstances could arise in the future that may lead us to make specific short-term shifts from these principles.

Improving Asset Efficiency. We have had an ongoing focus on, and will continue our efforts in 2018 for, improving our asset efficiency, including, among other things, generating higher net orders per community and greater profitability per home delivered by balancing sales pace and selling prices, and managing our direct construction costs within our communities; structuring land acquisitions to minimize upfront costs, as further discussed below under "Community Development and Land Inventory Management"; reactivating communities that have been held for future development; selling non-core assets; and deploying excess cash flow from operations to help fuel additional revenue growth and/or reduce debt.

We have made considerable progress in reactivating communities over the past several years and plan to reactivate additional communities in 2018. As of November 30, 2017, our land held for future development represented 11% of our total inventories, level with November 30, 2016 and down from its peak of 43% at November 30, 2011. Our objective is to reduce our land held for future development, through reactivations and land sales, to less than 4% of our total inventory by the end of our 2019 fiscal year.

While reactivations and land sales can have a negative impact on our homebuilding operating income margin, they are generally accretive to earnings and returns, and generate cash that we can redeploy for investments in land that are expected to generate a higher return and grow our business. Such growth should enable us to leverage greater operating efficiencies that are expected to accompany a larger scale.

Monetizing Our Deferred Tax Assets. By increasing our scale and further improving our asset efficiency, the anticipated associated revenue and pretax income growth will enable us to accelerate the utilization of our deferred tax assets, which totaled $634 million at November 30, 2017. We believe we can realize substantial tax cash savings through 2019 and beyond, and intend to productively deploy the cash to invest in our business and/or to reduce debt.

Key Financial Targets. The financial targets for 2019 that we believe will result from executing on our Returns-Focused Growth Plan are as follows:

- Housing revenues greater than $5 billion.
- Homebuilding operating income margin, excluding inventory-related charges, of 8.0% to 9.0%.
- Housing gross profit margin, excluding inventory-related charges, of 17.5% to 18.2%.
- Selling, general and administrative expenses as a percentage of housing revenues ("selling, general and administrative expense ratio") of 9.0% to 9.5%.
- Return on invested capital in excess of 10.0%.
- Return on equity of 10.0% to 15.0%.
- Net debt to capital ratio of 40% to 50%.

We believe that our plan provides a clear roadmap for achieving these targets, and the potential to produce a meaningful increase in long-term stockholder value. By increasing our scale while improving our asset efficiency, we expect to generate higher revenues, profitability and internal cash flows, both from operations and from using our deferred tax assets. The stronger cash flows, in turn, can be directed, in a balanced manner, to invest in the further growth of our business and/or reduce debt, providing an opportunity for improved housing gross profit margins. We made significant advances on our Returns-Focused Growth Plan in 2017, including reducing our debt by more than $300 million, exceeding our initial goal of $250 million in debt reduction by 2019, and improving our return on equity, debt to capital ratio and net debt to capital ratio, as discussed further below under Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

Promotional Marketing Strategy. Our promotional marketing efforts are centered on differentiating the KB Home brand from resale homes and from new homes sold by other homebuilders. These efforts increasingly involve digital marketing, including interactive Internet-based applications, social media outlets and other evolving communication technologies.

In each of our communities, we build, decorate and landscape model homes which play a key role in providing customers with a hands-on experience. Our sales teams are trained by us and have extensive knowledge of management operating policies and our products, assisting homebuyers in all aspects of their purchase.

Customer Service. 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 also have employees who are responsible for responding to homebuyers' post-closing needs, including warranty claims. Information about our limited warranty program is provided in Note 15 – Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report.

Operational Structure. We operate our homebuilding business through divisions with experienced management teams who have in-depth local knowledge of their particular served markets, which helps us acquire land in preferred locations; develop communities with products that meet local demand; and understand local regulatory environments. Our division management teams exercise considerable autonomy in identifying land acquisition opportunities; developing land and communities; implementing product, marketing and sales strategies; and controlling costs. To help maintain consistent execution within the organization, our division management teams and other employees are continuously trained on KB2020 principles and are evaluated, in part, based on their achievement of relevant operational objectives.

Our corporate management and support personnel develop and oversee the implementation of company-wide strategic initiatives, our overall operational policies and internal control standards, and perform various centralized functions, including architecture; purchasing and national contracts; treasury and cash management; land acquisition approval; risk and litigation management; accounting and financial reporting; internal audit and compliance activities; information technology systems; and investor and media relations. Corporate management is responsible for, among other things, evaluating and selecting the geographic markets in which we operate, consistent with our overall business strategy; allocating capital resources to markets for land acquisition and development activities; making major personnel decisions related to employee compensation and benefits; and monitoring the financial and operational performance of our divisions.

Community Development and Land Inventory Management

Developable land for the production of homes is a core resource for our business. Based on our current strategic plans, we seek to own or control land sufficient to meet our forecasted production goals for the next three to five years. In 2018, we intend to continue to invest in and develop land positions within attractive submarkets and selectively acquire or control additional land that meets our investment return standards. However, we may decide to sell certain land interests or monetize land previously held for future development as part of our Returns-Focused Growth Plan, or for other reasons.

Our community development process generally consists of four phases: land acquisition, land development into finished lots for a community (if necessary), home construction and delivery of completed homes to homebuyers. Historically, our community development process has typically ranged from six to 24 months in our West Coast homebuilding reporting segment, with a somewhat shorter duration in our other homebuilding reporting segments. Our community development process varies based on, among other things, the extent and speed of required government approvals and utility service activations, the overall size of a particular community, the scope of necessary site preparation activities, the type of product(s) that will be offered, weather conditions, time of year, promotional marketing results, the availability of construction resources, consumer demand, local and general economic and housing market conditions, and other factors.

Although they vary significantly in size and complexity, our communities typically consist of 30 to 250 lots ranging in size from 1,800 to 11,000 square feet. In our communities, we typically offer three to 15 home design choices. We also generally build one to three model homes at each community so that prospective homebuyers can preview the various products available. Depending on the community, we may offer premium lots containing more square footage, better views and/or location benefits. Some of our communities consist of multiple-story structures that encompass several attached condominium-style units.

Land Acquisition and Land Development. We continuously evaluate land acquisition opportunities against our investment return standards, while also balancing competing needs for financial strength, liquidity and land inventory for future growth. When we acquire land, we generally focus on parcels with lots that are entitled for residential construction and are either physically developed to start home construction (referred to as “finished lots”) or partially finished. However, depending on market conditions and available opportunities, we may acquire undeveloped and/or unentitled land. We may also invest in land that requires us to repurpose and re-entitle the property for residential use, such as in-fill developments. We expect that the overall balance of undeveloped, unentitled, entitled, partially finished 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 if and as the availability of reasonably priced land with finished or partially finished lots diminishes.

As noted above, 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 and home sales activity, the supply and type of homes that are available for sale, and other market research activities. Local, in-house 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.
We generally structure our land acquisition and land development activities to minimize, or to defer the timing of, expenditures in order to reduce both the market risks associated with holding land and our working capital and financial commitments, including interest and other carrying costs. We typically use contracts that, in exchange for a small initial option payment or earnest money deposit, give us an option or similar right to acquire land at a future date, usually at a pre-determined price and pending our satisfaction with the feasibility of developing and selling homes on the land and/or an underlying land seller's completion of certain obligations, such as securing entitlements, developing infrastructure or finishing lots. We refer to land subject to such option or similar contractual rights as being "controlled." Our decision to exercise a particular land option or similar right is based on the results of our due diligence and continued market viability analysis after entering into such a contract. Information related to our land option contracts and other similar contracts is provided in Note 7 – Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report.
The following table presents the number of inventory lots we owned, in various stages of development, or controlled under land option contracts or other similar contracts by homebuilding reporting segment as of November 30, 2017 and 2016:

	Homes Under Construction and Land Under Development		Land Held for Future Development or Sale		Land Under Option		Total Land Owned or Under Option	
	2017	2016	2017	2016	2017	2016	2017	2016
West Coast	6,056	5,192	1,982	2,202	3,305	3,510	11,343	10,904
Southwest	7,329	4,912	922	2,525	834	901	9,085	8,338
Central	11,849	13,090	889	1,058	6,323	4,124	19,061	18,272
Southeast	3,571	3,453	2,346	3,150	965	708	6,882	7,311
Total	28,805	26,647	6,139	8,935	11,427	9,243	46,371	44,825

The following charts present the percentage of inventory lots we owned or controlled under land option contracts or other similar contracts by homebuilding reporting segment and the percentage of total lots we owned and controlled under option as of November 30, 2017:
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. To minimize the costs and risks of unsold homes in production, we generally commence construction of a home only after we have a signed purchase contract with a homebuyer and have obtained preliminary credit approval or other evidence of the homebuyer's financial ability to purchase the home. 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 completed or partially completed homes in our inventory. Our construction cycle time from home sale to delivery is typically five to six months.
We act as the general contractor for the majority of our communities, and engage outside general contractors in all other instances. We, or the outside general contractors we engage, contract with a variety of independent subcontractors, who are

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typically locally based, to perform all land development and home construction work through their own employees or subcontractors. We do not self-perform any land development or home construction work. These independent subcontractors also supply some of the building materials required for such production activities. Our contracts with these independent subcontractors require that they comply with all laws applicable to their work, including wage and safety laws, meet performance standards, and follow local building codes and permits.

Raw Materials. Outside of land, the principal raw materials used in our production process are concrete and forest products. Other primary materials used in home construction include drywall, and plumbing and electrical items. We source all of our building materials from third parties. 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 outside sources. In addition, we have national and regional purchasing programs for certain building materials, appliances, fixtures and other items that allow us to benefit from large-quantity purchase discounts and, where available, participate in outside manufacturer or supplier rebate programs. When possible, we arrange for bulk purchases of these products at favorable prices from such manufacturers and suppliers. Although our purchasing strategies have helped us in negotiating favorable prices for raw materials, in recent years we have encountered higher prices for certain raw materials.

Backlog

Our "backlog" consists of homes that are under a 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, homes delivered and our community count. Our cancellation rates and the factors affecting such rates are further discussed below in both Item 1A – Risk Factors and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations in this report. The number of homes we deliver has historically increased from the first to the fourth quarter in any year. Substantially all of our homes in backlog at November 30, 2017 are expected to be delivered during the year ended November 30, 2018.

Our backlog at November 30, 2017 of 4,411 was essentially even with the 4,420 homes at November 30, 2016. The average selling price of our homes in backlog was $376,400 at November 30, 2017, up 10% from $343,700 at November 30, 2016. Our backlog at November 30, 2017 represented potential future housing revenues of approximately $1.66 billion, a 9% increase from approximately $1.52 billion at November 30, 2016, reflecting the higher average selling price of the homes in our backlog.

The following charts present our ending backlog (number of homes and value) by homebuilding reporting segment as of November 30, 2016 and 2017:

Employees
At December 31, 2017 and 2016, we had approximately 1,915 and 1,790 full-time employees, respectively. None of our employees are represented by a collective bargaining agreement.
Competition, Seasonality, Delivery Mix and Other Factors
Competition. The homebuilding industry and housing market are highly competitive with respect to selling homes; contracting for construction services, such as carpentry, roofing, electrical and plumbing; and acquiring attractive developable land, though the intensity of competition can vary and fluctuate between and within individual markets and submarkets. We compete for homebuyers, construction resources 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 and amenities, availability of financing options, home designs, reputation, home construction cycle time, and the design options and upgrades that can be included in a home. In some cases, this competition occurs within larger residential development projects containing separate sections designed, planned and developed by other homebuilders. We also compete for homebuyers against housing alternatives to new homes, including resale homes, apartments, single-family rentals and other rental housing. In markets experiencing heavy construction activity, including areas recovering from hurricanes or other significant natural disasters, there can be severe craft and skilled trade shortages that limit independent subcontractors' ability to supply construction services to us, which in turn tends to drive up our costs and/or extend our production schedules. Elevated construction activity has also contributed to measurable increases in the amount of time to obtain governmental approvals or utility service activations; and the cost of certain building materials, such as lumber, drywall and concrete. Since 2013, we also have seen higher prices for desirable land amid heightened competition with homebuilders and other developers and investors (both domestic and international), particularly in the land-constrained areas we are strategically targeting. We expect these upward cost trends to continue in 2018, if and as housing market activity grows and there is greater competition for these resources.
Seasonality. 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 spring and early summer months (corresponding to most of our second quarter and part of our third quarter) than at other times of the year. With our distinct homebuying approach and typical 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 quarter and all of our fourth quarter). On a relative basis, the winter and early spring months within our first quarter and part of our second quarter 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.
Delivery Mix and Other Factors. 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 markets and submarkets in which we operate; the number and characteristics of the communities we have open for sales in those markets and 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 in terms of the quantity, size and nature of the 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); 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 factors in each of our served markets will affect the costs we incur and the time it takes to locate, acquire rights to and develop land, open 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 upgrades); the pace at which we sell and deliver homes and close out communities; and our housing gross profits and housing gross profit margins. 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.
Financing

Our operations have historically been funded by internally generated cash flows, public equity and debt issuances, land option contracts and other similar contracts, land seller financing, and performance bonds and letters of credit. We also have the ability to borrow funds under our unsecured revolving credit facility with various banks ("Credit Facility"). Depending on market conditions and available opportunities, we may obtain project financing, or secure external financing with community or other inventory assets that we own or control. By "project financing," we mean loans that are specifically obtained for, or secured by, particular communities or other inventory assets. We may also arrange or engage in bank loan, project debt or other financial transactions and/or expand the capacity of the Credit Facility or our cash-collateralized letter of credit facility with a financial institution (the "LOC Facility") or enter into additional such facilities.

Environmental Compliance Matters and Sustainability

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, representations and warranties from land sellers regarding environmental risks. 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 our 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 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. However, 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, and no estimate of any potential liabilities can be made. 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 U.S. Environmental Protection Agency (or similar state or local agency) as being a "Superfund" (or similar state or local) 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.

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. We continually seek out and utilize innovative technologies and systems to further improve the energy and water efficiency of our homes, as well as engage in campaigns and other educational efforts, sometimes together with other companies, organizations and groups, to increase consumer awareness of the importance and impact of sustainability in selecting a home and the products within a home. Under our commitment to sustainability, we, among other things:

- build energy- and water-efficient new homes. We built our 100,000th ENERGY STAR® certified home in 2017;
- developed an Energy Performance Guide®, or EPG®, that informs our homebuyers of the relative energy efficiency and the related estimated monthly energy costs of each of our homes as designed, compared to typical new and existing homes;
- advanced home automation technologies, components and systems that can increase convenience for our homebuyers. For instance, in 2017, we partnered with Apple® to offer HomeKit™-enabled homes in certain communities, which allow homeowners to control several comfort and security features in their home using a smart phone or tablet; and
- created and continue to add more net-zero energy and zero freshwater design options, under a program called Double ZeroHouse™ 3.0, that are available in select markets.

For several years, we have been recognized by the U.S. Environmental Protection Agency for our sustainability achievements, and have earned awards under all of the agency's programs aimed at homebuilders: ENERGY STAR, which sets energy efficiency standards; WaterSense®, which establishes water efficiency standards; and Indoor airPLUS®, which focuses on indoor air quality. In 2017, we received the ENERGY STAR Partner of the Year — Sustained Excellence Award for the seventh consecutive year, and the WaterSense Sustained Excellence Award for the third consecutive year.

More information about our sustainability commitment can be found in our annual sustainability reports, which we have published on our website since 2008. We intend to continue to research, evaluate and utilize new or improved products and construction and business practices consistent with our commitment and believe our sustainability initiatives can help put us in a better position, compared to resale homes 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.

Access to Our Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, beneficial ownership reports on Forms 3, 4 and 5 and proxy statements, as well as all amendments to those reports are available free of charge through our investor relations website at investor.kbhome.com, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (“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, 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 may from time to time choose to disclose or post important information about our business on or through our investor relations website, and/or through other electronic channels, including social media outlets, such as Facebook® (Facebook.com/KBHome) and Twitter® (Twitter.com/KBHome), and other evolving communication technologies. The content available on or through our primary website at www.kbhome.com, our investor relations website, including our sustainability reports, or social media outlets and other evolving communication technologies is not incorporated by reference in this report or in any other filing we make with the SEC, and our references to such content 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 economic and market, strategic, operational, and legal and regulatory risk factors could adversely impact our business. These factors could cause our actual results to differ materially from the forward-looking and other statements that (a) we make in registration statements, periodic reports (including this report) and other filings with the SEC and from time to time in our news releases, annual reports and other written reports or communications, (b) we post on or make available through our websites and/or through other electronic channels, and (c) our personnel and representatives make orally from time to time.

Economic and Market Risks

Soft or negative economic or housing market conditions generally or in our served markets may materially and adversely affect our business and consolidated financial statements.

As in 2017, we expect future home sales activity and selling price appreciation (or depreciation) to vary in strength between markets and within submarkets based to a substantial degree on their specific economic and housing environments, which may also reflect national, state and/or regional factors. These variations may be significant and unfavorable, and could be more pronounced and/or prolonged in our served markets due to changes in conditions that are outside of our control, including, but not limited to, the following:

- Employment levels and job and wage growth, particularly for individuals and households who make up our core first-time and first move-up homebuyer demographic groups. If the recent upward trends in employment and income levels for these demographic groups weaken or reverse, a corresponding reduction in demand for homes could negatively impact our business, and the impact may be greater for us than for homebuilders that target more-experienced and/or higher-income homebuyers.
- Negative population growth, household formations or other demographic changes that can impair demand for housing.
- Diminished consumer confidence in general or specifically with respect to purchasing homes, or lack of consumer interest in purchasing a home compared to other housing alternatives due to location preferences, perceived affordability constraints or otherwise.
- Inflation, which could result in our production costs increasing at a rate or to a level that we cannot recover through the selling prices of our homes. Inflation may also cause increases in mortgage loan interest rates, and in the interest rates we may need to accept to obtain external financing for our business.
- Shortages or rising prices of building materials and construction services, including independent contractor or outside supplier capacity constraints. These conditions could increase our costs and/or extend our construction and home delivery schedules, and we may be unable to raise the selling prices of our homes to cover the impact of such cost increases and/or delays.
- Seasonality, which, as discussed above in the "Competition, Seasonality, Delivery Mix and Other Factors" section in this report, generally results in fluctuations in our quarterly operating results, with a significant proportion of our homes delivered and revenues generated in our third and fourth fiscal quarters. While this pattern reflects when consumers have generally preferred to buy homes, we can provide no assurance that this historical seasonality will occur in 2018 or beyond, if at all.
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Civil unrest and acts of terrorism, and government responses to such acts, as well as inclement weather, natural disasters, and other environmental conditions can delay the delivery of our homes and/or increase our costs.

If economic or housing conditions become more challenging generally or in our served markets, due to the factors listed above, whether individually or collectively, or otherwise, or home sales or selling prices do not continue to advance at the same pace as in recent years or decline, there would likely be a corresponding adverse effect on our business and our consolidated financial statements, including, but not limited to, our net orders, the number of homes we deliver, our average selling prices, the revenues we generate, our housing gross profit margins and our ability to operate profitably, and the effect may be material. In addition, adjustments to federal government economic, taxation and spending laws, policies or programs by the current administration and U.S. Congress may negatively impact the financial markets, consumer spending and/or the housing market, and, in turn, materially and adversely affect our operating results and consolidated financial statements.

Tight mortgage lending standards and/or interest rate increases could adversely affect the availability or affordability of mortgage loans for potential buyers of our homes and thereby reduce our net orders, homes delivered and revenues. The poor performance of third-party mortgage lenders could delay our delivery of homes and recognition of revenues from those homes.

We depend on third-party lenders, including Stearns, our joint venture partner in KBHS, to provide mortgage loans to our homebuyers who need such financing to purchase our homes, and our dependence on such lenders is greater than for other homebuilders that operate a captive mortgage lender. Homebuyers' ability to obtain financing largely depends on prevailing mortgage loan interest rates, the credit standards that mortgage lenders use and the availability of mortgage loan programs provided by federal government agencies (such as Federal Housing Administration ("FHA")- or Veterans Administration-insured mortgage loans), or government-sponsored enterprises (such as the Federal National Mortgage Association (also known as "Fannie Mae") or the Federal Home Loan Mortgage Corporation (also known as "Freddie Mac")), which have been a critical source of liquidity for the mortgage finance industry and an important factor in marketing and selling many of our homes. If mortgage loan interest rates increase, credit standards are tightened and/or the federal government reduces or terminates its mortgage loan programs, the affordability of and demand for homes, including our homes, would likely be adversely impacted, and the impact could be material to our business and consolidated financial statements.

Our homebuyers may obtain mortgage financing for their home purchases from any lender of their choice. However, we can provide no assurance as to third-party lenders', including Stearns', ability or willingness to complete, in a timely fashion or at all, the mortgage loan originations they start for our homebuyers. Such lenders' inability or unwillingness may result in mortgage loan funding issues that delay deliveries of our homes and/or cause cancellations, which could in the aggregate have a material adverse effect on our business and our consolidated financial statements. In addition, if such third-party lenders, including Stearns, mishandle our homebuyers' personal financial information, including due to a data security breach of their systems, the negative impacts on our homebuyers, or negative publicity arising from any such incidents, could create, among other things, associated exposure to us with respect to claims for damages, regulatory penalties and/or reputational harm, and such exposure could be material and adverse to our business and consolidated financial statements.

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

We face significant competition in several areas of our business from other homebuilders, some of which have recently grown larger through mergers and acquisitions, sellers of existing homes, and other participants in the overall housing industry, including landlords and other rental housing operators. These competitive conditions can result in, among other things, our selling and delivering fewer homes; our reducing the selling prices of our homes and/or offering or increasing sales incentives; our being unable to acquire desirable land that meets our investment return standards; and our being unable to obtain construction resources at acceptable prices or when needed to meet our production schedules. These competitive conditions could have a material adverse effect on our business and consolidated financial statements by decreasing our revenues and housing gross profit margins; impairing our ability to successfully implement our current strategies, initiatives or actions; increasing our costs; and/or diminishing growth in our business.

Strategic Risks

Our ability to execute on our primary strategies is inherently uncertain, and we may be unable to achieve our goals.

We can provide no assurance that our strategies, and any related initiatives or actions, will be successful, that they will generate growth, earnings or returns at any particular level or within any particular time frame, or that we will achieve in 2018 or beyond positive operational or financial results or results in any particular metric or measure equal to or better than our 2017 performance, or perform in any period as well as other homebuilders. We also cannot provide any assurance that we will be able to maintain our strategies, and any related initiatives or actions, in 2018 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 our strategies, initiatives or actions, though we cannot guarantee that any such changes will be successful. The failure of any one or more of our present strategies, or any related initiatives or actions, or the failure of any adjustments that we may pursue or implement, would likely have an adverse effect on our ability to increase the value and profitability of our business; on our ability to operate our business in the ordinary course; on our overall liquidity; and on our consolidated financial statements, and the effect in each case could be material.

The success of our present strategies depends on the availability of developable land that meets our investment return standards.

The availability of developable land, particularly finished and partially finished lots, meeting our investment return standards depends on several factors, including, among other things, land availability in general, geographical/topographical/governmental constraints, land sellers' business relationships and competition for desirable property. As discussed above in the "Competition, Seasonality, Delivery Mix and Other Factors" section in this report, since 2013 we have experienced heightened competition with homebuilders and other developers and investors for land, which, in addition to geographic, topographic and regulatory limitations, has caused the availability of desirable land in high-demand submarkets to become more constrained and costly. In some instances, these other homebuilders, developers and investors (both domestic and international) have greater financial resources than us and/or use less stringent underwriting standards that enable them to bid more for land.

Should suitable land become less available to us, the number of homes we deliver could be reduced. In addition, as noted above, the cost of attractive land could increase and adversely impact our housing gross profit margins and our ability to maintain ownership or control of a sufficient supply of land to meet our production goals. A lack of available suitable land could also affect the success of our current strategies, and related initiatives, including our ability to grow our scale and share in our served markets; to expand our community count; to maintain or increase our revenues; to reduce our debt; and to maintain or improve our profitability in 2018 and beyond, and could have a material adverse effect on our business and consolidated financial statements.

Our business is concentrated in certain geographic markets and declines in one or more of our key served markets could materially affect our business and consolidated financial statements.

Home sales activity and selling prices in some of our key served markets have varied from time to time for market-specific and other reasons, including adverse weather, high levels of foreclosures, short sales and sales of lender-owned homes, and lack of affordability or economic contraction. If home sales activity or selling prices 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, which makes up our West Coast homebuilding reporting segment, would have a particularly significant effect as our average selling price in this segment is the highest among all of our homebuilding reporting segments, a large percentage of our housing revenues is generated from this segment, and a significant proportion of our investments in land and land development have been made, and in 2018 are expected to be made, in that state. In addition, some of the areas we serve in California have recently experienced extreme or exceptional drought conditions, and we can offer no assurance as to the conservation measures, including impact fees or penalties, that might be imposed by local water agencies/suppliers if such conditions recur that could limit, impair or delay our ability to sell and deliver homes; increase our production costs; or decrease the value of land we own or control, which may result in inventory impairment or land option contract abandonment charges, or both. These impacts, individually or collectively, could adversely affect our overall business and consolidated financial statements, and the effect could be material. Moreover, as California is one of the most highly regulated and litigious states in the country, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than for other homebuilders with a less significant California presence.

Operational Risks

We may have difficulty in obtaining additional financing and/or may be restricted in accessing external capital, and to the extent we can access external financing, it may increase our capital costs or result in stockholder dilution. Under certain circumstances, our obligations to repay our indebtedness may be accelerated and we may be unable to do so.

Our homebuilding operations and our present strategies require significant amounts of cash and/or the availability of external financing. We have historically supported our operations with internally generated cash flows, public equity and debt issuances, land option contracts and other similar contracts and land seller financing. In addition, we have entered into the Credit Facility and the LOC Facility and obtained performance bonds for certain ordinary course aspects of our operations. While we believe we can meet our forecasted capital and operating requirements from our cash resources, expected future cash flows from our operations and anticipated available external financing sources, we can provide no assurance that we will be able to do so at all or without incurring substantially higher costs. Capital market conditions in 2018 and beyond may significantly limit our ability to obtain additional external financing and/or maintain or, if necessary or appropriate, expand the Credit Facility's or the LOC Facility's capacity, or enter into additional or similar such facilities, or obtain performance bonds, in each case on acceptable terms or at all. Volatility in the securities markets could impede our access to such markets or increase the dilution our stockholders would experience if we believe it is necessary or appropriate to issue additional equity securities. As of the date of this report, our credit rating by Fitch Ratings is B+, with a positive outlook; Moody's Investor Services is B1, with a stable outlook; and Standard and Poor's Financial Services is BB-, with a stable outlook. Downgrades of our credit rating by any of these firms may also make it more difficult and costly for us to access external financing sources. The adverse effects of these conditions or events could be material to our business and our consolidated financial statements.

If we fail to comply with the covenants and other requirements imposed by the Credit Facility and the other instruments governing our indebtedness, the participating financial institutions and/or investors could terminate the Credit Facility, cause borrowings under the Credit Facility, if any, or the outstanding principal and unpaid interest under our senior notes, if applicable, to become immediately due and payable and/or could demand that we compensate them for waiving instances of noncompliance. In addition, a default under the Credit Facility or under any series of our senior notes could in certain cases accelerate the maturity of all of our senior notes and restrict borrowings under the Credit Facility, as well as result in penalties and additional fees.

If any such covenant noncompliance or default occurs, it would likely have a material adverse impact on our liquidity, on our ability to operate our business in the ordinary course and on our consolidated financial statements. In addition, we may need to curtail our investment activities and other uses of cash to maintain compliance with the covenants and other requirements under the Credit Facility and the other instruments governing our indebtedness, which could impair our ability to achieve our strategic growth goals.

As described in Note 13 – Notes Payable in the Notes to Consolidated Financial Statements in this report, if a change of control or if a fundamental change were to occur prior to the stated maturity date of our senior notes, we may be required to offer to purchase certain of our senior notes, plus accrued interest and unpaid interest, if any. In such circumstances, if we are unable to generate sufficient cash flows from our operations, we may 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 could significantly dilute existing stockholders' interests, and the impact of such circumstances on our liquidity and consolidated financial statements would be material and adverse.

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

The amount of our debt overall and relative to our total stockholders' equity and 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 obligations or other business needs; limit our ability to maintain compliance with the Credit Facility's financial covenants, or to renew or expand the capacity of the Credit Facility; require us to dedicate a substantial portion of our cash flows from our operations to the payment of our debt service obligations and reduce our ability to use our cash flows for other purposes; impact our flexibility in planning for, or reacting to, changes in our business; limit our ability to successfully implement our current strategies, initiatives or actions, in part due to competition from others with greater available liquidity; place us at a competitive disadvantage because we have more debt than some of our competitors; and make us more vulnerable in the event of a downturn in our business or in general economic or housing market conditions.

Our ability to meet our debt service and other obligations necessary to operate our business in the ordinary course will depend on our future performance. As of the date of this report, our next scheduled maturity of senior notes is on June 15, 2018 with respect to $300.0 million in aggregate principal amount of our 7 1/4% senior notes due 2018 ("7 1/4% Senior Notes due 2018").

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

Depending on the stage of development a land parcel is in when acquired, we may incur expenditures for developing land into a community, such as entitling and finishing lots and installing roads, sewers, water systems and other utilities; taxes and other levies related to ownership of the land; constructing model homes; and promotional marketing and overhead expenses to prepare the community to open for home sales. If the rate at which we sell and deliver homes slows or falls, or if our opening of communities for home sales is delayed due to adjustments in our investment strategy, protracted governmental approval processes or utility service activations, or other reasons, we may incur additional costs, which would adversely affect our housing gross profit margins, and it will take a longer period of time for us to recover our costs.

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

The value of the land and housing 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 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, particularly undeveloped and/or unentitled land. If, in 2018, the present economic or housing environment weakens, if particular markets or submarkets experience challenging or unfavorable changes in prevailing business conditions, including an increase in inflation, if we are unable to sell our land held for sale at its current estimated fair value, or if we elect to revise our strategy relating to certain land positions, we may need to record charges against our earnings for inventory impairments or land option contract abandonments, or both. We may also decide to sell certain land at a loss and record a corresponding charge. In addition, we may record charges against our earnings in connection with activating or selling certain land held for future development in connection with our current strategic initiatives. Any such charges could have a material adverse effect on our consolidated financial statements.

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 other construction defect claims. We rely upon independent subcontractors to perform actual construction of our homes and in some cases, to select and obtain building materials. We maintain, and require the majority of our independent subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers' compensation insurance. We self-insure a portion of our overall risk through the use of a captive insurance subsidiary. We also maintain certain other insurance policies. However, the coverage offered by and the availability of general liability insurance for construction defects are currently limited and costly, and, in our case, have relatively high self-insured retentions that limit coverage significantly.

Because of the uncertainties inherent to these matters, including our ability to obtain recoveries for home warranty or other construction defect claims from responsible independent contractors and/or their or our insurers, our recorded warranty and other liabilities may not be adequate to address all of our expenditures associated with such claims in the future, and any such inadequacies could negatively affect our consolidated financial statements, including from potentially recording charges to adjust our warranty liability. Home warranty and other construction defect issues may also generate negative publicity in various media outlets, including social media, websites, Internet blogs and newsletters, that could be detrimental to our reputation and adversely affect our efforts to sell homes.

We can provide no assurance that in 2018 we will not face additional home warranty and other construction defect claims and/or incur additional related repair and other costs, or experience negative publicity/reputational harm or be successful in obtaining any recoveries of related repair and other costs, and that any of these items — if they occur, or with respect to recoveries of related repair and other costs, fail to occur — could, individually or collectively, have a material and adverse impact on our business and consolidated financial statements.

We may not realize our significant 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.

At November 30, 2017, we had deferred tax assets of $633.6 million, net of a $23.6 million valuation allowance. Our ability to realize our deferred tax assets is based on the extent to which we generate future taxable income and on prevailing corporate income tax rates, and we cannot provide any assurance as to when and to what extent we will generate sufficient future taxable income to realize our deferred tax assets, whether in whole or in any part. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law. While we are assessing the TCJA, and believe that its impact on our business may not be fully known for some time, its reduction of the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, will result in our recording a one-time, non-cash charge of approximately $115 million to our provision for income taxes in the 2018 first quarter. The charge is solely due to the accounting re-measurement of our deferred tax assets based on the lower income tax rate. While we believe the TCJA will not impact the ability of our deferred tax assets, as re-measured, to reduce the amount of cash federal income taxes payable in 2018 and beyond, any future lowering of corporate income tax rates, and/or adjustment in the treatment of deferred tax assets, could impact the realization as well as the value of our deferred tax assets in our consolidated balance sheets, and these impacts could be material and adverse. Further, we have filed our tax returns based on certain filing positions we believe are appropriate. Should the applicable taxing authorities disagree with these positions, we may owe additional taxes.

The benefits of our deferred tax assets, including our net operating losses ("NOLs"), built-in losses and tax credits, would be reduced or potentially eliminated if we experienced an "ownership change" under Internal Revenue Code Section 382 ("Section 382"). 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 on the amount of NOLs we could use to reduce our taxable income could result in a material amount of our NOLs expiring unused. This would significantly impair the value of our net deferred tax assets and, as a result, have a material negative impact on our consolidated financial statements.

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 important resources, and we see attracting and retaining a dedicated and talented team as crucial to our success. If we are unable to continue to retain and attract qualified employees, or, alternatively, if we are required or believe it is appropriate to reduce our overhead expenses through significant personnel reductions or adjustments to compensation and benefits, our performance, our ability to achieve our strategic growth goals, our business and our consolidated financial statements could be materially and adversely affected.

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

We use information technology and other computer resources to carry out important operational 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, and we provide regular employee awareness training of cybersecurity threats, our ability to conduct our business may be impaired if these resources, including our websites or e-mail system, 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 or poor product or vendor/developer selection (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 could damage our reputation and cause us to lose customers, orders, deliveries of homes and revenues; result in the unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information; and require us to incur significant expenses 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, business partners and/or regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against our earnings and cause us reputational harm, could have a material and adverse effect on our business and consolidated financial statements. Depending on its nature, a data security breach may result in the unauthorized use or loss of our assets or financial resources, and such unauthorized use(s) or loss(es), which could be significant, may not be detected for some period of time. In addition, the costs of maintaining adequate protection against data security threats, based on considerations of 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.

Legal and Regulatory Risks

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

Prior to the TCJA’s enactment, significant expenses of owning a home, including mortgage loan interest costs and real estate taxes, generally were 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. The TCJA establishes new limits on the federal tax deductions individual taxpayers may take on mortgage loan interest payments and on state and local taxes, including real estate taxes. The TCJA also raises the standard deduction. These changes could reduce the perceived affordability of homeownership, and therefore the demand for homes, and/or have a moderating impact on home sales prices, in areas with relatively high housing prices and/or high state and local income taxes and real estate taxes, including in certain of our served markets in California. As a result, some communities in our California operations could experience lower net orders and/or a tempering of average sales prices in future periods depending on how homebuyers react to the tax law changes under the TCJA. In addition, if the federal government further changes, or a state government changes, its income tax laws by eliminating or substantially reducing the income tax benefits associated with homeownership, the after-tax cost of owning a home could measurably increase. Any increases in personal income tax rates and/or tax deduction limits or restrictions enacted at the federal or state levels, including those enacted under the TCJA, 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 adverse and material.

We are subject to substantial legal and regulatory requirements regarding the development of land, the homebuilding process and the protection of the environment, which can cause us to suffer production delays and incur costs associated with compliance, and/or prohibit or restrict homebuilding activity in some regions or areas. Our business is also subject to a number of local, state and federal laws, statutes, ordinances, rules, policies and other legal and regulatory requirements. The impact of such requirements or our failure to comply with such requirements, individually or collectively, could be adverse and material to our consolidated financial statements.
Our homebuilding business is heavily regulated and subject to a significant amount of local, state and federal regulation including, among other things, zoning, building designs, worksite health and safety and home construction methods, as well as governmental taxes, fees and levies on the acquisition and development of land. These regulations often provide broad discretion to government authorities that oversee these matters, which can result in unanticipated delays, restrictions, penalties for non-compliance and/or increases in the cost of a development project in particular markets. We can provide no assurance that these regulations will not be interpreted or revised in ways that will require us to change our present strategies or operations, incur significant compliance costs or record charges against our earnings, have a negative impact on our reputation or our relationships with relevant agencies or government authorities, and/or restrict the manner in which we conduct our activities. Any such actions or events, and associated costs and charges, could adversely and materially affect our consolidated financial statements. Also, there have been significant cuts to government departments, subsidies, programs and public employee staffing levels, limiting economic growth and/or resulting in significant delays and/or higher costs in obtaining required inspections, permits or approvals with respect to the development of our communities. These actions or events could adversely affect our ability to generate orders and revenues and/or to maintain or increase our housing gross profit margins, and the impact could be material and adverse to our consolidated financial statements.
Independent subcontractors perform all land development and home construction work at our communities. Although we do not have the ability to control what these independent subcontractors pay their own employees, or their own subcontractors, or the work rules they impose on such personnel, federal and state governmental agencies, including the U.S. National Labor Relations Board, have sought, and may in the future seek, to hold contracting parties like us responsible for subcontractors' violations of wage and hour laws, or workers' compensation, collective bargaining and/or other employment-related obligations related to subcontractors' workforces. Governmental agency determinations or attempts by others to make us responsible for subcontractors' labor practices or obligations, whether under "joint employer" theories, specific state laws or regulations, such as under the California Labor Code, or otherwise, could create substantial adverse exposure for us in situations that are not within our control and could be material to our consolidated financial statements.
In addition, we are subject to a variety of local, state and federal laws, statutes, ordinances, rules and regulations concerning the environment. These requirements and/or evolving interpretations thereof, may cause production delays, may cause us to incur substantial costs, and can prohibit or restrict homebuilding activity in certain areas; any of which could also reduce the value of the affected inventory and require us to record significant impairment charges. 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 actual or potential presence of those substances on or nearby 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.
We are also involved in legal, arbitral or regulatory proceedings or investigations incidental to our business, the outcome or settlement of which could result in claims, losses, monetary damage awards, penalties, or other direct or indirect payments recorded against our earnings, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices. Any such adverse results could be beyond our expectations and/or accruals at particular points in time and material to our business and consolidated financial statements. Unfavorable litigation, arbitral or administrative outcomes, as well as unfavorable investor, analyst or news reports related to our industry, company, personnel or operations, may also generate negative publicity in various media outlets, including social media, websites, Internet blogs and newsletters, that could be detrimental to our reputation or stock price, and adversely affect our efforts to sell homes.

The mortgage banking operations of KBHS are heavily regulated and subject to rules and regulations promulgated by a number of governmental and quasi-governmental agencies. If there is a finding that Stearns, which provides management oversight of KBHS's operations, or KBHS materially violated any applicable rules or regulations, or mortgage investors seek to have KBHS buy back mortgage loans or compensate them for losses incurred on mortgage loans KBHS has sold based on claims that it breached its limited representations or warranties, KBHS could face significant liabilities, which could exceed its reserves and cause us to recognize additional losses with respect to our equity interest in KBHS.

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 design 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.

Item 3. LEGAL PROCEEDINGS

Our legal proceedings are discussed in Note 16 – Legal Matters in the Notes to Consolidated Financial Statements in this report.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table presents certain information regarding our executive officers as of December 31, 2017:

Name	Age	Present Position	Year Assumed Present Position	Years at KB Home	Other Positions and Other Business Experience within the Last Five Years	From – To
Jeffrey T. Mezger	62	Chairman, President and Chief Executive Officer (a)	2016	24	President and Chief Executive Officer (a)	2006-2016
Jeff J. Kaminski	56	Executive Vice President and Chief Financial Officer	2010	7		
Albert Z. Praw	69	Executive Vice President, Real Estate and Business Development	2011	21		
Brian J. Woram	57	Executive Vice President and General Counsel	2010	7		
William R. Hollinger	59	Senior Vice President and Chief Accounting Officer	2007	30		
Thomas F. Norton	47	Senior Vice President, Human Resources	2009	9		

(a) Mr. Mezger has served as a director since 2006. He was elected Chairman of our board of directors in August 2016.

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, 2017, there were 578 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, 2017				Year Ended November 30, 2016			
	High	Low	Dividends Declared	Dividends Paid	High	Low	Dividends Declared	Dividends Paid
First Quarter	$17.86	$15.03	$ .025	$ .025	$14.50	$9.04	$ .025	$ .025
Second Quarter	21.75	17.60	.025	.025	14.92	12.20	.025	.025
Third Quarter	24.37	20.86	.025	.025	16.76	13.66	.025	.025
Fourth Quarter	31.41	20.68	.025	.025	16.57	14.06	.025	.025

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 from our operations, capital requirements, access to external financing, debt structure and adjustments thereto, covenants and other requirements under the Credit Facility or other of our debt obligations, operational and financial investment strategy and general financial condition, as well as general business conditions.

Information regarding the shares of our common stock that may be issued under our equity compensation plans is provided below in the "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" section in this report.

The following table summarizes our purchases of our own equity securities during the three months ended November 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
September 1-30	—	$ —	—	1,627,000
October 1-31	—	—	—	1,627,000
November 1-30	124,199	26.62	—	1,627,000
Total	124,199	$ 26.62	—	

As we publicly reported, on January 12, 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. As of November 30, 2017, we had repurchased 8,373,000 shares of our common stock pursuant to this authorization, at a total cost of $85.9 million.

The shares purchased during the three months ended November 30, 2017, as reflected in the above table, were previously issued shares delivered to us by employees to satisfy withholding taxes on the vesting of restricted stock awards. These transactions are not considered repurchases under the board of directors' authorization.

Stock Performance Graph

The following graph compares the five-year cumulative total return of KB Home common stock, the S&P 500 Index and the Dow Jones US Home Construction Index for the periods ended November 30:

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

	2012	2013	2014	2015	2016	2017
KB Home	$100	$123	$124	$100	$113	$225
S&P 500 Index	100	130	152	156	169	208
Dow Jones US Home Construction Index	100	104	125	142	126	225

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. The closing price of KB Home common stock on the New York Stock Exchange was $31.36 per share on November 30, 2017 and $15.84 per share on November 30, 2016. The performance of our common stock as presented above reflects past performance only and is not indicative of future performance. Total return assumes $100 invested at market close on November 30, 2012 in KB Home common stock, the S&P 500 Index and the Dow Jones US Home Construction Index, including reinvestment of dividends.

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 Item 8 – Financial Statements and Supplementary Data in this report.

KB HOME

SELECTED FINANCIAL DATA

(Dollars In Thousands, Except Per Share Amounts and Average Selling Price)

	Years Ended November 30,				
	2017	2016	2015	2014	2013
Statement of Operations Data:					
Revenues:					
Homebuilding	$4,356,265	$3,582,943	$3,020,987	$2,389,643	$2,084,978
Financial services	12,264	11,703	11,043	11,306	12,152
Total	$4,368,529	$3,594,646	$3,032,030	$2,400,949	$2,097,130
Operating income:					
Homebuilding	$283,403	$152,401	$138,621	$115,969	$92,084
Financial services	8,834	7,886	7,332	7,860	9,110
Total	$292,237	$160,287	$145,953	$123,829	$101,194
Pretax income	$289,995	$149,315	$127,043	$94,949	$38,363
Net income (a)	180,595	105,615	84,643	918,349	39,963
Earnings per share:					
Basic	$2.09	$1.23	$.92	$10.26	$.48
Diluted	1.85	1.12	.85	9.25	.46
Cash dividends declared per share	.10	.10	.10	.10	.10
Balance Sheet Data:					
Assets:					
Homebuilding	$5,029,158	$5,121,125	$5,072,877	$4,846,083	$3,309,558
Financial services	12,357	10,499	14,028	10,486	10,040
Total	$5,041,515	$5,131,624	$5,086,905	$4,856,569	$3,319,598
Notes payable	$2,324,845	$2,640,149	$2,601,754	$2,550,622	$2,125,254
Stockholders' equity	1,926,311	1,723,145	1,690,834	1,595,910	536,086
Stockholders' equity per share	22.13	20.25	18.32	17.36	6.40
Homebuilding Data:					
Homes delivered	10,909	9,829	8,196	7,215	7,145
Average selling price	$397,400	$363,800	$354,800	$328,400	$291,700
Net orders	10,900	10,283	9,253	7,567	7,125
Unit backlog	4,411	4,420	3,966	2,909	2,557
Average community count	233	238	244	200	182

(a) Net income for the year ended November 30, 2014 included the favorable impact of an $825.2 million deferred tax asset valuation allowance reversal.

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 (dollars in thousands, except per share amounts):

	Years Ended November 30,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues:					
Homebuilding	$4,356,265	$3,582,943	$3,020,987	22 %	19 %
Financial services	12,264	11,703	11,043	5	6
Total	$4,368,529	$3,594,646	$3,032,030	22 %	19 %
Pretax income:					
Homebuilding	$276,927	$144,849	$115,419	91 %	25 %
Financial services	13,068	4,466	11,624	193	(62)
Total	289,995	149,315	127,043	94	18
Income tax expense	(109,400)	(43,700)	(42,400)	(150)	(3)
Net income	$180,595	$105,615	$84,643	71 %	25 %
Earnings per share:					
Basic	$2.09	$1.23	$.92	70 %	34 %
Diluted	$1.85	$1.12	$.85	65 %	32 %

Conditions in most of our served markets were favorable in 2017, supported by firm housing demand driven by healthy employment, rising household incomes and strong consumer confidence, and continued limited supply. This operating environment and our continued execution on our Returns-Focused Growth Plan, which is described in the "Business" section of this report, enabled us to generate higher year-over-year deliveries, revenues, net income and diluted earnings per share, and achieve a record-low selling, general and administrative expense ratio for the year. Within our homebuilding operations, housing revenues grew 21% year over year to $4.34 billion, as the number of homes we delivered increased 11% to 10,909 and the overall average selling price of those homes rose 9% to $397,400. Our housing gross profits for 2017 grew 22% from 2016 due to the higher volume of homes delivered and a 10 basis point increase in our housing gross profit margin to 16.3%. Our selling, general and administrative expense ratio for 2017 improved 110 basis points year over year to 9.8%, reflecting enhanced operating leverage from delivering more homes and generating corresponding higher housing revenues, and our ongoing efforts to contain our overhead costs to the extent possible. Homebuilding operating income for 2017 increased 86% to $283.4 million, including total inventory-related charges of $25.2 million in 2017, compared to $52.8 million in the year-earlier period. As a percentage of homebuilding revenues, homebuilding operating income for 2017 increased 220 basis points from the previous year to 6.5%. For the year ended November 30, 2017, we generated net income of $180.6 million, up 71% from 2016, and diluted earnings per share of $1.85, up 65% year over year.

During 2017, we delivered steady improvement in our financial and operational performance, including enhancing our profitability, strengthening our balance sheet, improving our cash flow, generating better returns, and reducing our leverage ratio. Our return on equity for the year increased 370 basis points to 10.0%, within the 2019 target range of 10% to 15% under our Returns-Focused Growth Plan. With the substantial cash flow we generated, we reduced our debt balance by more than $300 million and, by the end of 2017, improved our debt to capital ratio to 54.7% and our net debt to capital ratio to within our 2019 target range of 40% to 50%.

In 2017, we invested $1.52 billion in land and land development to support home delivery and revenue growth in 2018 and beyond, as we continue to work on increasing the scale of our business within our existing geographic footprint as part of our core business strategy. In 2016, such investments totaled $1.36 billion. Approximately 48% of our total investment in 2017 related to land acquisitions, compared to approximately 46% in the year-earlier period.

The following table presents information concerning our net orders, cancellation rate, ending backlog, and community count for the years ended November 30, 2017 and 2016 (dollars in thousands):

	Years Ended November 30,	
	2017	2016
Net orders	10,900	10,283
Net order value (a)	$4,476,247	$3,813,155
Cancellation rate (b)	24 %	25 %
Ending backlog — homes	4,411	4,420
Ending backlog — value	$1,660,131	$1,519,089
Ending community count	224	235
Average community count	233	238

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

(b) The cancellation rate represents the total number of contracts for new homes canceled during a period divided by the total (gross) orders for new homes generated during the same period.

Net Orders. In 2017, net orders from our homebuilding operations increased 6% from 2016. The combination of higher net orders and a higher overall average selling price resulted in the value of our 2017 net orders increasing 17% from 2016. We had particularly strong growth in our West Coast and Southwest homebuilding reporting segments. In our West Coast homebuilding reporting segment, net order value increased 29% from the previous year, reflecting 12% growth in net orders and a 15% increase in the average selling price of those orders. In our Southwest homebuilding reporting segment, net order value rose 25% year over year, with 21% growth in net orders and a 3% rise in the average selling price of those orders. Our cancellation rate for 2017 also showed improvement compared to the previous year.

Backlog. The number of homes in our backlog at November 30, 2017 was essentially flat with the previous year. The potential future housing revenues in our backlog at November 30, 2017 grew 9% from the prior year, primarily due to a 10% increase in the average selling price of the homes in our backlog. The growth in our backlog value reflected year-over-year increases of 15% in our West Coast homebuilding reporting segment and 44% in our Southwest homebuilding reporting segment. Substantially all of the homes in our backlog at November 30, 2017 are expected to be delivered during the year ending November 30, 2018.

Community Count. Our average community count for 2017 decreased 2% on a year-over-year basis, as a 23% decline in our Southeast homebuilding reporting segment stemming from fewer community openings over the past year and the wind down of our Metro Washington, D.C. operations in 2016 was largely offset by increases in our West Coast, Southwest and Central homebuilding reporting segments. Our ending community count for 2017 decreased 5% from 2016.

HOMEBUILDING

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,		
	2017	2016	2015
Revenues:			
Housing	$4,335,205	$3,575,548	$2,908,236
Land	21,060	7,395	112,751
Total	4,356,265	3,582,943	3,020,987
Costs and expenses:			
Construction and land costs			
Housing	(3,627,732)	(2,997,073)	(2,433,683)
Land	(18,736)	(44,028)	(105,685)
Total	(3,646,468)	(3,041,101)	(2,539,368)
Selling, general and administrative expenses	(426,394)	(389,441)	(342,998)
Total	(4,072,862)	(3,430,542)	(2,882,366)
Operating income	$283,403	$152,401	$138,621
Homes delivered	10,909	9,829	8,196
Average selling price	$397,400	$363,800	$354,800
Housing gross profit margin as a percentage of housing revenues	16.3 %	16.2 %	16.3 %
Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues	16.9 %	16.6 %	16.6 %
Adjusted housing gross profit margin as a percentage of housing revenues	21.8 %	21.1 %	21.0 %
Selling, general and administrative expense ratio	9.8 %	10.9 %	11.8 %
Operating income as a percentage of homebuilding revenues	6.5 %	4.3 %	4.6 %

The following tables present homes delivered, net orders, cancellation rates as a percentage of gross orders, net order value, average community count, and ending backlog (number of homes and value) by homebuilding reporting segment (dollars in thousands):

	Years Ended November 30,					
	Homes Delivered		Net Orders		Cancellation Rates	
Segment	2017	2016	2017	2016	2017	2016
West Coast	3,387	2,825	3,356	3,000	17 %	18 %
Southwest	1,837	1,559	2,121	1,758	22	20
Central	4,136	3,744	3,939	3,881	31	30
Southeast	1,549	1,701	1,484	1,644	24	29
Total	10,909	9,829	10,900	10,283	24 %	25 %

	Years Ended November 30,					
	Net Order Value			Average Community Count		
Segment	2017	2016	Variance	2017	2016	Variance
West Coast	$2,263,443	$1,756,945	29 %	61	59	3 %
Southwest	632,747	507,870	25	39	37	5
Central	1,160,378	1,075,586	8	93	90	3
Southeast	419,679	472,754	(11)	40	52	(23)
Total	$4,476,247	$3,813,155	17 %	233	238	(2)%

	November 30,					
	Backlog – Homes			Backlog – Value		
Segment	2017	2016	Variance	2017	2016	Variance
West Coast	882	913	(3)%	$606,109	$526,840	15 %
Southwest	1,088	804	35	327,517	227,822	44
Central	1,782	1,979	(10)	541,684	559,172	(3)
Southeast	659	724	(9)	184,821	205,255	(10)
Total	4,411	4,420	— %	$1,660,131	$1,519,089	9 %

Revenues. Homebuilding revenues totaled $4.36 billion in 2017, up 22% from 2016, which had increased 19% from 2015. The year-over-year growth in our homebuilding revenues in 2017 was driven by increases in both housing and land sale revenues. In 2016, the year-over-year increase in homebuilding revenues reflected an increase in our housing revenues that was partly offset by a decrease in revenues from land sales.

Housing revenues in 2017 rose 21% from the previous year, reflecting an 11% increase in the number of homes delivered and a 9% increase in the overall average selling price of those homes. In 2016, housing revenues grew 23% from 2015 due to a 20% increase in the number of homes delivered and a 3% increase in the overall average selling price. We delivered a total of 10,909 homes in 2017, up from 9,829 in 2016. This year-over-year increase primarily reflected the 11% higher backlog of homes we had at the beginning of 2017 as compared to the previous year and a 6% increase in our net orders during the current year. In 2016, the number of homes delivered rose from 8,196 in 2015 mainly as a result of the 36% higher backlog of homes we had at the beginning of 2016 and an 11% increase in our net orders during that year.

The overall average selling price of our homes delivered rose to $397,400 in 2017 from $363,800 in 2016, which had increased from $354,800 in 2015. The year-over-year increases in our overall average selling price in 2017 and 2016 reflected our strategic focus on positioning our new home communities in attractive, land-constrained locations that feature higher-income homebuyers; higher median home selling prices; our actions to balance sales pace and selling prices within our communities to optimize revenues and profits; and generally favorable market conditions. In 2017, the increase was also due to a shift in product and geographic mix.

Land sale revenues totaled $21.1 million in 2017, $7.4 million in 2016 and $112.8 million in 2015. In 2017, the year-over-year increase in land sale revenues was partly due to our focus on improving our asset efficiency as part of our Returns-Focused Growth Plan. The higher land sale revenues in 2015 as compared to 2017 and 2016 reflected our execution on opportunistic transactions in each of our four homebuilding reporting segments. Generally, land sale revenues fluctuate with our decisions to maintain or decrease our land ownership position in certain markets based upon the volume of our holdings, our business strategy, the strength and number of developers and other land buyers in particular markets at given points in time, the availability of opportunities to sell land at acceptable prices and prevailing market conditions.

Operating Income. Our homebuilding operating income increased 86% to $283.4 million in 2017 compared to $152.4 million in 2016, which had increased 10% from $138.6 million in 2015. As a percentage of homebuilding revenues, homebuilding operating income was 6.5% in 2017, 4.3% in 2016 and 4.6% in 2015. The year-over-year growth in homebuilding operating income for 2017 reflected an increase in housing gross profits and improved land sale results that were partly offset by an increase in selling, general and administrative expenses. Our 2017 homebuilding operating income included total inventory-related charges of $25.2 million in 2017, compared to $52.8 million in the year-earlier period. Excluding inventory-related charges, our homebuilding operating income as a percentage of homebuilding revenues was 7.1% in 2017 and 5.7% in 2016. In 2016, the year-over-year increase in our homebuilding operating income was due to higher housing gross profits that were partly offset by higher selling, general and administrative expenses, and land sale losses.

In 2017, housing gross profits rose by $129.0 million, or 22%, to $707.5 million, from $578.5 million in 2016 due to the higher volume of homes delivered and an increase in the housing gross profit margin. Housing gross profits for 2017 included $25.2 million of inventory impairment and land option contract abandonment charges. In 2016, our housing gross profits increased by $103.9 million, or 22%, from $474.6 million in the previous year due to the higher volume of homes delivered, partly offset by a slight decrease in the housing gross profit margin. Housing gross profits for 2016 included $16.2 million of inventory impairment and land option contract abandonment charges, compared to $9.6 million of such charges for 2015.

Our housing gross profit margin for 2017 improved to 16.3%, up 10 basis points from the previous year, primarily due to lower construction and land costs (approximately 40 basis points), improved operating leverage on fixed costs as a result of our higher volume of homes delivered and corresponding higher housing revenues (approximately 20 basis points) and a decrease in sales incentives (approximately 10 basis points), partly offset by increases in both the amortization of previously capitalized interest (approximately 40 basis points) and inventory-related charges (approximately 20 basis points). In 2016, the housing gross profit margin decreased by 10 basis points as compared to 16.3% in 2015, primarily due to higher construction and land costs (approximately 20 basis points) as well as increases in both inventory-related charges (approximately 10 basis points) and the amortization of previously capitalized interest (approximately 10 basis points), partly offset by improved operating leverage on fixed costs as a result of our higher volume of homes delivered and corresponding higher housing revenues (approximately 30 basis points). Sales incentives did not have a significant impact on our year-over-year housing gross profit margin comparisons in 2016.

Excluding the amortization of previously capitalized interest associated with housing operations of $210.5 million, $160.6 million and $126.8 million in 2017, 2016 and 2015, respectively, and the above-mentioned inventory-related charges in the applicable periods, our adjusted housing gross profit margin increased 70 basis points to 21.8% in 2017 from 21.1% in 2016, which had increased 10 basis points from 21.0% in 2015. The calculation of adjusted housing gross profit margin, which we believe provides a clearer measure of the performance of our business, is described below under “Non-GAAP Financial Measures.”

Land sales generated profits of $2.3 million in 2017, losses of $36.6 million in 2016 and profits of $7.1 million in 2015. The land sale loss in 2016 included inventory impairment charges of $36.7 million, most of which were associated with our decision to monetize certain non-strategic land parcels through land sales as part of our Returns-Focused Growth Plan. These land parcels, which were classified as land held for sale at November 30, 2016, included land in excess of our near-term requirements; land where we believed the necessary incremental investment in development was not justified; land located in areas outside of our served markets; and/or land entitled for certain product types that were not aligned with our primary product offerings. In 2016, we also recorded inventory impairment charges associated with the wind down of our operations in the Metro Washington, D.C. market and the sales of our last remaining land parcels in the Rio Grande Valley area of Texas.

As discussed in Note 7 – Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report, we recognized total inventory impairment charges (including those associated with the above-mentioned 2016 land sales) of $20.6 million in 2017, $49.6 million in 2016 and $8.0 million in 2015, and land option contract abandonment charges of $4.6 million in 2017, $3.2 million in 2016 and $1.6 million in 2015.

Selling, general and administrative expenses totaled $426.4 million in 2017, up from $389.4 million in 2016, which had increased from $343.0 million in 2015. The year-over-year increases in selling, general and administrative expenses in 2017 and 2016 mainly reflected higher variable expenses associated with the increases in the volume of homes delivered and corresponding housing revenues. As a percentage of housing revenues, selling, general and administrative expenses were 9.8% in 2017, 10.9% in 2016 and 11.8% in 2015. The percentages decreased on a year-over-year basis in both 2017 and 2016 largely due to improved operating leverage on fixed costs from the increased volume of homes delivered and corresponding higher housing revenues in each of those years and our ongoing efforts to contain our overhead costs to the extent possible.

Interest Income. Interest income, which is generated from short-term investments, totaled $1.2 million in 2017 and $.5 million in each of 2016 and 2015. Generally, increases and decreases in interest income are attributable to changes in the interest-bearing average balances of short-term investments and fluctuations in interest rates.

Interest Expense. Interest expense results principally from our borrowings to finance land acquisitions, land development, home construction and other operating and capital needs. Our interest expense, net of amounts capitalized, increased to $6.3 million in 2017 compared to $5.9 million in 2016, which had decreased from $21.9 million in 2015. Our interest expense in 2017 included a charge of $5.7 million for the early extinguishment of debt associated with our optional redemption of $100.0 million in aggregate principal amount of our 9.10% senior notes due 2017 ("9.10% Senior Notes due 2017"). The redemption, which was completed on January 13, 2017 using internally generated cash, was a step toward reducing our debt as part of our Returns-Focused Growth Plan. Excluding the charge for the early extinguishment of debt, our interest expense in 2017 decreased from 2016 due to a slight decline in interest incurred and an increase in the percentage of interest capitalized. In 2016, the year-over-year decrease in interest expense reflected a slight decrease in interest incurred and an increase in the amount of interest capitalized due to a higher amount of inventory qualifying for interest capitalization in that year.

For the years ended November 30, 2017, 2016 and 2015, the average amount of our inventory qualifying for interest capitalization was lower than our average debt level; therefore, a portion of the interest we incurred was reflected as interest expense. In both 2017 and 2016, the amount of inventory qualifying for interest capitalization in relation to our debt level increased as compared to the corresponding previous year, primarily as a result of our substantial investment in land and land development as well as the activation of land previously held for future development in each of those years. Additionally, our debt level decreased substantially in 2017.

Interest incurred declined 4% to $177.2 million in 2017, which had decreased 1% to $185.5 million in 2016 from $186.9 million in 2015. Interest incurred in 2017 decreased from the previous year due to our lower average debt level, partly offset by the above-mentioned charge for the early extinguishment of debt. The lower average debt level in 2017 primarily reflected the above-mentioned optional redemption of $100.0 million in aggregate principal amount of the 9.10% Senior Notes due 2017, and our repayment of the remaining $165.0 million in aggregate principal amount of the notes at their maturity on September 15, 2017 using internally generated funds. The amount of interest incurred generally fluctuates based on the average amount of debt outstanding for the period and/or the interest rate on that debt. We capitalized $170.9 million, $179.6 million and $165.0 million of the interest incurred in 2017, 2016 and 2015, respectively. Excluding the charge for the early extinguishment of debt, nearly all of our interest was capitalized in 2017, compared to 97% in 2016 and 88% in 2015. The percentage of interest capitalized generally fluctuates based on the amount of our inventory qualifying for interest capitalization and the amount of debt outstanding.

Interest amortized to construction and land costs associated with housing operations totaled $210.5 million in 2017, $160.6 million in 2016 and $126.8 million in 2015. The increases in interest amortized in 2017 and 2016 reflected year-over-year increases in both the number of homes delivered and the overall construction and land costs attributable to those homes. As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations was 4.9% for 2017, 4.5% for 2016 and 4.4% for 2015. In 2017, the year-over-year increase in the amortization of previously capitalized interest as a percentage of housing revenues was mainly due to longer-term development and/or extended construction time frames for certain communities in our West Coast homebuilding reporting segment. Additionally, interest amortized to construction and land costs in 2017, 2016 and 2015 included $4.9 million, $.7 million and $16.4 million, respectively, of amortization of previously capitalized interest related to land sales that occurred during those years.

Equity in Loss of Unconsolidated Joint Ventures. Our equity in loss of unconsolidated joint ventures totaled $1.4 million in 2017, $2.2 million in 2016 and $1.8 million in 2015. Further information regarding our investments in unconsolidated joint ventures is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

Non-GAAP Financial Measures

This report contains information about our adjusted housing gross profit margin and ratio of net debt to capital, neither of which are 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 adjusted housing gross profit margin and the ratio of net debt to 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.

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

	Years Ended November 30,		
	2017	2016	2015
Housing revenues	$4,335,205	$3,575,548	$2,908,236
Housing construction and land costs	(3,627,732)	(2,997,073)	(2,433,683)
Housing gross profits	707,473	578,475	474,553
Add: Inventory-related charges (a)	25,232	16,152	9,591
Housing gross profits excluding inventory-related charges	732,705	594,627	484,144
Add: Amortization of previously capitalized interest (b)	210,538	160,633	126,817
Adjusted housing gross profits	$943,243	$755,260	$610,961
Housing gross profit margin as a percentage of housing revenues	16.3 %	16.2 %	16.3 %
Housing gross profit margin excluding inventory-related charges as a percentage of housing revenues	16.9 %	16.6 %	16.6 %
Adjusted housing gross profit margin as a percentage of housing revenues	21.8 %	21.1 %	21.0 %

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

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

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

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

	November 30,	
	2017	2016
Notes payable	$2,324,845	$2,640,149
Stockholders’ equity	1,926,311	1,723,145
Total capital	$4,251,156	$4,363,294
Ratio of debt to capital	54.7 %	60.5 %

	November 30,	
	2017	2016
Notes payable	$2,324,845	$2,640,149
Less: Cash and cash equivalents	(720,630)	(592,086)
Net debt	1,604,215	2,048,063
Stockholders' equity	1,926,311	1,723,145
Total capital	$3,530,526	$3,771,208
Ratio of net debt to capital	45.4 %	54.3 %

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

HOMEBUILDING REPORTING SEGMENTS

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

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

	Years Ended November 30,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues	$2,186,411	$1,638,078	$1,402,264	33 %	17 %
Construction and land costs	(1,835,504)	(1,386,270)	(1,179,222)	(32)	(18)
Selling, general and administrative expenses	(131,182)	(100,425)	(84,875)	(31)	(18)
Operating income	$219,725	$151,383	$138,167	45 %	10 %
Homes delivered	3,387	2,825	2,258	20 %	25 %
Average selling price	$644,900	$579,900	$587,000	11 %	(1) %
Housing gross profit margin	16.0 %	15.4 %	16.4 %	60 bps	(100)bps

This segment's revenues in 2017 and 2015 were generated from both housing operations and land sales. In 2016, this segment's revenues were generated entirely from housing operations. Housing revenues of $2.18 billion in 2017 grew 33% from $1.64 billion in 2016, which had increased from $1.33 billion in 2015. The year-over-year growth in housing revenues in 2017 was due to increases in both the number of homes delivered and the average selling price of those homes. The increase in the number of homes delivered primarily reflected the higher number of homes in backlog at the beginning of 2017 as compared to the beginning of 2016 and a higher volume of net orders during 2017, and was attributable to both our Northern California and Southern California operations. The average selling price of homes delivered during 2017 rose from the previous year due to a shift in product and geographic mix, and generally rising home prices. In 2016, housing revenues increased 24% from 2015, reflecting an increase in the number of homes delivered primarily from our Southern California operations, stemming from the higher backlog of homes at the beginning of 2016 and a higher volume of net orders during that year. The 2016 average selling price decreased slightly from the previous year due to a shift in product and geographic mix, with a greater proportion of homes delivered from communities located in our inland submarkets. In 2017, this segment generated land sale revenues of $2.2 million, which consisted of contingent consideration (profit participation revenues) we realized during the year. In 2015, land sale revenues totaled $76.8 million, primarily reflecting sales of a large parcel in

Northern California and a parcel located in an inland Southern California submarket.

In 2017, this segment's operating income increased by $68.3 million, or 45%, from the previous year, primarily reflecting growth in housing gross profits that was partly offset by an increase in selling, general and administrative expenses. Housing gross profits increased as a result of the higher volume of homes delivered and an increase in the housing gross profit margin. The year-over-year growth in the housing gross profit margin was mainly due to improved operating leverage from the increased volume of homes delivered and corresponding higher housing revenues and a shift in product and geographic mix, partly offset by higher construction and land costs, and an increase in the amortization of previously capitalized interest that was mainly due to longer-term development and/or extended construction time frames for certain communities. Inventory-related charges impacting the housing gross profit margin totaled $16.7 million in 2017, compared to $8.4 million in 2016, and were primarily associated with communities previously held for future development that were reactivated during 2017 as part of our efforts to improve our asset efficiency under our Returns-Focused Growth Plan. Land sales produced profits of $2.1 million in 2017, primarily reflecting the above-mentioned contingent consideration realized during the year. In 2016, this segment recognized land sale losses of $.6 million as a result of inventory impairment charges related to land held for sale. Selling, general and administrative expenses for 2017 rose from the previous year, primarily due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues.

In 2016, this segment's operating income increased by $13.2 million from the previous year, reflecting an increase in housing gross profits that was partly offset by a decline in land sale results and higher selling, general and administrative expenses. The increase in housing gross profits reflected a higher volume of homes delivered, partly offset by a decline in the housing gross profit margin. The year-over-year decrease in the housing gross profit margin was mainly due to an increase in inventory impairment and land option contract abandonment charges, higher construction and land costs and a shift in product and geographic mix of homes delivered. Inventory-related charges impacting the segment's housing gross profit margin totaled $8.4 million in 2016, compared to $1.0 million in 2015. This segment recognized land sale losses of $.6 million in 2016, compared to profits of $6.2 million in 2015. Selling, general and administrative expenses for 2016 rose from the previous year, primarily due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues.

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

	Years Ended November 30,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues	$533,052	$447,473	$398,242	19 %	12 %
Construction and land costs	(445,451)	(371,509)	(329,203)	(20)	(13)
Selling, general and administrative expenses	(42,329)	(35,786)	(31,228)	(18)	(15)
Operating income	$45,272	$40,178	$37,811	13 %	6 %
Homes delivered	1,837	1,559	1,311	18 %	19 %
Average selling price	$290,200	$287,000	$284,600	1 %	1 %
Housing gross profit margin	16.4 %	17.4 %	18.4 %	(100)bps	(100)bps

In 2017 and 2016, this segment's revenues were generated entirely from housing operations. In 2015, revenues were generated from both housing operations and land sales. Housing revenues increased 19% in 2017 and 20% in 2016, each as compared to the corresponding previous year, reflecting substantial growth in the number of homes delivered and a slightly higher average selling price. The year-over-year increases in the number of homes delivered both in 2017 and 2016 primarily reflected the higher backlog level at the beginning of each year as compared to the corresponding previous year, and was attributable to both our Arizona and Nevada operations. In 2015, revenues included $25.2 million associated with land sales in Nevada.

This segment's operating income in 2017 increased $5.1 million from 2016, reflecting higher housing gross profits, partly offset by higher selling, general and administrative expenses. The increase in housing gross profits reflected a higher number of homes delivered, partly offset by a year-over-year decline in the housing gross profit margin. The decrease in the housing gross profit margin reflected higher construction and land costs and a shift in product mix of homes delivered. Housing gross profits in 2017 included $3.4 million of inventory impairment charges, compared to $1.5 million of inventory impairment and land option contract abandonment charges in 2016. Land sale losses of $1.9 million in 2016 reflected inventory impairment charges related to land held for sale. Selling, general and administrative expenses for 2017 rose from the year-earlier period, mainly due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues.

In 2016, this segment's operating income grew $2.4 million from 2015 due to an increase in housing gross profits that was partly offset by an increase in selling, general and administrative expenses and land sale losses. The year-over-year increase in housing gross profits in 2016 was primarily due to the higher volume of homes delivered, partly offset by a decrease in the housing gross profit margin. The margin decrease resulted from higher construction and land costs and a shift in product mix, partially offset by improved operating leverage on fixed costs from the increased volume of homes delivered, a decrease in inventory-related charges, and a decrease in sales incentives as a percentage of housing revenues. Housing gross profits in 2016 included $1.5 million of inventory impairment and land option contract abandonment charges, compared to $3.3 million of inventory impairment charges in 2015. This segment recognized land sale losses of $1.9 million in 2016, compared to profits of $.3 million in 2015. Selling, general and administrative expenses for 2016 rose from the previous year, primarily due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues, partly offset by a favorable legal settlement in 2016.

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

	Years Ended November 30,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues	$1,188,839	$1,018,535	$809,738	17 %	26 %
Construction and land costs	(963,202)	(830,368)	(657,316)	(16)	(26)
Selling, general and administrative expenses	(109,385)	(102,300)	(82,400)	(7)	(24)
Operating income	$116,252	$85,867	$70,022	35 %	23 %
Homes delivered	4,136	3,744	3,183	10 %	18 %
Average selling price	$284,800	$270,100	$252,200	5 %	7 %
Housing gross profit margin	19.2 %	19.6 %	19.0 %	(40)bps	60 bps

In 2017, 2016 and 2015, revenues for this segment were generated from both housing operations and land sales. Housing revenues in 2017 rose 16% to $1.18 billion from $1.01 billion in 2016, reflecting increases in both the number of homes delivered and the average selling price of those homes. The year-over-year growth in the number of homes delivered in 2017 reflected increases from both our Colorado and Texas operations. In 2016, housing revenues rose 26% from $802.6 million in 2015 due to increases in both the number of homes delivered and the average selling price of those homes. The year-over-year growth in the number of homes delivered for 2016 reflected an increase in both our Colorado and Texas operations. The year-over-year increases in the average selling prices for both 2017 and 2016 were mainly due to a greater proportion of homes delivered from higher-priced communities, a shift in product mix and generally rising home prices. Land sale revenues totaled $11.0 million in 2017, $7.3 million in 2016 and $7.1 million in 2015.

This segment's operating income in 2017 increased $30.4 million from 2016, mainly due to growth in housing gross profits and a decrease in land sale losses, partly offset by an increase in selling, general and administrative expenses. The increase in housing gross profits reflected an increase in the number of homes delivered, partly offset by a lower housing gross profit margin. The housing gross profit margin declined from 2016, largely due to higher construction and land costs and a shift in product mix of homes delivered. Inventory-related charges impacting the housing gross profit margin totaled $.8 million for 2017 and $.5 million for 2016. Land sale losses totaled $.1 million in 2017, compared to $10.5 million in 2016.

In 2016, this segment's operating income increased $15.8 million from 2015, primarily due to growth in housing gross profits that was partly offset by an increase in selling, general and administrative expenses and land sale losses. The year-over-year growth in housing gross profits reflected the increased volume of homes delivered and improvement in our housing gross profit margin. The housing gross profit margin for 2016 improved on a year-over-year basis largely due to improved operating leverage on fixed costs and lower overall construction and land costs, partly offset by unfavorable warranty adjustments. The land sale losses in 2016 primarily reflected inventory impairment charges related to land held for sale at November 30, 2016 and the sales of our last remaining parcels in the Rio Grande Valley area of Texas. Selling, general and administrative expenses for 2016 rose from 2015, mainly due to higher variable expenses associated with the increased volume of homes delivered and corresponding higher housing revenues, and an increase to a legal accrual, partly offset by lower overhead costs as a result of our cost containment efforts.

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

	Years Ended November 30,			Variance	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Revenues	$447,963	$478,857	$410,743	(6) %	17 %
Construction and land costs	(396,026)	(446,539)	(367,668)	11	(21)
Selling, general and administrative expenses	(52,378)	(58,361)	(57,552)	10	(1)
Operating loss	$(441)	$(26,043)	$(14,477)	98 %	(80) %
Homes delivered	1,549	1,701	1,444	(9) %	18 %
Average selling price	$284,100	$281,400	$281,900	1 %	—
Housing gross profit margin	11.7 %	11.7 %	10.4 %	—	130 bps

This segment's revenues in 2017, 2016 and 2015 were comprised of revenues from both housing operations and land sales. Housing revenues in 2017 declined 8% to $440.1 million from $478.7 million in 2016. The year-over-year decline in housing revenues in 2017 was due to a decrease in the number of homes delivered, partly offset by a slight increase in the average selling price. The decrease in the number of homes delivered for 2017, compared to the previous year, was largely due to the wind down of our Metro Washington, D.C. operations. The 2017 average selling price increased slightly from the previous year primarily due to a greater proportion of homes delivered from higher-priced communities, a shift in product mix and generally rising home prices. In 2016, housing revenues grew 18% from $407.1 million in 2015 due to an increase in the number of homes delivered, as the average selling price was essentially flat with the year-earlier period. The year-over-year increase in the number of homes delivered for 2016 was attributable to our Florida operations. This segment generated land sale revenues of $7.9 million, $.1 million and $3.6 million in 2017, 2016 and 2015, respectively.

This segment's operating results in 2017 improved by $25.6 million from 2016, mainly due to improved land sale results and a decrease in selling, general and administrative expenses, partly offset by a decline in housing gross profits. The year-over-year decline in housing gross profits reflected a decrease in the number of homes delivered, as this segment's housing gross profit margin remained even with 2016. The housing gross profit margin reflected a decrease in inventory-related charges that was offset by reduced operating leverage on fixed costs from the lower volume of homes delivered. In 2017, inventory-related charges impacting the housing gross profit margin totaled $4.2 million, compared to $5.8 million in 2016. Land sales generated profits of $.3 million in 2017, compared to losses of $23.6 million in 2016 that are described further below. Selling, general and administrative expenses for 2017 decreased from the previous year, primarily due to lower overhead costs as a result of our cost containment efforts, the wind down of our Metro Washington, D.C. operations in 2016 and the lower volume of homes delivered.

In 2016, this segment's operating results declined $11.6 million from 2015, reflecting land sale losses and a slight increase in selling, general and administrative expenses that were partially offset by an increase in housing gross profits. The growth in this segment's housing gross profits was due to the increase in the number of homes delivered and an improvement in the housing gross profit margin. The housing gross profit margin increased on a year-over-year basis primarily due to improved operating leverage on fixed costs from the increased volume of homes delivered and corresponding higher housing revenues, and lower construction and land costs, partly offset by an increase in inventory-related charges. In 2016, inventory-related charges impacting the housing gross profit margin totaled $5.8 million and were largely related to the wind down of our Metro Washington, D.C. operations. In 2015, the housing gross profit margin was impacted by $5.1 million of inventory impairment and land option contract abandonment charges. Land sale losses totaled $23.6 million for 2016, compared to land sale profits of $.6 million for the previous year, primarily due to inventory impairment charges associated with land held for sale, including two land parcels in the Metro Washington, D.C. area that we planned to sell in connection with the wind down of our operations in this market. In 2016, selling, general and administrative expenses rose from the previous year primarily due to higher variable expenses associated with the increase in housing revenues, and a legal accrual. In 2015, selling general and administrative expenses included an increase in the accrual for a Florida legal inquiry that was resolved in February 2016.

FINANCIAL SERVICES REPORTING SEGMENT

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

	Years Ended November 30,		
	2017	2016	2015
Revenues	$12,264	$11,703	$11,043
Expenses	(3,430)	(3,817)	(3,711)
Equity in income (loss) of unconsolidated joint ventures	4,234	(3,420)	4,292
Pretax income	$13,068	$4,466	$11,624
Total originations (a):			
Loans	2,485	3,320	4,460
Principal	$688,763	$847,905	$1,132,479
Percentage of homebuyers using KBHS/HCM	25 %	37 %	62 %
Average FICO score	719	713	718
Loans sold (a):			
Loans sold to Stearns/Nationstar	1,872	3,730	4,168
Principal	$514,307	$966,155	$1,055,551
Loans sold to other third parties	196	234	161
Principal	$51,425	$47,936	$38,608

Mortgage loan origination mix (a):			
Conventional/non-conventional loans	52%	43 %	45%
FHA loans	31%	38 %	38%
Other government loans	17%	19 %	17%
Loan type (a):			
Fixed	99%	100%	98%
ARM	1 %	— %	2 %

(a) Loan originations and sales in 2017 occurred within KBHS. In 2016 and 2015, loan originations and sales occurred within HCM. In the 2016 fourth quarter, we and Nationstar began the process to wind down HCM and transfer HCM's operations and certain assets to Stearns.

Revenues. Our financial services reporting segment generates revenues primarily from insurance commissions and title services. The year-over-year growth in our financial services revenues for 2017 reflected increases in both insurance commissions and title services revenues. In 2016, financial services revenues increased from 2015 due to an increase in title services revenues, partly offset by a decrease in insurance commissions.

Expenses. General and administrative expenses totaled $3.4 million in 2017, $3.8 million in 2016 and $3.7 million in 2015.

Equity in Income (Loss) of Unconsolidated Joint Ventures. The equity in income of unconsolidated joint ventures was $4.2 million in 2017 and $4.3 million in 2015, compared to equity in loss of unconsolidated joint ventures of $3.4 million in 2016. The year-over-year change for 2017 primarily reflected the commencement of KBHS' operations during the year, as described below, and the wind down of HCM in the latter part of 2016. The equity in income (loss) of unconsolidated joint ventures for each of the years ended November 30, 2016 and 2015 was solely related to HCM's operations. The equity in loss of unconsolidated joint ventures in 2016 reflected fewer loan originations and higher overhead costs as well as the wind down of HCM, and included an increase in HCM's reserves for potential future losses on certain loans it originated. While we believe we will not need to record any additional charges, it is reasonably possible that we may incur further losses with respect to our equity interest in future periods as the wind down of HCM is completed. Although we are currently unable to estimate the amount or range of such losses, if any, we believe they would not have a material impact on our consolidated financial statements.

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In 2016, a subsidiary of ours and a subsidiary of Stearns formed KBHS, an unconsolidated mortgage banking joint venture, to offer mortgage banking services, including mortgage loan originations, to our homebuyers. We and Stearns each have a 50.0% ownership interest, with Stearns providing management oversight of KBHS' operations. KBHS was operational in all of our served markets as of June 2017. KBHS did not have an impact on our consolidated statement of operations for the year ended November 30, 2016.

Based on the number of homes delivered in 2017, approximately 25% of our homebuyers who obtained mortgage financing used KBHS to finance the purchase of their home, compared to approximately 37% and 62% that used HCM in 2016 and 2015, respectively. The 2017 percentage reflected the fact that KBHS was operational for only a portion of the year. The year-over-year decrease in 2016 was primarily due to HCM's transition to a new loan origination system that limited its ability to originate certain loans, insufficient staffing in certain markets, and its wind down. The year-over-year decrease in the percentage of homebuyers that used HCM did not have a significant impact on our orders, cancellation rate or the number of homes we delivered in 2016.

INCOME TAXES

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

	Years Ended November 30,		
	2017	2016	2015
Income tax expense	$109,400	$43,700	$42,400
Effective income tax rate	37.7 %	29.3 %	33.4 %

Our income tax expense for 2017, 2016 and 2015 reflected the favorable net impact of $4.9 million, $15.2 million and $5.6 million, respectively, of federal energy tax credits we earned from building energy-efficient homes through December 31, 2016. Most of the federal energy tax credits for 2017 and 2016 resulted from legislation enacted in 2015 that extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2016. There has not been any new legislation enacted extending the business tax credit beyond December 31, 2016.

At November 30, 2017 and 2016, we had deferred tax assets of $657.2 million and $763.8 million, respectively, that were partially offset by valuation allowances of $23.6 million and $24.8 million, respectively. The valuation allowances at November 30, 2017 and 2016 were primarily related to certain state NOLs that had not met the "more likely than not" realization standard at that date. We evaluated our deferred tax assets as of November 30, 2017 and 2016 to determine whether any adjustment to our deferred tax asset valuation allowance was necessary. We determined that most of our deferred tax assets as of November 30, 2017 and 2016 would be realized. In 2017, we reduced our valuation allowance by $1.2 million primarily to account for state NOLs that met the "more likely than not" standard. In 2016, the valuation allowance was reduced by $13.0 million to account for the expiration of foreign tax credits, the release of valuation allowance associated with state NOLs that met the "more likely than not" realization standard, partly offset by the establishment of a valuation allowance for state NOLs related to the wind down of our Metro Washington, D.C. operations.

For each of the years ended November 30, 2017, 2016 and 2015, the amount of cash income taxes we paid was substantially less than our income tax expense primarily due to the utilization of our deferred tax assets to reduce taxable income. We anticipate this will continue for the next several years due to the sizable deferred tax assets remaining as of November 30, 2017.

Further information regarding our income taxes is provided in Note 12 – Income Taxes in the Notes to Consolidated Financial Statements in this report.

The TCJA, enacted on December 22, 2017, makes significant revisions to federal income tax laws. While we are assessing the TCJA, and believe that its impact on our business may not be fully known for some time, its reduction of the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, will result in our recording a one-time, non-cash charge of approximately $115 million to our provision for income taxes in the 2018 first quarter. The charge is solely due to the accounting re-measurement of our deferred tax assets based on the lower income tax rate. We expect our effective tax rate for 2018, excluding the impact of the non-cash charge, to be approximately 27%. We believe the TCJA will not impact the ability of our deferred tax assets, as re-measured, to reduce the amount of cash federal income taxes payable in 2018 and beyond.

The TCJA establishes new limits on the federal tax deductions individual taxpayers may take on mortgage loan interest payments on indebtedness, and on state and local taxes, including real estate taxes. The TCJA also raises the standard deduction. These changes could reduce the perceived affordability of homeownership, and therefore the demand for homes, and/or have a moderating impact on home sales prices, in areas with relatively high housing prices and/or high state and local income taxes and real estate taxes, including in certain of our served markets in California. As a result, some communities in our California operations could experience lower net orders and/or a tempering of average sales prices in future periods depending on how homebuyers react to the tax law changes under the TCJA.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

- land acquisitions and land development;
- home construction;
- operating expenses; and
- principal and interest payments on notes payable.

Our investments in land and land development totaled $1.52 billion in 2017, $1.36 billion in 2016 and $967.2 million in 2015. Approximately 48% of our total investments in 2017 related to land acquisitions, compared to approximately 46% in 2016 and approximately 32% in 2015. While we made strategic investments in land and land development in each of our homebuilding reporting segments in each of these years, approximately 62% in 2017, 64% in 2016 and 51% in 2015, were made in our West Coast homebuilding reporting segment. Our investments in land and land development in the future will depend significantly on market conditions and available opportunities that meet our investment return standards to support home delivery and revenue growth in 2018 and beyond.

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

	November 30, 2017		November 30, 2016		Variance	
Segment	Lots	$	Lots	$	Lots	$
West Coast	11,343	$1,595,588	10,904	$1,726,740	439	$(131,152)
Southwest	9,085	551,387	8,338	522,320	747	29,067
Central	19,061	768,232	18,272	769,237	789	(1,005)
Southeast	6,882	348,179	7,311	384,931	(429)	(36,752)
Total	46,371	$3,263,386	44,825	$3,403,228	1,546	$(139,842)

The carrying value of lots owned or controlled under land option and other similar contracts at November 30, 2017 decreased from November 30, 2016 primarily due to the higher proportion of lots controlled under land option contracts in 2017. Overall, the number of lots we controlled under land option contracts and other similar contracts as a percentage of total lots was 25% at November 30, 2017 and 21% at November 30, 2016. Generally, this percentage fluctuates with our decisions to control (or abandon) lots under land option contracts and other similar contracts or to purchase (or sell owned) lots based on available opportunities and our investment return standards.

We ended our 2017 fiscal year with $720.6 million of cash and cash equivalents, compared to $592.1 million at November 30, 2016. The majority of our cash and cash equivalents at November 30, 2017 and 2016 was invested in interest-bearing bank deposit accounts.

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

	November 30,		
	2017	2016	Variance
Mortgages and land contracts due to land sellers and other loans	$10,203	$66,927	$(56,724)
Senior notes	2,086,070	2,345,843	(259,773)
Convertible senior notes	228,572	227,379	1,193
Total	$2,324,845	$2,640,149	$(315,304)

On January 13, 2017, as a step toward reducing our debt as part of our Returns-Focused Growth Plan, we redeemed $100.0 million in aggregate principal amount of our 9.10% Senior Notes due 2017 outstanding at the redemption price calculated in accordance with the "make-whole" provisions of the notes. We used internally generated cash to fund this redemption. We paid a total of $105.3 million for this redemption and recorded a charge of $5.7 million for the early extinguishment of debt. We repaid the remaining $165.0 million in aggregate principal amount of the notes at their maturity on September 15, 2017 using internally generated funds.

Our financial leverage, as measured by the ratio of debt to capital, was 54.7% at November 30, 2017, compared to 60.5% at November 30, 2016. Our ratio of net debt to capital (a calculation that is described above under "Non-GAAP Financial Measures") at November 30, 2017 improved to 45.4%, compared to 54.3% at November 30, 2016. Our net debt to total capital at November 30, 2017 was within our 2019 target range of 40% to 50% under our Returns-Focused Growth Plan.

LOC Facility. We had no letters of credit outstanding under the LOC Facility at November 30, 2017 or 2016.

Unsecured Revolving Credit Facility. On July 27, 2017, we entered into an amendment to the Credit Facility that increased the commitment from $275.0 million to $500.0 million and extended its maturity from August 7, 2019 to July 27, 2021. The amount of the Credit Facility available for cash borrowings and the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum available amount under the terms of the Credit Facility. As of November 30, 2017, we had no cash borrowings and $37.6 million of letters of credit outstanding under the Credit Facility. Therefore, as of November 30, 2017, we had $462.4 million available for cash borrowings under the Credit Facility, with up to $212.4 million of that amount available for the issuance of additional letters of credit. The Credit Facility is further described in Note 13 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants regarding our consolidated tangible net worth, consolidated leverage ratio ("Leverage Ratio"), and either a consolidated interest coverage ratio ("Interest Coverage Ratio") or minimum liquidity level, each as defined therein. Our compliance with these financial covenants is measured by calculations and metrics that are specifically defined or described by the terms of the Credit Facility and can differ in certain respects from comparable GAAP or other commonly used terms. The financial covenant requirements are set forth below:

- Consolidated Tangible Net Worth. We must maintain a consolidated tangible net worth at the end of any fiscal quarter greater than or equal to the sum of (a) $1.24 billion, plus (b) an amount equal to 50% of the aggregate of the cumulative consolidated net income for each fiscal quarter commencing after May 31, 2017 and ending as of the last day of such fiscal quarter (though there is no reduction if there is a consolidated net loss in any fiscal quarter), plus (c) an amount equal to 50% of the cumulative net proceeds we receive from the issuance of our capital stock after May 31, 2017.
- Leverage Ratio. We must also maintain a Leverage Ratio of less than or equal to .65 at the end of each fiscal quarter. The Leverage Ratio is calculated as the ratio of our consolidated total indebtedness to the sum of consolidated total indebtedness and consolidated tangible net worth, all as defined under the Credit Facility.
- Interest Coverage Ratio or Liquidity. We are also required to maintain either (a) an Interest Coverage Ratio of greater than or equal to 1.50 at the end of each fiscal quarter; or (b) a minimum level of liquidity, but not both. The Interest Coverage Ratio is the ratio of our consolidated adjusted EBITDA to consolidated interest incurred, each as defined under the Credit Facility, in each case for the previous 12 months. Our minimum liquidity is required to be greater than or equal to consolidated interest incurred, as defined under the Credit Facility, for the four most recently ended fiscal quarters in the aggregate.

In addition, under the Credit Facility, our investments in joint ventures and non-guarantor subsidiaries (which are shown, respectively, in Note 9 – Investments in Unconsolidated Joint Ventures and in Note 22 – Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report) as of the end of each fiscal quarter cannot exceed the sum of (a)

$104.8 million and (b) 20% of consolidated tangible net worth. Further, the Credit Facility does not permit our borrowing base indebtedness, which is the aggregate principal amount of our outstanding indebtedness for borrowed money and non-collateralized financial letters of credit, to be greater than our borrowing base (a measure relating to our inventory and unrestricted cash assets).

The covenants and other requirements under the Credit Facility represent the most restrictive provisions that we are subject to with respect to our notes payable. The following table summarizes the financial covenants and other requirements under the Credit Facility, and our actual levels or ratios (as applicable) with respect to those covenants and other requirements, in each case as of November 30, 2017:

Financial Covenants and Other Requirements	Covenant Requirement	Actual
Consolidated tangible net worth	>$1.32 billion	$1.93 billion
Leverage Ratio	<.650	.547
Interest Coverage Ratio (a)	>1.500	3.202
Minimum liquidity (a)	>$168.8 million	$720.6 million
Investments in joint ventures and non-guarantor subsidiaries	<$490.1 million	$114.6 million
Borrowing base in excess of borrowing base indebtedness (as defined)	n/a	$680.4 million

(a) Under the terms of the Credit Facility, we are required to maintain either a minimum Interest Coverage Ratio or a minimum level of liquidity, but not both. As of November 30, 2017, we met both the Interest Coverage Ratio and the minimum liquidity requirements.

The indenture governing the senior notes does not contain any financial covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness, or engage in sale-leaseback transactions involving property or assets above a certain specified value. In addition, the senior notes (with the exception of the 7 1/4% Senior Notes due 2018) contain certain limitations related to mergers, consolidations, and sales of assets.

Our obligations to pay principal, premium, if any, and interest under our senior notes and borrowings, if any, under the Credit Facility are guaranteed on a joint and several basis by certain of our subsidiaries (“Guarantor Subsidiaries”). The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. We may also cause other subsidiaries of ours to become Guarantor Subsidiaries if we believe it to be in our or the relevant subsidiary’s best interests. Condensed consolidating financial information for our subsidiaries considered to be Guarantor Subsidiaries is provided in Note 22 – Supplemental Guarantor Information in the Notes to Consolidated Financial Statements in this report.

As of November 30, 2017, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance. There are no agreements that restrict our payment of dividends other than to maintain compliance with the financial covenant requirements under the Credit Facility, which would restrict our payment of dividends if a default under the Credit Facility exists at the time of any such payment, or if any such payment would result in such a default.

Depending on available terms, we finance certain land acquisitions with purchase-money financing from land sellers or with other forms of financing from third parties. At November 30, 2017, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of $10.2 million, secured primarily by the underlying property, which had an aggregate carrying value of $27.6 million.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In April 2017, Moody’s Investor Services upgraded our corporate credit rating to B1, with a stable outlook, from B2, with a positive outlook. In September 2017, Fitch Ratings affirmed our credit rating at B+ and revised the rating outlook to positive from stable. In January 2018, Standard and Poor’s Financial Services upgraded our rating to BB- from B+, and revised the rating outlook to stable from positive.

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

	Years Ended November 30,		
	2017	2016	2015
Net cash provided by (used in):			
Operating activities	$513,219	$188,655	$181,185
Investing activities	(15,744)	(6,079)	(11,303)
Financing activities	(369,614)	(149,917)	31,691
Net increase in cash and cash equivalents	$127,861	$32,659	$201,573

Operating Activities. Operating activities provided net cash of $513.2 million in 2017, $188.7 million in 2016, and $181.2 million in 2015. Generally, our net operating cash flows fluctuate primarily based on changes in our inventories and our profitability. The year-over-year changes in net operating cash flows for 2017 and 2016 primarily reflected increases in net income and accounts payable, accrued expenses and other liabilities. Our net cash provided by operating activities in 2015 was mainly driven by net income and a decrease in inventories.

Net cash provided by operating activities in 2017 mainly reflected net income of $180.6 million, a net decrease in inventories of $126.1 million, and a net increase in accounts payable, accrued expenses and other liabilities of $66.6 million, partly offset by a net increase in receivables of $12.5 million. In 2016, our net cash provided by operating activities largely reflected net income of $105.6 million, a net increase in accounts payable, accrued expenses and other liabilities of $32.7 million, and a net decrease in receivables of $19.0 million, partly offset by net cash of $98.3 million used for investments in inventories. In 2015, our net cash provided by operating activities primarily reflected net income of $84.6 million, a net decrease in inventories of $34.9 million, and a net decrease in receivables of $9.1 million. These sources of cash were partly offset by a net decrease in accounts payable, accrued expenses and other liabilities of $27.6 million.

Investing Activities. Investing activities used net cash of $15.7 million in 2017, $6.1 million in 2016 and $11.3 million in 2015. Our uses of cash in 2017 included $18.7 million for contributions to unconsolidated joint ventures and $8.1 million for net purchases of property and equipment. These uses of cash were partially offset by an $11.0 million return of investments in unconsolidated joint ventures. In 2016, the net cash used in investing activities included $5.6 million for contributions to unconsolidated joint ventures and $4.8 million for net purchases of property and equipment, which were largely offset by a $4.3 million return of investments in unconsolidated joint ventures. In 2015, the net cash used in investing activities reflected $20.6 million of contributions to unconsolidated joint ventures and $4.7 million of cash used for net purchases of property and equipment, which were partially offset by a return of investments in unconsolidated joint ventures of $14.0 million.

Financing Activities. Financing activities used net cash of $369.6 million in 2017 and $149.9 million in 2016, and provided net cash of $31.7 million in 2015. In 2017, net cash was used for the repayment of $265.0 million in aggregate principal amount of the 9.10% Senior Notes due 2017, payments on mortgages and land contracts due to land sellers and other loans of $106.4 million, dividend payments on our common stock of $8.6 million, repurchases of previously issued shares of our common stock delivered to us by employees to satisfy withholding taxes on the vesting of restricted stock and performance-based restricted stock units (each a “PSU”), as well as shares forfeited by individuals upon their termination of employment at a total cost of $6.7 million, and the payment of $1.7 million of debt issuance costs in connection with amending the Credit Facility. The cash used was partly offset by $23.2 million of issuances of common stock under employee stock plans.

The year-over-year change in 2016 was primarily due to cash used to repurchase shares of our common stock, compared to the net proceeds received from the underwritten public issuance of senior notes in 2015. In 2016, cash was used for repurchases of shares of our common stock at a total cost of $88.4 million, payments on mortgages and land contracts due to land sellers and other loans of $67.8 million and dividend payments on our common stock of $8.6 million. The cash used was partly offset by a decrease of $9.3 million in our restricted cash balance and $5.3 million of issuances of common stock under employee stock plans. In 2015, cash was mainly provided by proceeds of $250.0 million from the issuance of our 7.625% senior notes due 2023 (“7.625% Senior Notes due 2023”) and a decrease of $17.9 million in our restricted cash balance. The cash provided was partly offset by cash used for the retirement of $199.9 million in aggregate principal amount of certain senior notes at their maturity on June 15, 2015, payments on mortgages and land contracts due to land sellers and other loans of $22.9 million, dividend payments on our common stock of $9.2 million, and the payment of debt issuance costs of $4.6 million associated with the issuance of the 7.625% Senior Notes due 2023 and the Credit Facility.

Our board of directors declared four quarterly cash dividends of $.025 per share of common stock in 2017, 2016 and 2015. Cash dividends declared and paid during each of the years ended November 30, 2017, 2016 and 2015 totaled $.10 per share of common stock. The declaration and payment of future cash dividends on our common stock are at the discretion of our board of directors, and depend upon, among other things, our expected future earnings, cash flows, capital requirements, debt structure and any adjustments thereto, operational and financial investment strategy and general financial condition, as well as general business conditions.

Shelf Registration Statement. On July 14, 2017, we filed an automatically effective universal shelf registration statement ("2017 Shelf Registration") with the SEC. The 2017 Shelf Registration registers the offering of securities that we may issue from time to time in amounts to be determined. Issuances of securities under our 2017 Shelf Registration require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. Our ability to issue securities is subject to market conditions and other factors impacting our borrowing capacity. The 2017 Shelf Registration replaced our previously effective universal shelf registration statement filed with the SEC on July 18, 2014. We have not made any offerings of securities under the 2017 Shelf Registration.

Share Repurchase Program. On January 12, 2016, our board of directors authorized us to repurchase a total of up to 10,000,000 shares of our outstanding common stock. This authorization reaffirmed and incorporated the then-current balance of 4,000,000 shares that remained under a prior board-approved share repurchase program. The amount and timing of shares purchased under this 10,000,000 share repurchase program are subject to market and business conditions and other factors, and purchases may be made from time to time and at any time through open market or privately negotiated transactions. This share repurchase authorization will continue in effect until fully used or earlier terminated or suspended by the board of directors. As of November 30, 2017, we had repurchased 8,373,000 shares of our common stock pursuant to this authorization, at a total cost of $85.9 million. All of these share repurchases were made in the 2016 first quarter. We did not repurchase any of our common stock under this program in 2017 or 2015.

Unrelated to the common stock repurchase program, as further discussed in Note 17 – Stockholders' Equity in the Notes to Consolidated Financial Statements in this report, our board of directors authorized in 2014 the repurchase of no more than 680,000 shares of our outstanding common stock solely as necessary for director compensation elections with respect to settling outstanding stock appreciation rights awards ("Director Plan SARs") granted under our Non-Employee Directors Compensation Plan ("Director Plan"). As of November 30, 2017, we have not repurchased any shares pursuant to the board of directors authorization.

We believe we have adequate capital resources and sufficient access to the credit and capital markets and external financing sources to satisfy our current and reasonably anticipated long-term requirements for funds to acquire assets and land, to use and/or develop acquired assets and land, to construct homes, to finance our financial services operations and to meet other needs in the ordinary course of our business. In addition to acquiring and/or developing land that meets our investment return standards, in 2018, we may use or redeploy our cash resources or cash borrowings under the Credit Facility to support other business purposes that are aligned with our primary strategic growth goals. We may also arrange or engage in capital markets, bank loan, project debt or other financial transactions. These transactions may include repurchases from time to time of our outstanding common stock. They may also include repurchases from time to time of our outstanding senior notes or other debt through redemptions, tender offers, exchange offers, private exchanges, open market or private purchases or other means, as well as potential new issuances of equity or senior or convertible senior notes or other debt through public offerings, private placements or other arrangements to raise or access additional capital to support our current land and land development investment targets, to complete strategic transactions and for other business purposes and/or to effect repurchases or redemptions of our outstanding senior notes or other debt. The amounts involved in these transactions, if any, may be material. As necessary or desirable, we may adjust or amend the terms of and/or expand the capacity of the Credit Facility or the LOC Facility, or enter into additional letter of credit facilities, or other similar facility arrangements, in each case with the same or other financial institutions, or allow any such facilities to mature or expire. Our ability to engage in such transactions, however, may be constrained by economic, capital, credit and/or financial market conditions, investor interest and/or our current leverage ratios, and we can provide no assurance of the success or costs of any such transactions.

OFF-BALANCE SHEET ARRANGEMENTS

Unconsolidated Joint Ventures. As discussed in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report, we have investments in unconsolidated joint ventures in various markets where our homebuilding operations are located. Our unconsolidated joint ventures had total combined assets of $168.8 million at November 30, 2017 and $198.8 million at November 30, 2016. Our investments in unconsolidated joint ventures totaled $64.8 million at November 30, 2017 and $64.0 million at November 30, 2016. As of November 30, 2017, two of our unconsolidated joint ventures had outstanding secured debt totaling $20.0 million under separate construction loan agreements with different third-party lenders to finance their respective land development activities. The outstanding secured debt under these agreements is non-recourse to us, with $19.8 million scheduled to mature in August 2018 and the remainder scheduled to mature in February 2020. At November 30, 2016, only one of these unconsolidated joint ventures had outstanding secured debt of $44.4 million. None of our other unconsolidated joint ventures had outstanding debt at November 30, 2017 or 2016. While we and our partners in the unconsolidated joint ventures that have the construction loan agreements provide certain guarantees and indemnities to the applicable lender, we do not have a guaranty or any other obligation to repay or to support the value of the collateral underlying the outstanding secured debt of these unconsolidated joint ventures. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the outstanding secured debt of these unconsolidated joint ventures is material to our consolidated financial statements. As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, we determined that one of our joint ventures at November 30, 2017 and 2016 was a VIE, but we were not the primary beneficiary of this VIE. All of our joint ventures were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

Land Option Contracts and Other Similar Contracts. As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, in the ordinary course of our business, we enter into land option contracts and other similar contracts with third parties and unconsolidated entities to acquire rights to land for the construction of homes. At November 30, 2017, we had total cash deposits of $64.7 million to purchase land having an aggregate purchase price of $1.09 billion. At November 30, 2016, we had total cash deposits of $42.8 million to purchase land having an aggregate purchase price of $1.07 billion. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance. Our decision to exercise a particular land option contract or other similar contract depends on the results of our due diligence reviews and ongoing market and project feasibility analysis that we conduct after entering into such a contract. In some cases, our decision to exercise a land option contract or other similar contract may be conditioned on the land seller obtaining necessary entitlements, such as zoning rights and environmental and development approvals, and/or physically developing the underlying land by a pre-determined date. We typically have the ability not to exercise our rights to the underlying land for any reason and forfeit our deposits without further penalty or obligation to the sellers. If we were to acquire all of the land we controlled under our land option contracts and other similar contracts at November 30, 2017, we estimate the remaining purchase price to be paid would be as follows: 2018 – $718.5 million; 2019 – $115.3 million; 2020 – $61.8 million; 2021 – $41.8 million; 2022 – $27.4 million; and thereafter – $64.6 million.

In addition to the cash deposits, our exposure to loss related to our land option contracts and other similar contracts consisted of pre-acquisition costs of $26.8 million at November 30, 2017 and $56.0 million at November 30, 2016. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

We determined that as of November 30, 2017 and 2016 we were not the primary beneficiary of any VIEs from which we have acquired rights to land under land option contracts and other similar contracts. We also evaluated our land option contracts and other similar contracts for financing arrangements and, as a result of our evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in our consolidated balance sheets by $5.7 million at November 30, 2017 and $50.5 million at November 30, 2016, as further discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents our future cash requirements under contractual obligations as of November 30, 2017 (in millions):

	Payments due by Period				
	Total	2018	2019-2020	2021-2022	Thereafter
Contractual obligations:					
Long-term debt	$2,340.2	$303.1	$ 987.1	$ 800.0	$ 250.0
Interest	500.0	140.8	210.5	139.2	9.5
Inventory-related obligations (a)	30.1	6.8	2.3	2.6	18.4
Purchase obligation (b)	35.2	18.2	17.0	—	—
Operating lease obligations	30.7	8.3	12.3	4.3	5.8
Total (c)	$2,936.2	$477.2	$ 1,229.2	$ 946.1	$ 283.7

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

(b) Represents our commitment to purchase lots from one of our unconsolidated joint ventures as discussed in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

(c) Total contractual obligations exclude our accrual for uncertain tax positions recorded for financial reporting purposes as of November 30, 2017 because we are unable to make a reasonable estimate of cash settlements with the respective taxing authorities for all periods presented. We anticipate these potential cash settlement requirements for 2018 to range from zero to $.1 million.

As discussed in Note 15 – Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, we had $606.7 million of performance bonds and $37.6 million of letters of credit outstanding at November 30, 2017. At November 30, 2016, we had $535.7 million of performance bonds and $31.0 million of letters of credit outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accompanying consolidated financial statements were prepared in conformity with GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. See Note 1 – Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements in this report for a discussion of our significant accounting policies. The following are accounting policies that we believe are critical because of the significance of the activity to which they relate or because they require the use of significant estimates, judgments and/or other assumptions in their application.

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

Inventories and Cost of Sales. Housing and land inventories are stated at cost, unless the carrying value is determined not to be recoverable, in which case the affected inventories are written down to fair value or fair value less associated costs to sell. Fair value is determined based on estimated future net cash flows discounted for inherent risks associated with the real estate assets, or other valuation techniques. Due to uncertainties in the estimation process and other factors beyond our control, it is possible that actual results could differ from those estimated. Our inventories typically do not consist of completed unsold homes. However, cancellations or strategic considerations may result in our having unsold completed or partially completed homes in our inventory.

We rely on certain estimates to determine our construction and land costs and resulting housing gross profit margins associated with revenues recognized. Construction and land costs are comprised of direct and allocated costs, including estimated future costs for the limited warranty we provide on our homes, and certain amenities within a community. Land acquisition, land development and other common costs are generally allocated on a relative fair value basis to the homes or lots within the applicable community or land parcel. Land acquisition and land development costs include related interest and real estate taxes.

In determining a portion of the construction and land costs recognized for each period, we rely on project budgets that are based on a variety of assumptions, including future construction schedules and costs to be incurred. It is possible that actual results could differ from budgeted amounts for various reasons, including construction delays, construction resource shortages, increases in costs that have not yet been committed, changes in governmental requirements, unforeseen environmental hazards or other unanticipated issues encountered during construction and other factors beyond our control. While the actual results for a particular construction project are accurately reported over time, variances between the budgeted and actual costs of a project could result in the understatement or overstatement of construction and land costs and homebuilding gross profits in a particular reporting period. To reduce the potential for such distortion, we have set forth procedures that collectively comprise a critical accounting policy. These procedures, which we have applied on a consistent basis, include assessing, updating and revising project budgets on a monthly basis, obtaining commitments to the extent possible from independent subcontractors and vendors for future costs to be incurred, reviewing the adequacy of warranty accruals and historical warranty claims experience, and utilizing the most current information available to estimate construction and land costs to be charged to expense. Variances to the budgeted costs after an estimate has been charged to expense that are related to project costs are generally allocated on a relative fair value basis to the remaining homes to be delivered within the community or land parcel, while such variances related to direct construction costs are generally expensed as incurred. The variances between budgeted and actual costs have historically not been material to our consolidated financial statements. We believe that our policies provide for reasonably dependable estimates to be used in the calculation and reporting of construction and land costs.

Inventory Impairments and Land Option Contract Abandonments. Each community or land parcel in our owned inventory is assessed to determine if indicators of potential impairment exist. Impairment indicators are assessed separately for each community or land parcel on a quarterly basis and include, but are not limited to, the following: significant decreases in net orders, average selling prices, volume of homes delivered, gross profit margins on homes delivered or projected gross profit margins on homes in backlog or future deliveries; significant increases in budgeted land development and home construction costs or cancellation rates; or projected losses on expected future land sales. If indicators of potential impairment exist for a community or land parcel, the identified asset is evaluated for recoverability.

The following table presents information regarding inventory impairment and land option contract abandonment charges included in construction and land costs in our consolidated statements of operations (dollars in thousands):

	Years Ended November 30,		
	2017	2016	2015
Inventory impairments:			
Number of communities or land parcels evaluated for recoverability (a)	51	68	35
Carrying value of communities or land parcels evaluated for recoverability (a)	$456,875	$423,122	$286,333
Number of communities or land parcels written down to fair value	10	30	4
Pre-impairment carrying value of communities or land parcels written down to fair value	$58,962	$89,097	$20,018
Inventory impairment charges	(20,605)	(49,580)	(8,030)
Post-impairment fair value	$38,357	$39,517	$11,988
Land option contract abandonments:			
Number of lots abandoned	710	744	1,166
Land option contract abandonment charges	$4,627	$3,232	$1,561

(a) As impairment indicators are assessed on a quarterly basis, some of the communities or land parcels evaluated during the years ended November 30, 2017, 2016 and 2015 were evaluated in more than one quarterly period. Communities or land parcels evaluated for recoverability in more than one quarterly period are counted only once for each applicable year. In 2017, the inventory impairment charges reflected our decisions to accelerate the monetization of our investment in one community in California, and to activate nine communities in Arizona, California, Florida and Nevada previously held for future development. In 2016, the number and carrying value of communities evaluated for impairment were higher than they were in 2017 and 2015 as a result of our decisions to make changes in our operational strategies for specific communities or land parcels aimed at more quickly monetizing our investment in those inventories.

When an indicator of potential impairment is identified for a community or land parcel, we test the asset for recoverability by comparing the carrying value of the asset to the undiscounted future net cash flows expected to be generated by the asset. The undiscounted future net cash flows are impacted by then-current conditions and trends in the market in which the asset is located as well as factors known to us at the time the cash flows are calculated. These factors may include recent trends in our orders, backlog, cancellation rates and volume of homes delivered, as well as our expectations related to the following: product offerings; market supply and demand, including estimated average selling prices and related price appreciation; and land development, home construction and overhead costs to be incurred and related cost inflation.

As further described in Note 7 – Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report, given the inherent challenges and uncertainties in forecasting future results, our inventory assessments at the time they are made take into consideration whether a community or land parcel is active, meaning whether it is open for sales and/or undergoing development, or whether it is being held for future development or held for sale.

We record an inventory impairment charge on a community or land parcel that is active or held for future development when indicators of potential impairment exist and the carrying value of the real estate asset is greater than the undiscounted future net cash flows the asset is expected to generate. These real estate assets are written down to fair value, which is primarily determined based on the estimated future net cash flows discounted for inherent risk associated with each such asset, or other valuation techniques. Inputs used in our calculation of estimated discounted future net cash flows are specific to each affected real estate asset and are based on our expectations for each such asset as of the applicable measurement date, including, among others, expectations related to average selling prices and volume of homes delivered. The discount rates used in our estimated discounted cash flows ranged from 17% - 18% in 2017, and 17% - 20% during both 2016 and 2015. The discount rates we used were impacted by one or more of the following at the time the calculation was made: the risk-free rate of return; expected risk premium based on estimated land development, home construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to land development or home construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located.

We record an inventory impairment charge on land held for sale when the carrying value of the real estate asset is greater than its fair value. These real estate assets are written down to fair value, less associated costs to sell. The fair value of such real estate assets is generally based on bona fide letters of intent from outside parties, executed sales contracts, broker quotes or similar information.

As of November 30, 2017, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $177.8 million, representing 24 communities and various other land parcels. As of November 30, 2016, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was $215.3 million, representing 28 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed to determine whether it continues to meet our investment return standards. Assessments are made separately for each optioned land parcel on a quarterly basis and are affected by the following factors relative to the market in which the asset is located, among others: current and/or anticipated net orders, average selling prices and volume of homes delivered; estimated land development and home construction costs; and projected profitability on expected future housing or land sales. When a decision is made not to exercise certain land option contracts and other similar contracts due to market conditions and/or changes in our marketing strategy, we write off the related inventory costs, including non-refundable deposits and unrecoverable pre-acquisition costs.

The estimated remaining life of each community or land parcel in our inventory depends on various factors, such as the total number of lots remaining; the expected timeline to acquire and entitle land and develop lots to build homes; the anticipated future net order and cancellation rates; and the expected timeline to build and deliver homes sold. While it is difficult to determine a precise timeframe for any particular inventory asset, based on current market conditions and expected delivery timelines, we estimate our inventory assets' remaining operating lives to range generally from one year to in excess of 10 years and expect to realize, on an overall basis, the majority of our inventory balance as of November 30, 2017 within five years. The following table presents as of November 30, 2017 and 2016, respectively, the estimated timeframe of delivery for the last home in an applicable community or land parcel and the corresponding percentage of total inventories such categories represent within our inventory balance (dollars in millions):

	0-2 years		3-5 years		6-10 years		Greater than 10 years		
	$	%	$	%	$	%	$	%	Total
2017	$1,794.7	55%	$1,226.1	38%	$138.4	4%	$104.2	3%	$3,263.4
2016	1,919.8	57	1,171.0	34	229.0	7	83.4	2	3,403.2

The inventory balances in the 0-2 years and 3-5 years categories were located throughout all of our homebuilding reporting segments, though mostly in our West Coast and Central homebuilding reporting segments. These categories collectively represented 93% of our total inventories as of November 30, 2017, compared to 91% as of November 30, 2016. The inventory balances in the 6-10 years and greater than 10 years categories were primarily comprised of land held for future development, and together totaled $242.6 million at November 30, 2017, compared to $312.4 million at November 30, 2016. The year-over-year decrease was primarily related to our decisions to monetize certain non-strategic land parcels through land sales and to accelerate the overall timing for selling, building and delivering homes through community reactivations.

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

Deterioration in the supply and demand factors in the overall housing market or in an individual market or submarket, or changes to our operational or selling strategy at certain communities may lead to additional inventory impairment charges, future charges associated with land sales or the abandonment of land option contracts or other similar contracts related to certain assets.

Due to the nature or location of the projects, land held for future development that we activate as part of our strategic growth initiatives or to accelerate sales and/or our return on investment, or that we otherwise monetize to help improve our asset efficiency, may have a somewhat greater likelihood of being impaired than other of our active inventory.

We believe that the carrying value of our inventory balance as of November 30, 2017 is recoverable. Our considerations in making this determination include the factors and trends incorporated into our impairment analyses, and as applicable, the prevailing regulatory environment, competition from other homebuilders, inventory levels and sales activity of resale homes, and the local economic conditions where an asset is located. In addition, we consider the financial and operational status and expectations of our inventories as well as unique attributes of each community or land parcel that could be viewed as indicators for potential future impairments. However, if conditions in the overall housing market or in a specific market or submarket worsen in the future beyond our current expectations, if future changes in our business strategy significantly affect any key assumptions used in our projections of future cash flows, or if there are material changes in any of the other items we consider in assessing recoverability, we may recognize charges in future periods for inventory impairments or land option contract abandonments, or both, related to our current inventory assets. Any such charges could be material to our consolidated financial statements.

Warranty Costs. We provide a limited warranty on all of our homes. The specific terms and conditions of our limited warranty program vary depending upon the markets in which we do business. We estimate the costs that may be incurred under each limited warranty and record a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. In assessing our overall warranty liability at a reporting date, we evaluate the costs for warranty-related items on a combined basis for all of our previously delivered homes that are under our limited warranty program.

Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our accrued warranty liability, which is included in accrued expenses and other liabilities in our consolidated balance sheets, and adjust the amount as necessary based on our assessment. Our assessment includes the review of our actual warranty costs incurred to identify trends and changes in our warranty claims experience, and considers our home construction quality and customer service initiatives and outside events. Our warranty liability is presented on a gross basis for all years without consideration of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable.

While we believe the warranty liability currently reflected in our consolidated balance sheets to be adequate, unanticipated changes or developments in the legal environment, local weather, land or environmental conditions, quality of materials or methods used in the construction of homes or customer service practices and/or our warranty claims experience could have a significant impact on our actual warranty costs in future periods and such amounts could differ significantly from our current estimates. A 10% change in the historical warranty rates used to estimate our warranty accrual would not result in a material change in our accrual.

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

We record liabilities based on the estimated costs required to cover reported claims, claims incurred but not yet reported, and claim adjustment expenses. These estimated costs are based on an actuarial analysis of our historical claims and expense data, as well as industry data. Our self-insurance liabilities are presented on a gross basis without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any.

The amount of our self-insurance liability is based on an analysis performed by a third-party actuary that uses our historical claim and expense data, as well as industry data to estimate these overall costs. These estimates are subject to uncertainty due to a variety of factors, the most significant being the long period of time between the delivery of a home to a homebuyer and when a structural warranty or construction defect claim may be made, and the ultimate resolution of any such construction defect claim. Though state regulations vary, construction defect claims are reported and resolved over a long period of time, which can extend for 10 years or more. As a result, the majority of the estimated self-insurance liability based on the actuarial analysis relates to claims incurred but not yet reported. Therefore, adjustments related to individual existing claims generally do not significantly impact the overall estimated liability. Adjustments to our liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs. In 2017, we recorded an adjustment for a change in estimate to increase our self-insurance liability to reflect claim frequency and severity trends, which indicated that probable future payments for claims relating to homes delivered in certain prior years were likely to exceed the previously estimated liabilities remaining for those claims. Therefore, we increased our self-insurance liability, based on an actuarially determined estimate, to an amount expected to have a higher probability of being adequate to cover future payments associated with unresolved claims, including claims incurred but not yet reported. This adjustment is included in selling, general and administrative expenses.

The projection of losses related to these liabilities requires the use of actuarial assumptions. Key assumptions used in developing these estimates include claim frequencies, severities and resolution patterns, which can occur over an extended period of time. These estimates are subject to variability due to the length of time between the delivery of a home to a homebuyer and when a construction defect claim is made, and the ultimate resolution of such claim; uncertainties regarding such claims relative to our markets and the types of product we build; and legal or regulatory actions and/or interpretations, among other factors. Due to the degree of judgment involved and the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated. In addition, changes in the frequency and severity of reported claims and the estimates to resolve claims can impact the trends and assumptions used in the actuarial analysis, which could be material to our consolidated financial statements. A 10% increase in the claim frequency and the average cost per claim used to estimate the self-insurance liability would result in an increase of approximately $30.3 million in our liability and a $17.4 million increase in our receivable, resulting in additional expense of $12.9 million. A 10% decrease in the claim frequency and the average cost per claim used to estimate the self-insurance liability would result in a decrease of approximately $27.9 million in our liability and a $14.8 million decrease in our receivable, resulting in a reduction to expense of $13.1 million.

Estimates of insurance recoveries and amounts we have paid on behalf of other parties, if any, are recorded as receivables when such recoveries are considered probable. These estimated recoveries are principally based on actuarially determined amounts and depend on various factors, including, among other things, the above-described claim cost estimates, our insurance policy coverage limits for the applicable policy year(s), historical third-party recovery rates, insurance industry practices, the regulatory environment, and legal precedent, and are subject to a high degree of variability from year to year. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated.

Stock-Based Compensation. We measure and recognize compensation expense associated with our grants of equity-based awards at an amount equal to the fair value of such share-based payments over their applicable vesting period. We have provided compensation benefits to certain of our employees in the form of stock options, restricted stock and PSUs, and to our non-employee directors in the form of unrestricted shares of common stock, deferred common stock awards and Director Plan SARs. Determining the fair value of share-based awards requires judgment to identify the appropriate valuation model and develop the assumptions to be used in the calculation, including the expected term of the stock options or Director Plan SARs, expected stock-price volatility and dividend yield. We estimate the fair value of stock options and Director Plan SARs granted using the Black-Scholes option-pricing model with assumptions based primarily on historical data. The expected volatility factor is based on a combination of the historical volatility of our common stock and the implied volatility of publicly traded options on our common stock. We believe this blended approach balances the forward-looking nature of implied volatility with the relative stability over time of historical volatility to arrive at a reasonable estimate of expected volatility. Additionally, judgment is required in estimating the percentage of share-based awards that are expected to vest, and in the case of PSUs, the level of performance that will be achieved and the number of shares that will be earned. If actual results differ significantly from these estimates, stock-based compensation expense could be higher and have a material impact on our consolidated financial statements.

Income Taxes. As discussed in Note 12 – Income Taxes in the Notes to the Consolidated Financial Statements in this report, we evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. This evaluation considers, among other factors, our historical operating results, our expectation of future profitability, the duration of the applicable statutory carryforward periods, and conditions in the housing market and the broader economy. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets in our consolidated balance sheets depends on applicable income tax rates. We base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base this estimate on business plan forecasts and other expectations about future outcomes. Changes in positive and negative evidence, including differences between our future operating results and estimates, could result in the establishment of an additional valuation allowance against our deferred tax assets. Accounting for deferred taxes is based upon estimates of future results. Judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated financial statements. Also, changes in existing federal and state tax laws and corporate income tax rates could affect future tax results and the realization of deferred tax assets over time.

We recognize accrued interest and penalties related to unrecognized tax benefits in our consolidated financial statements as a component of the provision for income taxes. Our liability for unrecognized tax benefits, combined with accrued interest and penalties, is reflected as a component of accrued expenses and other liabilities in our consolidated balance sheets. Judgment is required in evaluating uncertain tax positions. We evaluate our uncertain tax positions quarterly based on various factors, including changes in facts or circumstances, tax laws or the status of audits by tax authorities. Changes in the recognition or measurement of uncertain tax positions could have a material impact on our consolidated financial statements in the period in which we make the change.

RECENT ACCOUNTING PRONOUNCEMENTS

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

OUTLOOK

In 2018, we intend to continue to execute on our Returns-Focused Growth Plan, which is described in the “Business” section of this report. We believe that doing so will enable us to generate higher cash flows that we can deploy in a targeted fashion to support the balanced growth of our business and increase our return on invested capital, as well as reduce our debt, with the principal aim of driving long-term stockholder value. Our present 2018 outlook is as follows:

2018 First Quarter:

- We expect to generate housing revenues in the range of $840 million to $880 million, an increase from $810.9 million in 2017, and anticipate our average selling price to be in the range of $387,000 to $392,000, representing an increase in the range of 6% to 8% as compared to the year-earlier period.
- We expect our housing gross profit margin, excluding inventory-related charges, to range from 16.0% to 16.5%.
- We expect our selling, general and administrative expense ratio to be in the range of 11.7% to 12.0%.
- We expect our homebuilding operating income margin, excluding inventory-related charges, to range from 4.3% to 4.7%.
- We expect to record a one-time, non-cash charge to our provision for income taxes of approximately $115 million, as discussed above under “Income Taxes.”
- We expect our average community count to be down approximately 5% from the 2017 first quarter.

2018 Full-Year:

- We expect our housing revenues to be in the range of $4.5 billion to $4.9 billion, an increase from $4.3 billion in 2017, and anticipate our average selling price to be in the range of $395,000 to $405,000, roughly even as compared to 2017.
- We expect our housing gross profit margin, excluding inventory-related charges, to range from 17.2% to 17.7%.
- We expect our selling, general and administrative expense ratio to be in the range of 9.7% to 10.0%.
- We expect our homebuilding operating income margin, excluding inventory-related charges, to range from 7.2% to 7.7%.
- We expect the effective tax rate will be approximately 27%, excluding the impact of the above-mentioned one-time, non-cash charge.
- We expect our average community count to remain relatively flat compared to 2017.

We believe we are well positioned to achieve our financial and operational targets for 2018 due to, among other things, our backlog levels at November 30, 2017, our planned new home community openings, community reactivations and investments in land and land development, as well as continued strengthening of demand from first-time homebuyers and current positive economic and demographic trends, to varying degrees, in many of our served markets.

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

FORWARD-LOOKING STATEMENTS

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

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

- general economic, employment and business conditions;
- population growth, household formations and demographic trends;
- conditions in the capital, credit and financial markets;
- our ability to access external financing sources and raise capital through the issuance of common stock, debt or other securities, and/or project financing, on favorable terms;
- material and trade costs and availability;
- changes in interest rates;
- our debt level, including our ratio of debt to capital, and our ability to adjust our debt level and maturity schedule;
- our compliance with the terms of the Credit Facility;
- volatility in the market price of our common stock;
- weak or declining consumer confidence, either generally or specifically with respect to purchasing homes;
- competition from other sellers of new and resale homes;
- weather events, significant natural disasters and other climate and environmental factors;
- government actions, policies, programs and regulations directed at or affecting the housing market (including the TCJA, the Dodd-Frank Act, tax benefits associated with purchasing and owning a home, and the standards, fees and size limits applicable to the purchase or insuring of mortgage loans by government-sponsored enterprises and government agencies), the homebuilding industry, or construction activities;
- changes in existing tax laws or enacted corporate income tax rates, including pursuant to the TCJA;
- the availability and cost of land in desirable areas;
- our warranty claims experience with respect to homes previously delivered and actual warranty costs incurred;

- costs and/or charges arising from regulatory compliance requirements or from legal, arbitral or regulatory proceedings, investigations, claims or settlements, including unfavorable outcomes in any such matters resulting in actual or potential monetary damage awards, penalties, fines or other direct or indirect payments, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices that are beyond our current expectations and/or accruals;
- our ability to use/realize the net deferred tax assets we have generated;
- our ability to successfully implement our current and planned strategies and initiatives related to our product, geographic and market positioning, gaining share and scale in our served markets;
- our operational and investment concentration in markets in California;
- consumer interest in our new home communities and products, particularly from first-time homebuyers and higher-income consumers;
- our ability to generate orders and convert our backlog of orders to home deliveries and revenues, particularly in key markets in California;
- our ability to successfully implement our Returns-Focused Growth Plan and achieve the associated revenue, margin, profitability, cash flow, community reactivation, land sales, business growth, asset efficiency, return on invested capital, return on equity, net debt to capital ratio and other financial and operational targets and objectives;
- the ability of our homebuyers to obtain residential mortgage loans and mortgage banking services;
- the performance of mortgage lenders to our homebuyers;
- the performance of KBHS;
- information technology failures and data security breaches; and
- other events outside of our control.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We enter into debt obligations primarily to support general corporate purposes, including the operations of our subsidiaries. We are subject to interest rate risk on our senior notes. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to changes in interest rates.

The following tables present principal cash flows by scheduled maturity, weighted average effective interest rates and the estimated fair value of our long-term fixed rate debt obligations as of November 30, 2017 and 2016 (dollars in thousands):

	As of November 30, 2017 for the Years Ended November 30,							Fair Value at
	2018	2019	2020	2021	2022	Thereafter	Total	November 30, 2017
Long-term debt								
Fixed Rate	$300,000	$630,000	$350,000	$—	$800,000	$250,000	$2,330,000	$2,570,550
Weighted Average Effective Interest Rate	7.3 %	3.9 %	8.5 %	—%	7.4 %	7.8 %	6.7 %	

	As of November 30, 2016 for the Years Ended November 30,						Fair Value at
	2017	2018	2019	2020	2021	Thereafter	Total	November 30, 2016
Long-term debt								
Fixed Rate	$265,000	$300,000	$630,000	$350,000	$—	$1,050,000	$2,595,000	$2,718,519
Weighted Average Effective Interest Rate	9.6 %	7.3 %	3.9 %	8.5 %	—%	7.5 %	7.0 %	

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
KB HOME
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Separate combined financial statements of our unconsolidated joint venture activities have been omitted because, if considered in the aggregate, they would not constitute a significant subsidiary as defined by Rule 3-09 of Regulation S-X.

KB HOME
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Years Ended November 30,		
	2017	2016	2015
Total revenues	$4,368,529	$3,594,646	$3,032,030
Homebuilding:			
Revenues	$4,356,265	$3,582,943	$3,020,987
Construction and land costs	(3,646,468)	(3,041,101)	(2,539,368)
Selling, general and administrative expenses	(426,394)	(389,441)	(342,998)
Operating income	283,403	152,401	138,621
Interest income	1,240	529	458
Interest expense	(6,307)	(5,900)	(21,856)
Equity in loss of unconsolidated joint ventures	(1,409)	(2,181)	(1,804)
Homebuilding pretax income	276,927	144,849	115,419
Financial services:			
Revenues	12,264	11,703	11,043
Expenses	(3,430)	(3,817)	(3,711)
Equity in income (loss) of unconsolidated joint ventures	4,234	(3,420)	4,292
Financial services pretax income	13,068	4,466	11,624
Total pretax income	289,995	149,315	127,043
Income tax expense	(109,400)	(43,700)	(42,400)
Net income	$180,595	$105,615	$84,643
Earnings per share:			
Basic	$2.09	$1.23	$.92
Diluted	$1.85	$1.12	$.85
Weighted average shares outstanding:			
Basic	85,842	85,706	92,054
Diluted	98,316	96,278	102,857

See accompanying notes.

KB HOME
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Years Ended November 30,		
	2017	2016	2015
Net income	$180,595	$105,615	$84,643
Other comprehensive income (loss):			
Postretirement benefit plan adjustments:			
Net actuarial gain (loss) arising during the period	(3,143)	468	3,745
Amortization of net actuarial loss	142	79	848
Amortization of prior service cost	1,556	1,556	1,556
Other comprehensive income (loss) before tax	(1,445)	2,103	6,149
Income tax benefit (expense) related to items of other comprehensive income (loss)	578	(841)	(2,460)
Other comprehensive income (loss), net of tax	(867)	1,262	3,689
Comprehensive income	$179,728	$106,877	$88,332

See accompanying notes.

KB HOME
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Shares)

	November 30,	
	2017	2016
Assets		
Homebuilding:		