

More

Kaufman and Broad Home Corporation is one of America's premier homebuilders. Founded in 1957, the company has built more than 225,000 homes during its history. The company targets first time and first move-up buyers by combining value with the ability to customize homes with thousands of options featured at its New Home Showrooms. Kaufman and Broad also operates a full service mortgage company for the convenience of its buyers. Today, Kaufman and Broad builds homes in California, Nevada, Arizona, New Mexico, Texas and Colorado and is also one of the largest homebuilders in France.

Financial Highlights

IN THOUSANDS, EXCEPT PER SHARE AND UNIT AMOUNTS						Compound Annual Growth Rate
Years ended November 30,	1999	1998	1997	1996	1995	1995-1999
Net Orders, Deliveries and Backlog						
<i>(number of homes)</i>						
Net orders	23,094	16,781	12,489	10,239	8,253	29.3%
Deliveries	22,460	15,213	11,443	10,249	7,857	30.0
Unit backlog	8,777	6,943	4,214	2,839	1,412	57.9
Revenues and Income						
Revenues	\$3,836,295	\$2,449,362	\$1,878,723	\$1,787,525	\$1,397,845	28.7%
Operating income*	294,726	170,085	116,259	111,419	74,879	40.9
Pretax income*	245,024	146,567	91,030	75,013	45,459	52.4
Net income*	159,224	95,267	58,230	48,013	29,059	53.0
Basic earnings per share*	3.41	2.41	1.50	1.17	.59	55.1
Diluted earnings per share*	3.33	2.32	1.45	1.15	.58	54.8
Assets, Debt and Equity						
Total assets	\$2,664,235	\$1,860,204	\$1,418,991	\$1,243,494	\$1,574,179	14.1%
Mortgages and notes payable	1,191,090	769,259	697,697	577,585	790,575	10.8
Mandatorily redeemable preferred securities	189,750	189,750	—	—	—	—
Stockholders' equity	676,583	474,511	383,056	340,350	415,478	—
Return on average stockholders' equity	25.6%	22.2%	16.1%	12.7%	7.1%	—

* Excludes impact of a pretax secondary marketing trading loss of \$18.2 million recorded in the third quarter of 1999 and a \$170.8 million pretax noncash charge for impairment of long-lived assets recorded in the second quarter of 1996. For further discussion of the secondary marketing trading loss see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying consolidated financial statements and notes thereto.

Sell
Earn
Think
Create
Do

More

FEBRUARY 10, 2000

To Our Shareholders,



Bruce Karatz, Chairman and Chief Executive Officer

This morning I listened to yet another commentator talking about America Online's proposed acquisition of Time Warner – a merger that's dominated the business headlines for the past month.

I share the belief that this deal is perhaps the most significant in recent American history. It institutionalizes the power of the Internet, and represents the ascendancy of "new media" over "old media." And if history is any judge, it's just the tip of the iceberg.

There could be no better time for me to share my thoughts with you on how Kaufman and Broad will be a part of this new world.

We are part of it – make no mistake. Any company that expects to lead its industry will do so because it has the vision and savvy to stay ahead of the technology and communications curve. And those who believe that homebuilding is somehow insulated from these dramatic changes will be hopelessly left behind.

New rules are being written. Not only are we following them, we're writing a few of our own. Our market leadership is enabling us to use technology to strengthen our relationships with our customers. *And our detailed understanding of what homebuyers want is becoming an increasingly valuable e-commerce asset.*

While our deliveries, backlog, market share and earnings have reached new highs, it's no longer enough. That's why I'm promising you more of what's now expected from a company in this new age. More products and services for customers. More creative marketing. More strategic alliances. More big ideas. In a word... *more.*

I'll discuss that in a moment. But first, a recap of 1999:

- Earnings per share hit \$3.33⁽¹⁾ – an increase of 43.5% over last year
- Deliveries up 47.6% to 22,460
- Total revenues up 56.6% to \$3.8 billion
- Operating income up 73.3% to \$294.7 million⁽¹⁾
- EBITDA up 74.0% to \$376.4 million⁽¹⁾
- Backlog up 26.4% to 8,777 units, with a backlog value of \$1.4 billion
- Return on average stockholders' equity reached 25.6%
- Net debt to total capital ratio stood at 48.4% at year's end

¹ Excluding a secondary marketing trading loss in the 3rd quarter of 1999

One look at these results and I'm sure you'll agree that Kaufman and Broad has never been stronger or more prepared to assert its leadership of the homebuilding industry.

As we finished the year, we began repositioning many of our assets and businesses in order to reduce debt and reinvest in our business through a stock repurchase program – creating more value for shareholders while positioning ourselves for future growth. This process has resulted in:

- Taking our French subsidiary, Kaufman & Broad S. A., public, making it the first developer to be listed on the ParisBourse (in fact, it immediately became part of the “Premier Marché” – where the largest and most prestigious stocks are traded)
- Putting our multi-housing business on the market, to sharpen the focus on our core homebuilding operations
- Strategically reducing land purchases and holdings, including forming a joint venture for the development of our large City Ranch property near Santa Clarita, California, with Newhall Land and Farming – the premier master-planned community developer
- Selling or winding up under-performing operations, such as our Utah division

I'm particularly proud of what happened in France. It's a great example of how our vision and methods create value, and what our new asset repositioning strategy can do for us. The transaction provided us with approximately \$120 million, a majority interest in the new company that will bring us approximately 50% of all its profits, and lastly we will receive annual royalty payments. As the largest shareholder in Kaufman & Broad S.A., we'll also be reaping the benefits of its ambitious expansion plans within the dynamic European market.

With its initial market capitalization, all told, the transaction valued our French operations at approaching \$300 million – which means our continuing ownership stake is substantially higher than current book value. When you consider that France produced only about 11% of our deliveries and revenues in 1999, you'll see the real and significant value that we've already created.

We'll continue reevaluating and repositioning other assets throughout the year as we increase our commitment to our core U.S. homebuilding operations and focus even more intently on improving our margins and operational discipline.

It wasn't that long ago when the idea of any homebuilder delivering 24,000 homes a year seemed completely outlandish. We hope to reach that in 2000 with stronger internal processes and controls than we've ever had before. Leading that effort will be Jeff Mezger, our new chief operating officer, who will focus on leveraging our economies of scale to capture every cent of profit possible in every phase of our homebuilding operations. Jeff's proven success in implementing our KB2000 operational business model, both as a division president and as a regional general manager, makes him the right person for the job. Under his leadership, our core business should do even better.

Kaufman and Broad is different from the other large builders because we're building all our homes in just six states, as well as France. We're building very large businesses in strategic markets – in many cases delivering 2,000 homes or more in a single market. It's not surprising that we're obtaining our highest margins in markets where we have the largest market share. By becoming a leader in these markets, we get among the most competitive pricing from our subcontractors, our choice of the best land deals,

and can remain a low-price leader. We're achieving all the benefits we thought we'd achieve when we launched our market leadership strategy four years ago.

What's more, the outlook for our markets remains positive with job and population growth throughout the West expected to remain strong. Conventional wisdom says that there's an iron link between current interest rates and how many homes we can sell. Well, that's only partly true. While interest rates crept up during 1999, our home sales also increased. With interest rates still at historically low levels and an unprecedented number of available loan products (our Kaufman and Broad Mortgage Company offers more than 75 of their own), customers have tremendous flexibility to choose a loan they can afford. And while rising interest rates could conspire with a cooling economy to slow sales growth, earnings should continue rising if we execute our strategy and maintain strong positions in key markets.

With our homebuilding business in the best shape it's ever been in and with our asset repositioning strategy providing a sizable cash infusion, we're moving into position to launch initiatives that won't just break us out of the homebuilding pack, but will break the stereotype of what a homebuilder can be.

Kaufman and Broad has always pushed the envelope. Four years ago, we opened houseCALL™ – one of the industry's first customer fulfillment call centers. Two years ago we launched kbhomes.com, one of the industry's best Web sites, which contributed approximately \$100 million in sales in 1999. And we've continually broken new ground in marketing, which in 1999 included a promotional tie-in with *Pokémon: The First Movie*, capitalizing on the year's hottest kids' trend to reach a key target market of

young families. For these reasons, no other homebuilder is better positioned than we are to seize the opportunities created by the new economy.

Our commitment to investing in leading edge technology has created significant opportunities. We've built centralized systems and uniform processes to maximize our operational efficiency. That commitment has also provided us with a platform to efficiently launch technology-based business and Internet solutions, enabling us to take our business to another level.

At the core of our technology initiatives is e.kb. Under the leadership of Glen Barnard as president, e.kb will leverage technology so we can provide a new level of superior service. We're building on our centralized technology base to integrate all our sales platforms – including each of our sales offices, houseCALL,™ our Web site and our 15 New Home Showrooms. The objective is to ensure our customers receive consistent and up-to-date information on all Kaufman and Broad products, while at the same time lowering our marketing and sales costs.

The e.kb initiative also includes a commitment to business-to-business e-commerce – building electronic links with our suppliers that decrease the time and cost of building a home while increasing quality and reliability. The business-to-business e-commerce market is growing rapidly, and a large production builder like Kaufman and Broad is in an ideal position to help develop advanced systems for the entire industry – which we've begun doing.

But our ambitions extend far beyond this. Our database of homebuyers will become an increasingly valuable asset. When a qualified customer signs a sales contract with us,

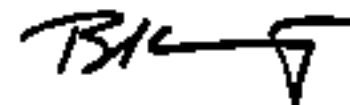
we know that in 4-6 months they're going to take possession of a beautiful new home. We'll be looking to monetize that knowledge by offering buyers access to an array of home-related goods and services, either on our own or through strategic partnerships. Our customers have turned to us for the most important purchase they've ever made and that position of trust gives us a remarkable opportunity to extend our relationship by providing other services of high quality and value.

It's a different world and we're a different company. While continuing a 42-year tradition of building quality homes for first-time and move-up buyers, we're not tied to past notions of what we should look like or what homebuying-related services we should provide.

I can't predict the future of the AOL-Time Warner merger. But regardless of its ultimate outcome, it's a watershed event in American business. It confirms that the ultimate winners in the new economy are those who innovate, listen to the market, and have the courage to make big decisions.

Because we've completely transformed our business over the past five years, Kaufman and Broad is in position to be a player in this game. And I can promise you that we'll be playing by the new rules. That alone will mean far more than any of us can now imagine.

Sincerely,



Bruce Karatz, Chairman and Chief Executive Officer

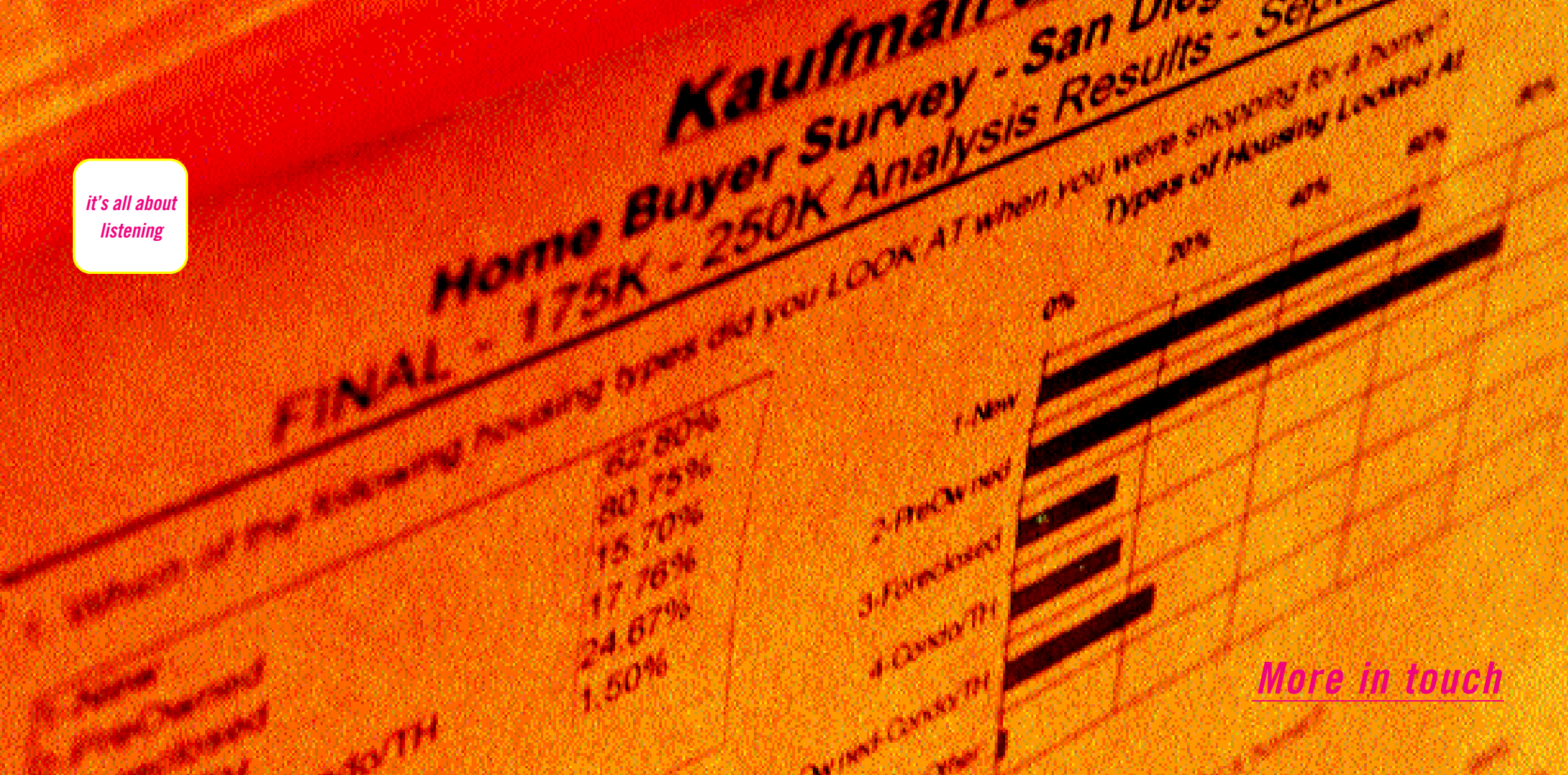


More leadership

the process of homebuilding

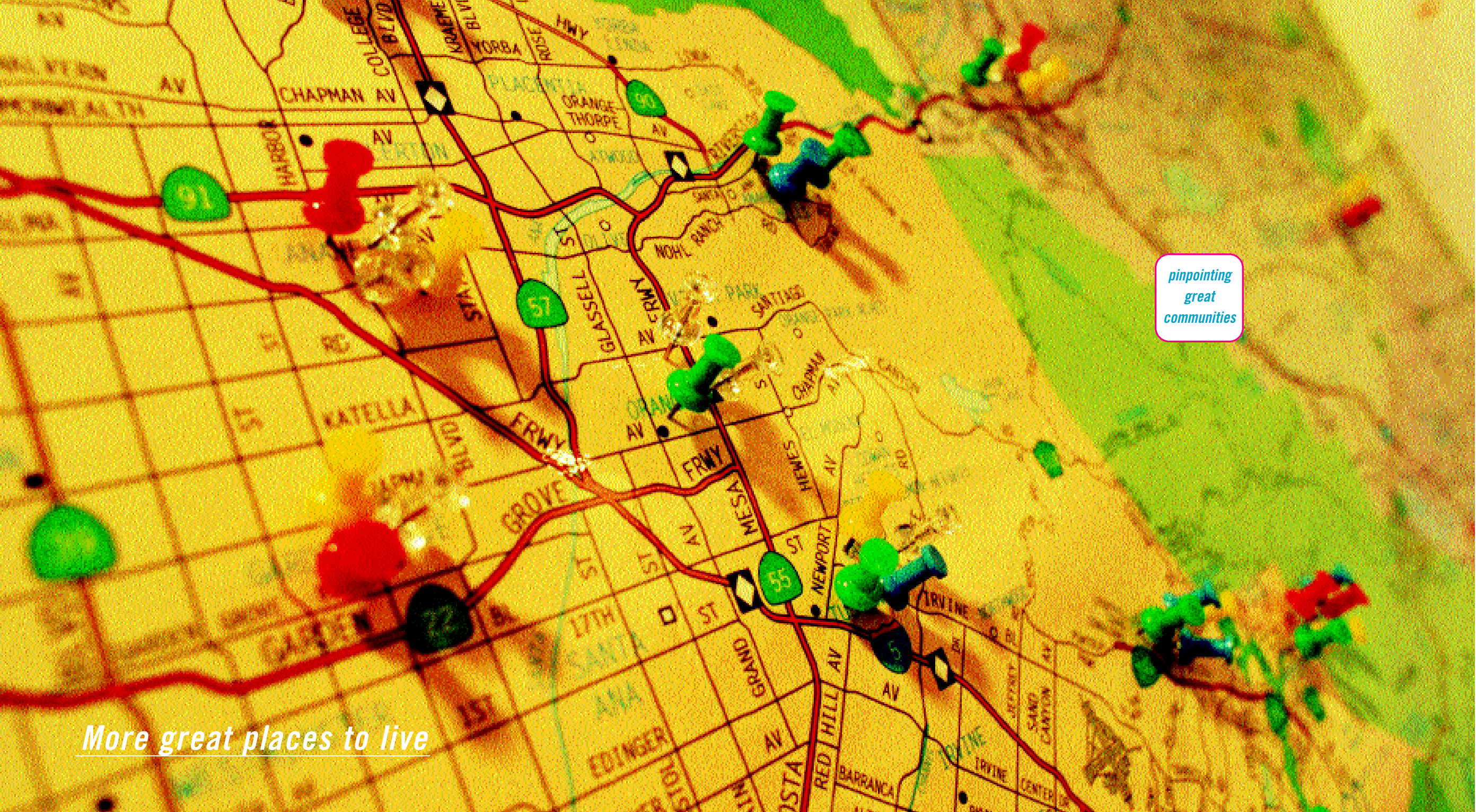
it's all about listening

Kaufman and Broad Home Buyer Survey - San Diego, California FINAL - 175K - 250K Analysis Results - September 1999



[More in touch](#)

If **knowledge is power**, then it's no wonder Kaufman and Broad is America's #1 homebuilder. During the last three years, we've solicited more than one million detailed surveys of homebuyers in our markets, giving us insight into what our customers want in their new homes. That knowledge is driving our **strategy** on everything from where we're opening new communities to how we're designing our homes.



*pinpointing
great
communities*

More great places to live

Before we sell our first home we know we'll be successful – because we've chosen the right location for a new community. Our in-depth community mapping process factors in our exclusive homebuyer surveys, as well as local infrastructure, schools, major employers, cultural attractions and a host of other criteria. As a result, we're building our homes where our customers want to live.



creative promotions

More cutting edge

Gone are those traditional homebuilding ads that only feature pretty homes and happy homeowners. In are provocative ads and promotional tie-ins with some of America's hottest consumer trends, like Pokémon. Buyers are more media savvy than ever, used to companies bombarding them with cutting-edge messages. We're offering the sizzle that they've come to expect while building a powerful consumer brand. That's why Kaufman and Broad is becoming the most recognizable name in homebuilding in all of our markets.



More dreams coming true

*building
quality and
value*

Building affordable homes is far more than a philosophy – it's our strategic edge. We're a low-price leader in every one of our markets, offering great value to first-time and first move-up buyers. That enables us to build volume and market share, which creates even more cost savings that we can pass back to our customers. It means that more young families who never thought they could afford a home can fulfill their dreams with Kaufman and Broad.

\$999 PER MONTH
PRINCIPAL & INTEREST
CHECK OUT OUR GREAT HOMES STARTING AT \$142,000
\$7,428 MOVES YOU IN
(3% DOWN PLUS CLOSING COSTS)
CURRENT INTEREST RATE: 7 7/8%

making it
simple and
affordable

1 YEAR LIMITED WARRANTY
KAUFMAN & BROAD



More help with the hard part

Lots of companies talk about one-stop shopping, but Kaufman and Broad delivers. A large majority of our buyers who finance their homes choose Kaufman and Broad Mortgage Company (KBMC). They're getting **competitive rates** and the best **service** from professionals who understand that building a new home is different than buying a used one. What's more, our mortgage professionals work closely with the customer's sales representative to ensure the loan will be **ready to fund** when the buyer is ready to move in.



5,000
choices

More of you

*Homebuyers should always have the power to express themselves. At our New Home Showrooms, buyers choose from thousands of **options** – from carpet to countertops, and from lighting fixtures to garage doors. Because our Showrooms offer buyers everything they need to turn a well-built house into a home filled with **warmth** and **personality**, they're a key selling feature that gives buyers another reason to choose us instead of our competitors. More than just about home décor, however, our Showrooms are also powerful sales centers where buyers can **pre-qualify** for a mortgage and browse among the many Kaufman and Broad communities in the area. They're one-stop shops for anyone looking to build their dream home.*

More controls

*even flow
production*

When it comes to production, all of us are “Type A” personalities. Want to know whose homes we’re framing today or how many slabs we’re pouring a week from Tuesday? We can tell you. Because we pre-sell most of our homes, we can implement centralized scheduling procedures that enable us to deliver a consistent number of homes, day after day. That’s the kind of predictability subcontractors want and they reward us by offering their best pricing. With one person in the division office worrying about logistics instead of dozens of superintendents in the field, our construction teams can focus on what they do best – building great homes that meet the highest quality standards.

More environmental solutions

*innovative
recycling*

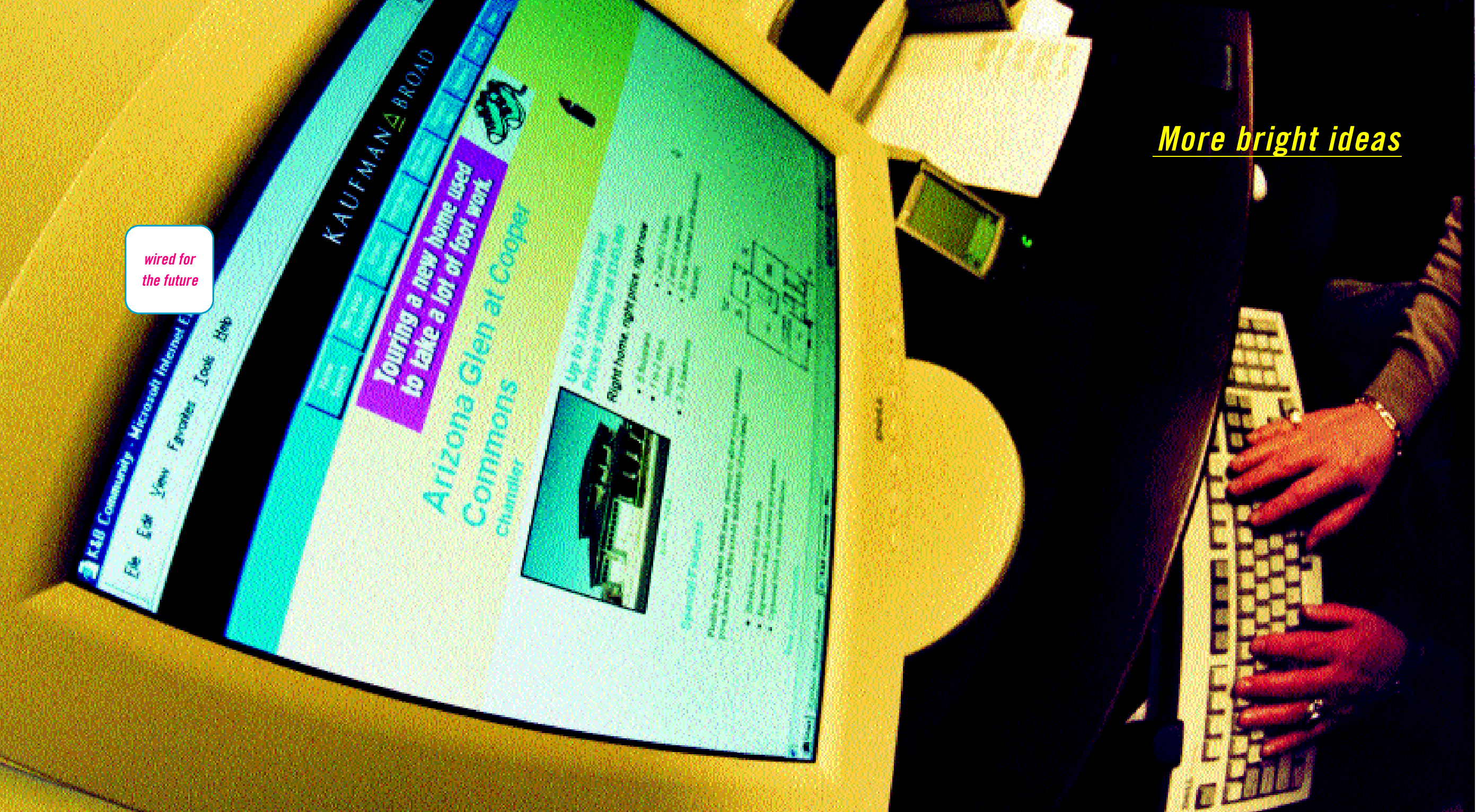
Supporting the environment takes a little creativity and a big commitment from everyone. For example, at our Independence community growing out of the old Mather Air Force Base in Sacramento, we're taking 125,000 tons of concrete that normally would go into landfills, grinding it up and using it to help build roads. Woodframing from the base is being converted into mulch for commercial landscaping. And we're looking to replicate ideas like these in other communities. Which means that while we're building more homes, we're learning how to generate less waste.

(no) More worries

we've got it covered

KAUFMAN ABBEY

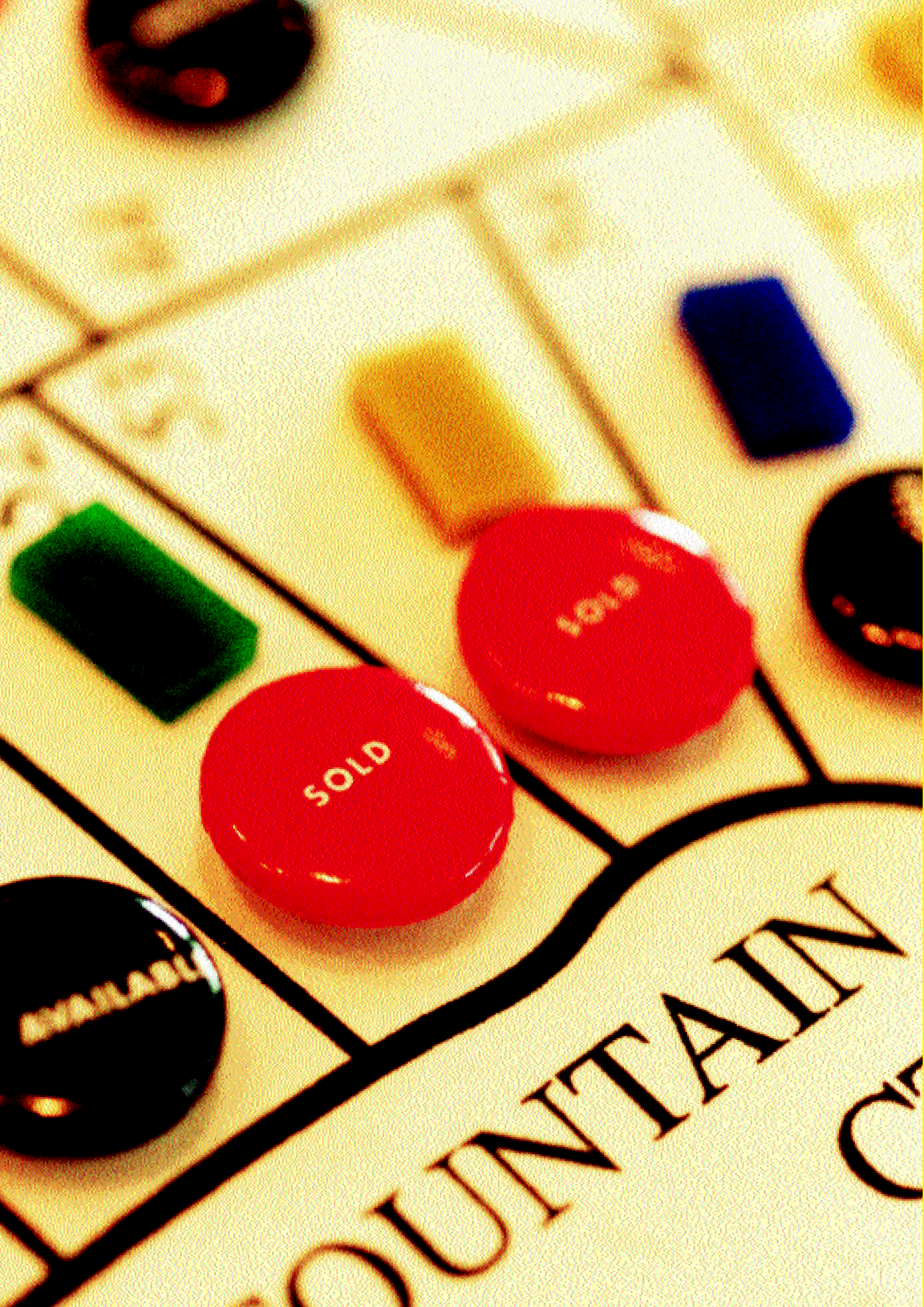
Just as the home buying process begins with us listening to our customers, it ends with us listening too. At the final orientation, every last detail about the home is checked and explained, and every question a customer has is answered. We then leave our buyers with the best housewarming gift of all – an unsurpassed 10-year limited warranty.



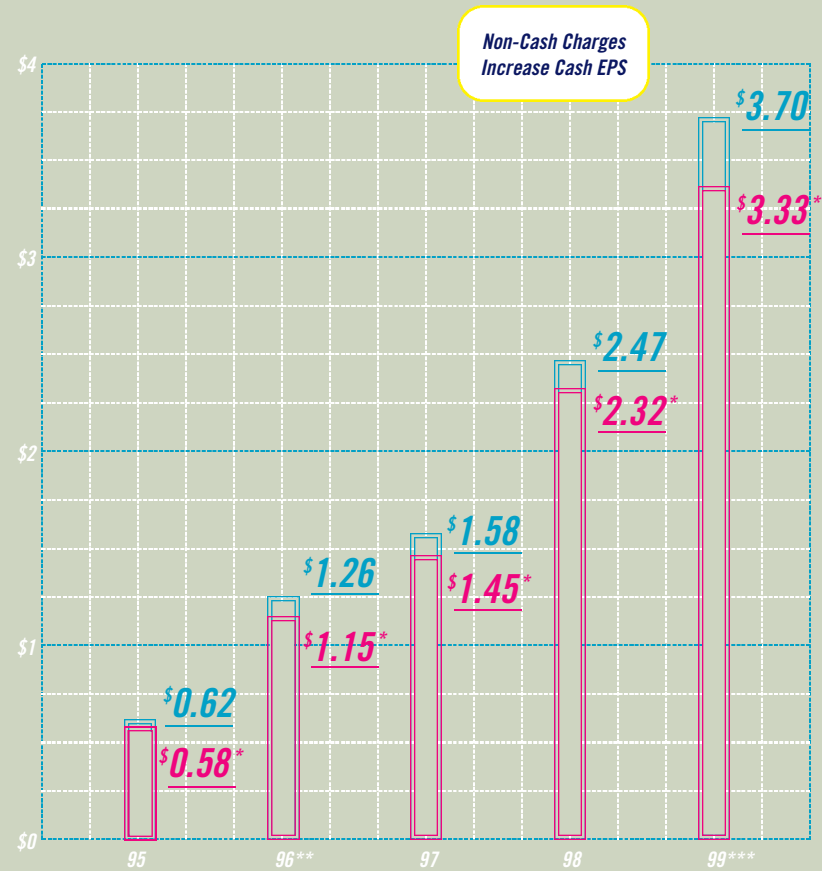
wired for the future

More bright ideas

It's no longer just "what have you done for me lately?" it's "what will you do for me tomorrow?" The answer is [e.kb](#). This company-wide initiative will integrate our Web site, our New Home Showrooms, our sales offices and our houseCALL™ call center into a technology platform that will significantly lower our marketing costs and give our customers consistent, detailed, and [up-to-date information](#) on all Kaufman and Broad products and services. We're also rapidly expanding both our business-to-business e-commerce programs and our online marketing, ensuring we become the homebuilding industry's [most wired](#) company.



More Numbers



Cash EPS Performance

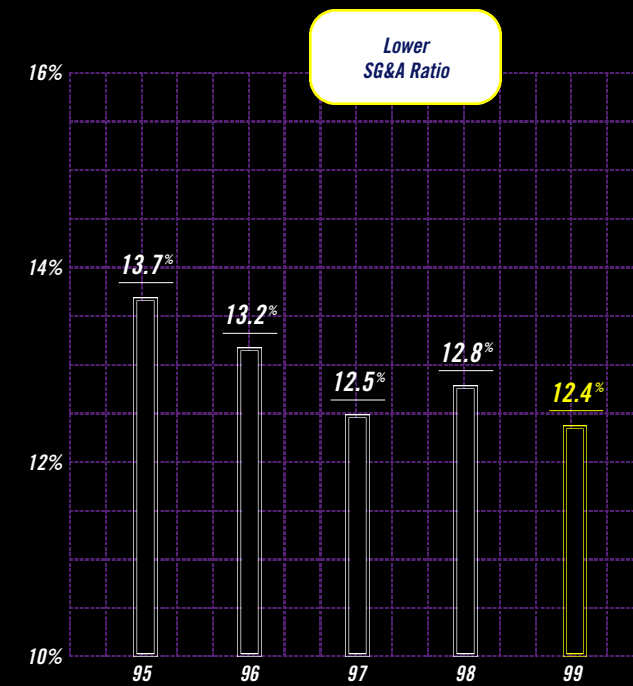
Compound Annual Growth Rate = 56.3%

□ Goodwill amortization

* Reported EPS

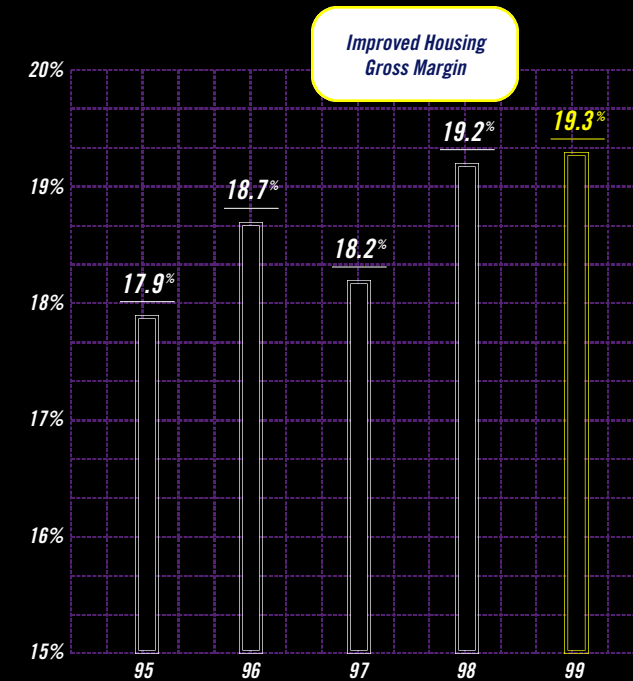
** Excludes non-cash charge for impairment of long-lived assets

*** Excludes secondary marketing trading loss



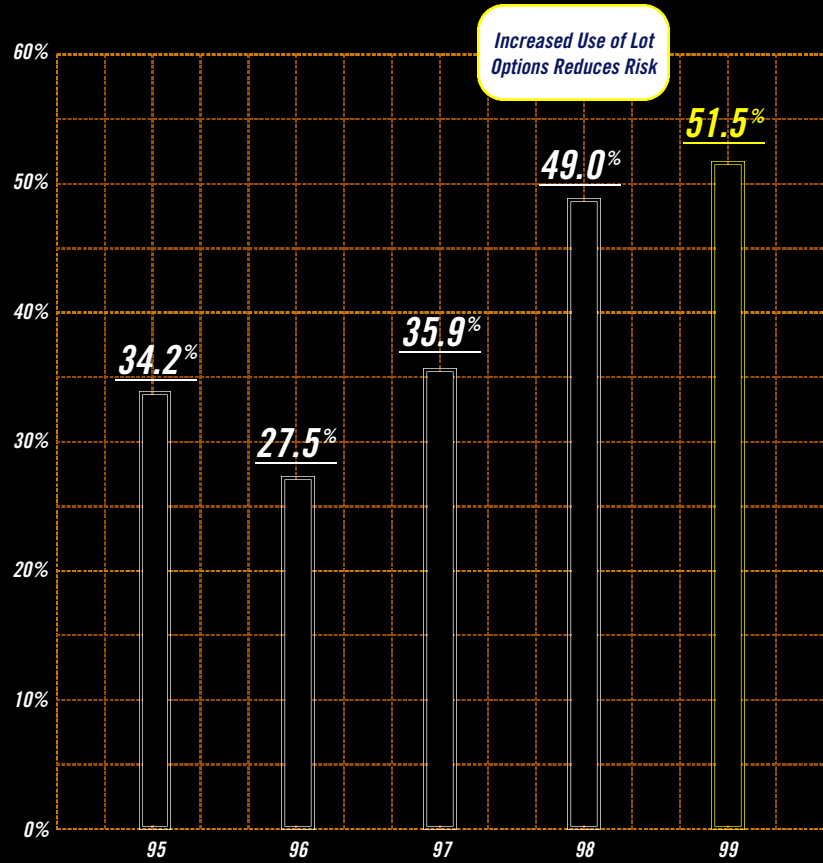
SG&A

As a percent of housing revenues

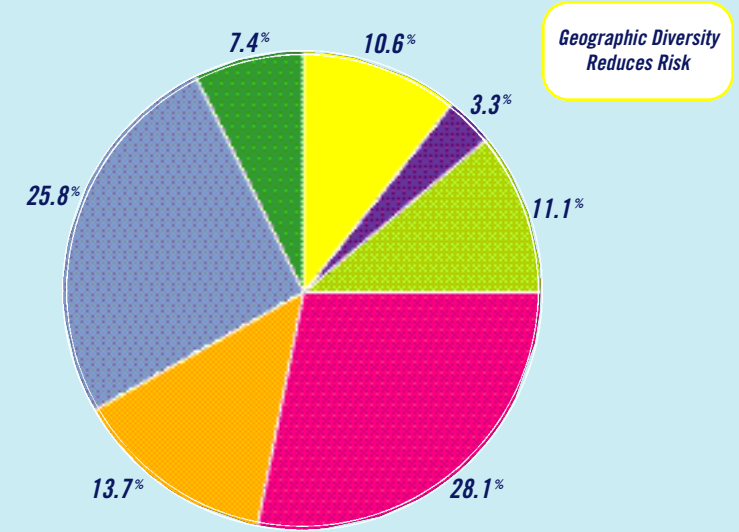


Housing Gross Margin

As a percent of housing revenues

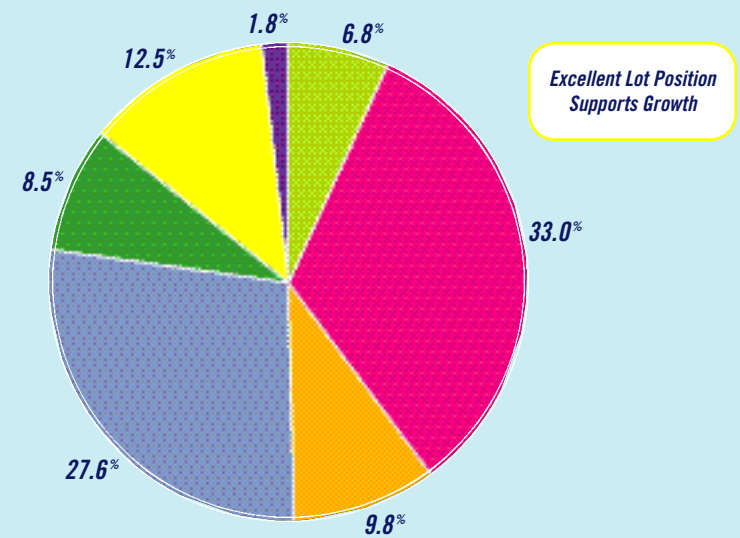


Percentage of Lots Optioned



Geographically Diversified Deliveries

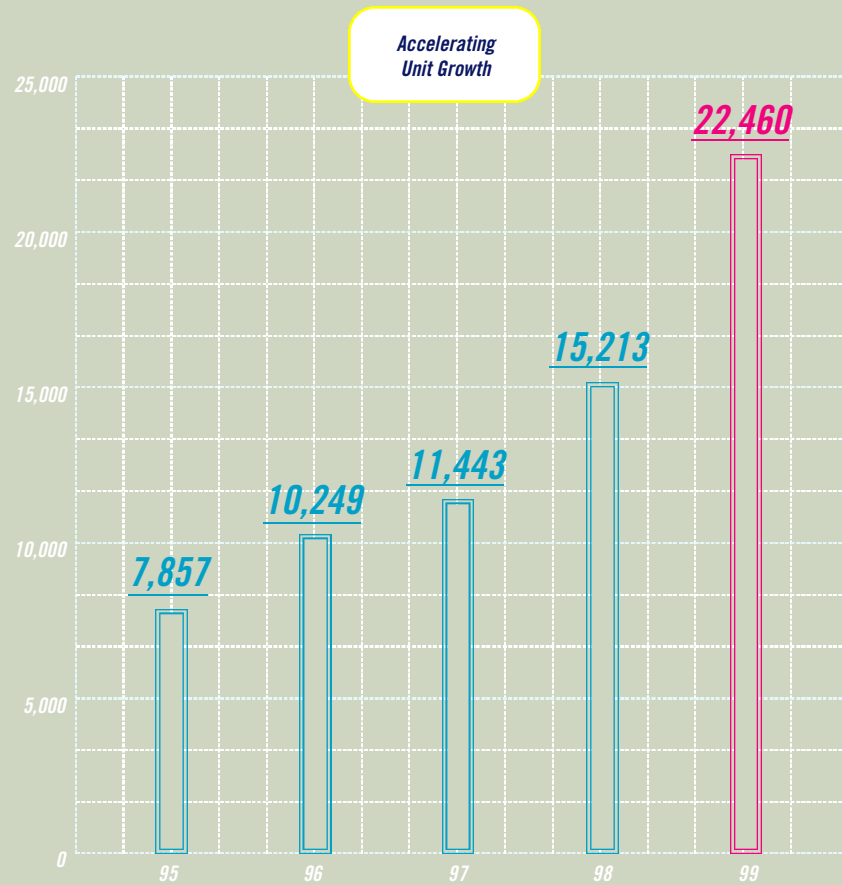
1999 Deliveries



Geographically Diversified Land Positions

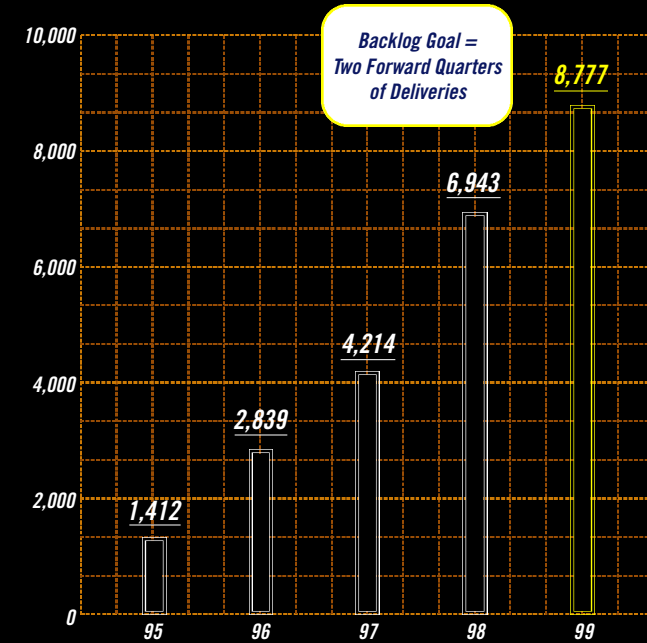
Lots Owned and Controlled as of 11/30/99

- CALIFORNIA
- NEVADA
- TEXAS
- COLORADO
- ARIZONA
- NEW MEXICO AND UTAH
- FOREIGN



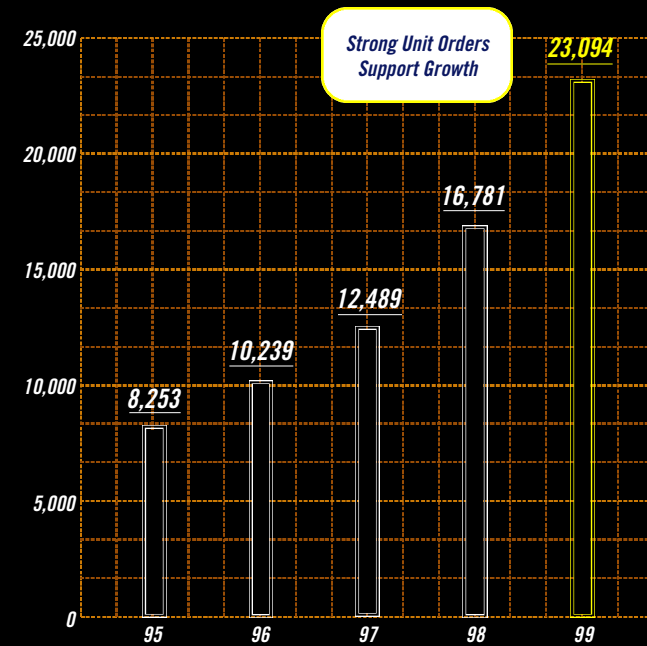
Unit Deliveries

Compound Annual Growth Rate = 30.0%



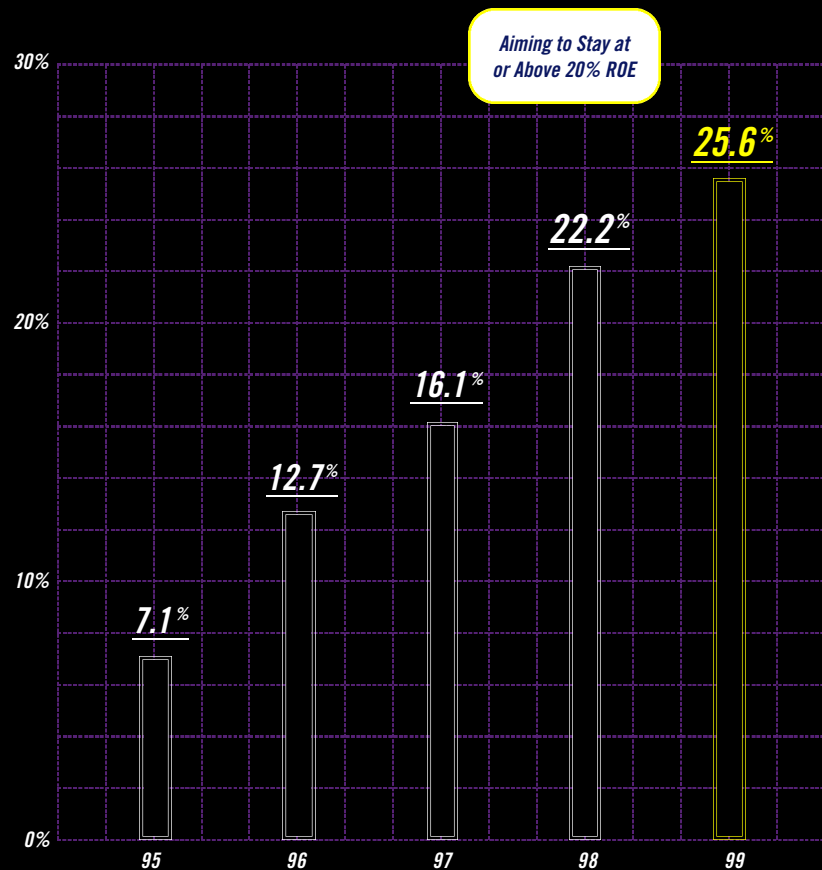
Unit Backlog

Compound Annual Growth Rate = 57.9%

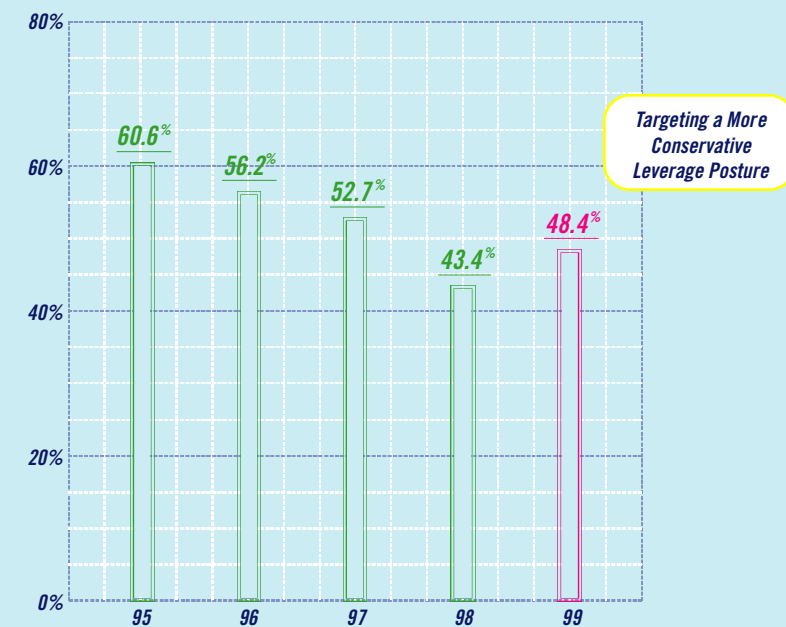


Net Unit Orders

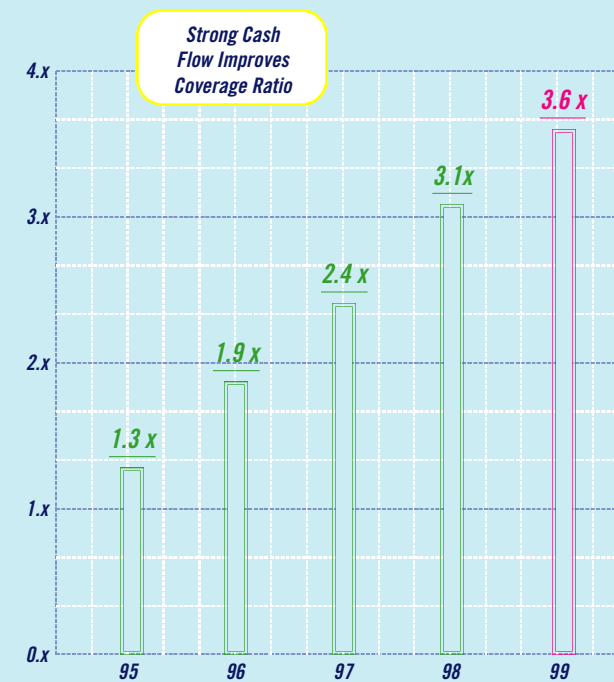
Compound Annual Growth Rate = 29.3%



Return on Equity



Net Debt to Total Capital



EBITDA* to Fixed Charge Coverage Ratio

* Earnings Before Interest, Tax, Depreciation, and Amortization

Selected Financial Information

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

Years Ended November 30,	1999	1998	1997	1996	1995
Construction:					
Revenues	\$3,772,121	\$2,402,966	\$1,843,614	\$1,754,147	\$1,366,866
Operating income (loss)*	259,107	148,672	101,751	(72,078)	65,531
Total assets	2,214,076	1,542,544	1,133,861	1,000,159	1,269,208
Mortgages and notes payable	813,424	529,846	496,869	442,629	639,575
Mortgage banking:					
Revenues	\$ 64,174	\$ 46,396	\$ 35,109	\$ 33,378	\$ 30,979
Operating income*	17,464	21,413	14,508	12,740	9,348
Total assets	450,159	317,660	285,130	243,335	304,971
Notes payable	377,666	239,413	200,828	134,956	151,000
Collateralized mortgage obligations	36,219	49,264	60,058	68,381	84,764
Consolidated:					
Revenues	\$3,836,295	\$2,449,362	\$1,878,723	\$1,787,525	\$1,397,845
Operating income (loss)*	276,571	170,085	116,259	(59,338)	74,879
Net income (loss)*	147,469	95,267	58,230	(61,244)	29,059
Total assets	2,664,235	1,860,204	1,418,991	1,243,494	1,574,179
Mortgages and notes payable	1,191,090	769,259	697,697	577,585	790,575
Collateralized mortgage obligations	36,219	49,264	60,058	68,381	84,764
Mandatorily redeemable preferred securities (Feline Prides)	189,750	189,750			
Stockholders' equity*	676,583	474,511	383,056	340,350	415,478
Basic earnings (loss) per share*	\$ 3.16	\$ 2.41	\$ 1.50	\$ (1.80)	\$.59
Diluted earnings (loss) per share*	3.08	2.32	1.45	(1.80)	.58
Cash dividends per common share	.30	.30	.30	.30	.30

*Reflects an \$18.2 million mortgage banking pretax secondary marketing trading loss recorded in the third quarter of 1999 and a \$170.8 million construction pretax noncash charge for impairment of long-lived assets recorded in the second quarter of 1996.

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Overview Revenues are primarily generated from the Company's (i) housing operations in the western United States and France and (ii) its domestic mortgage banking operations.

The Company achieved record performance levels for the second consecutive year in 1999, with net income of \$147.5 million and unit deliveries totaling 22,422. During the year, the Company remained focused on two primary initiatives it originally established in 1997: deepening the implementation of its KB2000 operational business model and continuing growth. To advance these initiatives, the Company also concentrated on two complementary strategies consisting of establishing optimally large local market positions and maintaining its focus on integrating strategic acquisitions.

The Company made two strategic acquisitions during early 1999 which fueled its growth and contributed to the achievement of record results. In January 1999, the Company completed its acquisition of Lewis Homes, which greatly supplemented growth in the Company's existing California and Nevada markets. Also in January 1999, the Company purchased the remaining minority interest in Houston-based General Homes.

Total Company revenues increased to a record \$3.84 billion in 1999, up 56.6% from \$2.45 billion in 1998, which had increased 30.4% from revenues of \$1.88 billion in 1997. The 1999 increase primarily resulted from higher housing and land sale revenues, as well as increased revenues from mortgage banking operations. Operating results for 1999 include the results of Lewis Homes from the January 1999 acquisition date as well as the first full year of results from the acquisitions of Houston-based Hallmark Residential Group ("Hallmark") and Phoenix/Tucson-based Estes Homebuilding Co. ("Estes") and the assets of Denver-based PrideMark Homebuilding Group ("PrideMark"), all of which the Company completed in the second quarter of 1998. Operating results for 1999 also reflect the acquisition of the remaining minority interest of General Homes, which occurred on January 4, 1999. The increase in revenues in 1998 compared to 1997 was primarily due to higher housing and land sale revenues, as well as increased revenues from mortgage banking operations. In addition, 1998 operating results included revenues from the acquisitions of Hallmark, PrideMark and Estes, as of their respective second quarter 1998 acquisition dates. Results for 1998 also reflected the Company's acquisition of a majority interest in General Homes in August 1998. Included in total Company revenues were mortgage banking revenues of \$64.2 million in 1999, \$46.4 million in 1998 and \$35.1 million in 1997.

Net income increased \$52.2 million or 54.8% to \$147.5 million or \$3.08 per diluted share in 1999, both Company records, up from \$95.3 million or \$2.32 per diluted share in 1998. Net income and diluted earnings per share for 1999 include the impact of a third quarter secondary marketing trading loss, resulting from unauthorized trading by an employee at the Company's mortgage banking subsidiary. The loss totaled \$11.8 million, or \$.25 per diluted share, on an after tax basis. Excluding the impact of the trading loss, diluted earnings per share for 1999 were \$3.33. The growth in diluted earnings per share occurred despite the trading loss and despite an increase of 16.6% in the diluted average number of common shares outstanding in 1999, as a result of the Lewis Homes acquisition which closed on January 7, 1999. The increase in diluted earnings per share in 1999 was principally driven by significantly higher unit deliveries, an improved construction gross margin and a reduction in the selling, general and administrative expense ratio. Net income of \$95.3 million or \$2.32 per diluted share in 1998 was 63.6% higher than the \$58.2 million or \$1.45 per diluted share recorded in 1997. Net income increased in 1998 mainly due to increases in unit deliveries and construction gross margin and increased mortgage banking pretax income. The Company's 1998 operating results also benefited from the earnings contributions of the three acquisitions completed during the second quarter of 1998, as well as the acquisition of a majority interest in General Homes.

CONSTRUCTION

Revenues Construction revenues increased in 1999 to \$3.77 billion from \$2.40 billion in 1998, which had increased from \$1.84 billion in 1997. The improvement in 1999 was mainly the result of increased housing revenues, due, among other things, to the acquisition of Lewis Homes in 1999, the inclusion of a full year's operating results from the operations in Houston, Denver and Phoenix/Tucson acquired during 1998, and higher land sale revenues. In 1998, the increase in revenues primarily reflected increased housing revenues, partly due to the operations in Houston, Denver and Phoenix/Tucson acquired during the year, and increased revenues from land sales.

	California	Other U.S.	Foreign	Total
Unit Deliveries				
1999				
First	1,199	2,757	323	4,279
Second	1,430	3,221	488	5,139
Third	1,629	3,526	948	6,103
Fourth	2,065	4,106	730	6,901
Total	6,323	13,610	2,489	22,422
Unconsolidated joint ventures		38		38
1998				
First	1,022	1,341	266	2,629
Second	1,124	1,938	347	3,409
Third	1,225	2,567	375	4,167
Fourth	1,487	2,852	669	5,008
Total	4,858	8,698	1,657	15,213
Net Orders				
1999				
First	1,572	3,514	535	5,621
Second	2,104	4,198	917	7,219
Third	1,660	3,177	510	5,347
Fourth	1,314	2,908	647	4,869
Total	6,650	13,797	2,609	23,056
Unconsolidated joint ventures		38		38
1998				
First	1,269	2,062	385	3,716
Second	1,391	2,907	563	4,861
Third	1,117	2,387	379	3,883
Fourth	985	2,630	706	4,321
Total	4,762	9,986	2,033	16,781

	California	Other U.S.	Foreign	Total
Ending Backlog-Units				
1999				
First	1,925	6,095	1,196	9,216
Second	2,599	7,072	1,625	11,296
Third	2,630	6,723	1,456	10,809
Fourth	1,879	5,306	1,373	8,558
Unconsolidated joint ventures		219		219
1998				
First	1,563	3,011	727	5,301
Second	1,830	4,808	943	7,581
Third	1,722	4,961	947	7,630
Fourth	1,220	4,739	984	6,943
Ending Backlog-Value In thousands				
1999				
First	\$449,993	\$760,283	\$196,028	\$1,406,304
Second	613,466	913,523	270,229	1,797,218
Third	631,823	882,538	235,544	1,749,905
Fourth	457,439	696,482	228,213	1,382,134
Unconsolidated joint ventures		33,945		33,945
1998				
First	\$337,424	\$363,340	\$ 98,378	\$ 799,142
Second	394,144	588,820	136,929	1,119,893
Third	388,998	594,575	148,464	1,132,037
Fourth	288,317	560,307	151,668	1,000,292

Housing revenues totaled a record \$3.73 billion in 1999, \$2.38 billion in 1998 and \$1.83 billion in 1997. The increase in 1999 reflected a 47.4% increase in unit volume and a 6.5% rise in the average selling price. Excluding the impact of acquisitions within the trailing twelve-month period, housing revenues and unit deliveries rose 21.3% and 15.2%, respectively. In 1998, housing revenues totaled \$2.38 billion, up 30.2% from 1997 as a result of a 33.0% increase in unit volume, partially offset by a 2.1% decline in average selling price. California housing operations generated 41.7% of Company-wide housing revenues in 1999, down from 45.8% in 1998 and 54.0% in 1997, mainly as a result of the Company's strategic acquisition activities and continued expansion of its Other U.S. operations. (The Company's housing operations in Arizona, Colorado, Nevada, New Mexico, Texas and Utah are collectively referred to as "Other U.S."). Housing revenues from California operations were \$1.56 billion in 1999, up 42.6% from \$1.09 billion in 1998. Other U.S. housing revenues totaled \$1.77 billion in 1999, up 70.8% from \$1.04 billion in 1998. Increased housing revenues in California and Other U.S. operations in 1999 were due to acquisition activities and improved market conditions. Operations in France generated housing revenues of \$403.4 million in 1999, an increase of 68.1% compared to \$240.0 million in 1998, reflecting increases in housing deliveries and substantial improvement in the French housing market. In 1997, housing revenues from operations in France totaled \$160.5 million.

Housing deliveries rose 47.4% to 22,422 units in 1999, surpassing the previous Company-wide record of 15,213 units established in 1998. This improvement reflected increases in U.S. and French deliveries of 47.0% and 53.2%, respectively. Growth in domestic deliveries was comprised of a 30.2% increase in California and a 56.5% increase in Other U.S. operations. In California, deliveries rose to 6,323 units in 1999 from 4,858 units in 1998, reflecting a 34.4% increase in the average number of active communities in the state. Other U.S. operations delivered 13,610 units in 1999, up from 8,698 units in 1998 as the average number of active communities rose 53.9% to 177. Excluding the impact of acquisitions within the trailing twelve-month period, domestic unit deliveries rose 12.2% in 1999 from the previous year. French deliveries increased 53.2% to 2,465 units in 1999 from 1,609 units in 1998, partly due to improved market conditions.

Housing deliveries increased 33.0% to 15,213 units in 1998 from 11,443 units in 1997. This improvement reflected increases in U.S. and French operations of 30.7% and 55.9%, respectively. Growth in domestic deliveries was primarily driven by a 54.2% increase in results from Other U.S. operations, to 8,698 units in 1998 from 5,642 units in 1997, and a 2.7% rise in California deliveries to 4,858 units in 1998 from 4,731 units in 1997. The increase in California deliveries occurred despite a 17.9% year over year decline in the Company's average number of active communities in the state to 64. Unit deliveries in Other U.S. operations in 1998 included 1,702 deliveries from companies acquired that year. Excluding results from these acquisitions, deliveries from Other U.S. operations increased 24.0% to 6,996 units, from 5,642 units delivered in 1997, due to a higher average number of active communities in existing Other U.S. businesses. In 1998, French deliveries increased from the previous year primarily as a result of the inclusion of a full year of results from SMCI. The Company acquired SMCI, a builder of condominiums in Paris and other cities in France, in mid-1997.

The Company-wide average new home price increased 6.5% in 1999, to \$166,500 from \$156,400 in 1998. The 1998 average had decreased 2.1% from \$159,700 in 1997. The increase in the average selling price in 1999 reflected the inclusion of somewhat higher-priced deliveries in California and Nevada related to the Lewis Homes acquisition, as well as higher prices in France. In addition, the Company increased prices in certain fast selling, hard to replace communities due to improved market conditions in several of its major markets. These price increases were partially offset by a higher proportion of lower-priced deliveries from Other U.S. markets. Other U.S. operations accounted for 68.3% of domestic deliveries in 1999 compared to 64.2% in 1998. The decrease in 1998 was primarily due to the Company's decision to generate a greater proportion of lower-priced domestic unit deliveries (primarily from Other U.S. operations) as well as to the lower average selling price in France resulting from the inclusion of SMCI deliveries.

In California, the average selling price rose 9.6% in 1999 to \$246,000 from \$224,500 in 1998, which had increased 7.7% from \$208,500 in 1997. The average selling price in Other U.S. markets increased 9.1% to \$129,900 in 1999, compared with \$119,100 in 1998 and \$118,700 in 1997. Domestic price increases in 1999 resulted from the inclusion of higher-priced deliveries from the Lewis Homes operations in California and Nevada and selected increases in sales prices in certain markets due to favorable market conditions. In 1998, the increase in the Company's California average selling price resulted from strategic increases in sales prices in certain markets based on improved market conditions, as well as a change in product mix favoring a greater number of higher-priced urban in-fill locations and first-time move-up sales.

The Company's average selling price in France rose to \$163,600 in 1999 from \$149,200 in 1998, which had decreased from \$155,500 in 1997. The average selling price in France rose in 1999 primarily due to a change in the mix of deliveries and price appreciation in the French housing market. The French average selling price had declined in 1998 primarily due to the inclusion of a full year of lower-priced deliveries generated from SMCI developments acquired in 1997.

Revenues from the development of commercial buildings, all located in metropolitan Paris, totaled \$.7 million in 1999, \$1.5 million in 1998 and \$2.7 million in 1997.

Land sale revenues totaled \$37.8 million in 1999, \$22.5 million in 1998 and \$13.6 million in 1997. Generally, land sale revenues fluctuate with decisions to maintain or decrease the Company's land ownership position in certain markets based upon the volume of its holdings, the strength and number of competing developers entering particular markets at given points in time, the availability of land in markets served by the Company and prevailing market conditions. Land sales are expected to increase in 2000 in connection with the Company's review of its assets and businesses for the purpose of monetizing non-strategic or marginal positions.

Operating Income Operating income increased 74.3% to a new Company record of \$259.1 million in 1999 from \$148.7 million in 1998. The increase was primarily due to higher housing gross profits, resulting from higher unit volume partially offset by increased selling, general and administrative expenses. Housing gross profits in 1999 increased 58.1% or \$265.2 million to \$721.6 million from \$456.4 million in 1998. As a percentage of related revenues, housing gross profit margin was 19.3% in 1999, up from 19.2% in the prior year. This increase in housing gross margin was primarily due to efficient home designs and construction costs in KB2000 communities, and overall improved market conditions, as well as market-driven price increases in selected communities, particularly in California. Company-wide land sales produced losses of \$1.2 million and \$3.2 million in 1999 and 1998, respectively.

Selling, general and administrative expenses increased 51.5%, or \$156.7 million in 1999 to \$461.3 million. As a percentage of housing revenues, to which these expenses are most closely correlated, selling, general and administrative expenses decreased .4 percentage points to 12.4% in 1999 from 12.8% in 1998. The improvement in the selling, general and administrative expense ratio was due to the strong increase in unit volume and reduced reliance on sales initiatives, partially offset by increased expenditures for information systems in support of the KB2000 operational business model and the Company's year 2000 compliance plan, and by goodwill amortization and other expenses related to the Lewis Homes transaction.

Operating income increased to \$148.7 million in 1998 from \$101.8 million in 1997. This increase was primarily due to higher housing gross profits, resulting from higher unit volume, partially offset by increased selling, general and administrative expenses. Housing gross profits in 1998 increased 37.5% or \$124.5 million from \$331.9 million in 1997. As a percentage of related revenues, housing gross profit margin was 19.2% in 1998, up from 18.2% in 1997. Housing gross margin increased primarily due to the rising proportion of higher margin deliveries produced by KB2000 communities, as well as price increases in certain fast-selling, hard to replace communities, particularly in certain California markets. Company-wide land sales produced losses of \$3.2 million and \$1.4 million in 1998 and 1997, respectively.

Selling, general and administrative expenses increased by 32.9% or \$75.5 million to \$304.6 million in 1998. However, as a percentage of housing revenues, selling, general and administrative expenses increased .3 percentage points to 12.8% in 1998 from 12.5% in 1997. This increase was mainly due to the inclusion of selling, general and administrative expenses of acquired entities, including goodwill amortization, expenditures incurred in connection with extensive information systems revisions required to support the KB2000 operational business model, system conversions related to acquisitions and initial efforts toward year 2000 compliance, new market entries in Texas and higher third-party sales commissions. Sales commissions rose because a higher percentage of domestic sales were generated from third-party brokers as part of the KB2000 operational business model.

Interest Income and Expense Interest income, which is generated from short-term investments and mortgages receivable, amounted to \$7.8 million in 1999, \$5.7 million in 1998 and \$5.1 million in 1997. Increases in interest income in 1999 and 1998 primarily reflected increases in the interest bearing average balances of mortgages receivable each year. In 1999, a higher average balance of short-term investments also contributed to the increase in interest income.

Interest expense results principally from borrowings to finance land purchases, housing inventory and other operating and capital needs. In 1999, interest expense, net of amounts capitalized, increased to \$28.3 million from \$23.3 million in 1998. Gross interest incurred in 1999 was \$23.7 million higher than that incurred in 1998, reflecting an increase in average indebtedness, primarily as a result of the Lewis Homes acquisition and growth in the number of new communities in 1999.

The percentages of interest capitalized in 1999 and 1998 were 63.7% and 57.0%, respectively. The higher capitalization rate in 1999 resulted from the effect of the issuance of Feline Prides in the third quarter of 1998 and a higher proportion of land under development in 1999 compared to the previous year. The amounts of interest capitalized as a percentage of gross interest incurred and distributions associated with the Feline Prides were 53.3% in 1999 and 51.3% in 1998.

In 1998, interest expense, net of amounts capitalized, decreased to \$23.3 million from \$29.8 million in 1997 primarily due to the issuance of Feline Prides in the third quarter of 1998, as distributions associated with the Feline Prides are included in minority interests rather than interest expense.

Gross interest incurred in 1998 was higher than that incurred in 1997 by \$1.8 million, reflecting an increase in average indebtedness in 1998, partially offset by a lower average interest rate as a result of more favorable financing terms obtained by the Company due to the redemption of its \$100.0 million 10¾% senior notes and the issuance of \$175.0 million of 7¼% senior notes in the fourth quarter of 1997. The percentage of interest capitalized in 1998 increased from the 43.1% capitalized in 1997, due to the issuance of Feline Prides in 1998 and a higher proportion of land under development in 1998 compared to 1997.

In 1998, the Company issued \$189.8 million of Feline Prides and used the proceeds to immediately pay down outstanding debt under its domestic unsecured revolving credit facility. The distributions associated with the Feline Prides are included in minority interests; therefore, interest expense in future periods will generally be lower than it would be without this financing.

Minority Interests Minority interests are comprised of two major components: pretax income of consolidated subsidiaries and joint ventures related to residential and commercial activities; and distributions associated with Feline Prides issued in July 1998. Operating income was reduced by minority interests of \$29.4 million in 1999, \$7.0 million in 1998 and \$4 million in 1997. Minority interests increased in 1999 and 1998 due to the inclusion of \$15.2 million and \$6.1 million, respectively, in distributions related to the Feline Prides. In 1999, increased joint venture activity also contributed to the rise in minority interests. In the aggregate, minority interests are expected to remain at higher levels due to increased joint venture activity and distributions associated with the Feline Prides.

Equity in Pretax Income (Loss) of Unconsolidated Joint Ventures The Company's unconsolidated joint venture activities, located in California, Nevada, New Mexico, Texas and France, posted combined revenues of \$13.9 million in 1999, \$17.7 million in 1998 and \$98.2 million in 1997. All unconsolidated joint venture revenues in 1999 were generated from residential properties. French commercial activities accounted for \$6.5 and \$87.7 million of the combined revenues in 1998 and 1997, respectively. Combined revenues recorded by the Company's joint ventures fluctuated during the three-year period mainly due to the sale of a French commercial project in 1997. Unconsolidated joint ventures generated combined pretax income of \$3.6 million in 1999, compared with pretax income of \$5.0 million and a pretax loss of \$2.9 million in 1998 and 1997, respectively. The Company's share of pretax income from unconsolidated joint ventures totaled \$2 million in 1999 and \$1.2 million in 1998. In 1997, the Company's share of pretax losses totaled \$1 million.

MORTGAGE BANKING

Interest Income and Expense The Company's mortgage banking operations provide financing principally to purchasers of homes sold by the Company's domestic housing operations through the origination of residential mortgages. Interest income is earned primarily from first mortgages, and mortgage-backed securities held for long-term investment as collateral, while interest expense results from notes payable and the collateralized mortgage obligations. Interest income increased to a record \$19.2 million in 1999 from \$15.6 million in 1998 and \$13.3 million in 1997. Interest expense also reached record levels, increasing to \$16.9 million in 1999 from \$15.0 million in 1998 and \$12.7 million in 1997. In both 1999 and 1998, interest income increased primarily due to a higher balance of first mortgages held under commitments of sale and other receivables outstanding compared to the previous year.

Interest expense rose in both 1999 and 1998 due to a higher amount of notes payable outstanding compared to the prior year. Combined interest income and expense resulted in net interest income of \$2.3 million in 1999 and \$.6 million in both 1998 and 1997. These differences reflect variations in mortgage production mix; movements in short-term versus long-term interest rates; and the amount, timing and rates of return on interim reinvestments of monthly principal amortization and prepayments.

Other Mortgage Banking Revenues Other mortgage banking revenues, which principally consist of gains on sales of mortgages, servicing rights and, to a lesser extent, mortgage servicing fees and insurance commissions, totaled \$45.0 million in 1999, \$30.8 million in 1998 and \$21.8 million in 1997. The increases in 1999 and 1998 reflected higher gains on the sales of mortgages and servicing rights due to a higher volume of mortgage originations associated with increases in housing unit volume and improved retention in the United States. In addition, in 1998 a more favorable mix of fixed to variable interest rate loans contributed to the increased revenues.

General and Administrative Expenses General and administrative expenses associated with mortgage banking operations increased to \$11.6 million in 1999 from \$9.9 million in 1998 and \$7.9 million in 1997. The increases in general and administrative expenses in both 1999 and 1998 were primarily due to higher mortgage production volume.

Secondary Marketing Trading Loss On August 31, 1999, the Company disclosed that it had discovered unauthorized mortgage loan trading activity by an employee of its mortgage banking subsidiary resulting in a pretax trading loss of \$18.2 million (\$11.8 million, or \$.25 per diluted share, on an after tax basis). It is normal practice for the Company's mortgage banking subsidiary to sell loans into the market that approximately match loan commitments to the Company's homebuyers. This practice is intended to hedge exposure to changes in interest rates that may occur until loans are sold to secondary market investors in the ordinary course of business. The loss was the result of a single employee engaging in unauthorized mortgage loan trading largely unrelated to mortgage originations. The employee who conducted the unauthorized trading was terminated.

INCOME TAXES

The Company recorded income tax expense of \$79.4 million in 1999, \$51.3 million in 1998 and \$32.8 million in 1997. These amounts represented effective income tax rates of approximately 35.0% in both 1999 and 1998 and 36.0% in 1997. The effective tax rate declined in 1998 as a result of greater utilization of affordable housing tax credits. Pretax income for financial reporting purposes and taxable income for income tax purposes historically have differed primarily due to the impact of state income taxes, foreign tax rate differences, intercompany dividends and the use of tax credits.

LIQUIDITY AND CAPITAL RESOURCES

The Company assesses its liquidity in terms of its ability to generate cash to fund its operating and investing activities. Historically, the Company has funded its construction and mortgage banking activities with internally generated cash flows and external sources of debt and equity financing. In 1999, operating, investing and financing activities used net cash of \$35.0 million; in 1998, these activities used net cash of \$4.9 million.

Operating activities in 1999 provided \$106.8 million, while 1998 operating activities used \$12.8 million. In 1999, cash was provided by earnings of \$147.5 million, an increase of \$130.3 million in accounts payable, accrued expenses and other liabilities, and various noncash items deducted from net income. The cash provided was partially offset by an increase in receivables of \$184.1 million and an investment of \$38.8 million in inventories (excluding the effect of acquisitions and \$43.5 million of inventories acquired through seller financing). Excluding the effect of the Company's acquisitions, inventories increased in 1999, primarily in domestic operations, reflecting continued growth throughout U.S. markets.

In 1998, uses of operating cash included an investment of \$125.7 million in inventories (excluding the effect of acquisitions and \$29.9 million of inventories acquired through seller financing) and an increase in receivables of \$50.0 million. The use of cash was partially offset by earnings of \$95.3 million, an increase of \$51.3 million in accounts payable, accrued expenses and other liabilities, and various noncash items deducted from net income.

Cash used by investing activities totaled \$34.0 million in 1999 compared to \$161.8 million in 1998. In 1999, \$19.2 million was used for net purchases of property and equipment, \$15.0 million was used for investments in unconsolidated joint ventures, \$11.6 million, net of cash acquired, was used for acquisitions, and \$2.8 million was used for originations of mortgages held for long-term investment. Partially offsetting these uses were \$14.6 million of proceeds received from mortgage-backed securities, which were principally used to pay down collateralized mortgage obligations for which the mortgage-backed securities had served as collateral.

In 1998, cash used by investing activities included \$162.8 million, net of cash acquired, used for acquisitions and \$15.9 million used for net purchases of property and equipment. Among amounts partially offsetting these uses were \$12.9 million of proceeds received from mortgage-backed securities, \$2.2 million in distributions related to investments in unconsolidated joint ventures and \$1.7 million from the net sales of mortgages held for long-term investment.

Financing activities in 1999 used \$107.8 million of cash compared to \$169.8 million provided in 1998. In 1999, the Company's uses of cash included repurchases of common stock of \$81.9 million, payments to minority interests of \$43.7 million, cash dividend payments of \$14.2 million and payments on collateralized mortgage obligations of \$14.1 million. Partially offsetting these uses was cash provided from net proceeds from borrowings of \$46.1 million. The Company's financial leverage, as measured by the ratio of debt to total capital, net of invested cash, was 48.4% at the end of 1999 compared to 43.4% at the end of 1998. The ratios were adjusted to reflect \$.7 million and \$20.2 million of invested cash at November 30, 1999 and 1998, respectively. The Company seeks to maintain its ratio of debt to total capital within a targeted range of 45% to 55%, and achieved this goal in 1999 despite its share repurchase program and the impact of the secondary marketing trading loss. The Company believes its debt to total capital ratio for 1999 reflects the initial impact of a strategic review of its assets and businesses initiated late in the year. The debt to capital ratio at the end of 1998 was impacted by an increase in capital from the offering of \$189.8 million of Feline Prides in the third quarter of 1998.

Financing activities in 1998 provided \$183.1 million from the issuance of Feline Prides and \$17.9 million in net proceeds from borrowings. Partially offsetting cash provided in 1998 were payments to minority interests of \$7.0 million, payments on collateralized mortgage obligations of \$12.3 million and cash dividend payments of \$11.9 million.

During the second quarter of 1998, the Company acquired three privately held homebuilders with regional operations in certain key markets. On March 19, 1998, the Company acquired all of the issued and outstanding capital stock of Houston-based Hallmark for approximately \$54.0 million, including the assumption of debt. Hallmark built single-family homes primarily in Houston (with additional operations in San Antonio and Austin, Texas) under the trade names of Dover Homes and Ideal Builders. The acquisition of Hallmark marked the Company's entry into the Houston market and formed the core of those operations, while strengthening its existing market positions in San Antonio and Austin.

The Company acquired substantially all of the assets of Denver-based PrideMark on March 23, 1998 for approximately \$65.0 million, including the assumption of trade liabilities and debt. PrideMark built single-family homes in Denver, Colorado, and its acquisition significantly increased the Company's already substantial market presence in Denver.

On April 9, 1998, the Company acquired all of the issued and outstanding capital stock of Estes for approximately \$48.0 million, including the assumption of debt. Estes built single-family homes in Phoenix and Tucson, Arizona. Estes provided the Company's entry into the Tucson market and significantly increased its already substantial market presence in Phoenix.

On August 18, 1998, the Company acquired a majority ownership investment in General Homes, a builder of single-family homes primarily in Houston, Texas. The Company invested approximately \$31.8 million, including the assumption of debt, to acquire 50.3% of the outstanding stock of General Homes, pursuant to a completed plan of reorganization. Effective January 4, 1999, the Company invested approximately \$14.5 million to acquire the remaining 49.7% of the outstanding stock of General Homes, bringing its ownership interest to 100%.

Each acquisition and investment was accounted for under the purchase method and the results of operations of the acquired entities were included in the Company's consolidated financial statements as of their respective dates of acquisition. Each of these was financed by borrowings under the Company's domestic unsecured revolving credit facility.

Effective January 7, 1999, the Company acquired substantially all of the homebuilding assets of Lewis Homes. Lewis Homes was engaged in the acquisition, development and sale of residential real estate in California and Nevada. Prior to the acquisition, Lewis Homes was one of the largest privately held single-family homebuilders in the United States based on units delivered, with revenues for the year ended December 31, 1998 of \$715 million on 3,631 unit deliveries. Lewis Homes also owned or controlled approximately 24,000 lots and had a backlog of approximately 900 homes at December 31, 1998. Lewis Homes' principal markets were Las Vegas and Northern Nevada, Southern California and the greater Sacramento area in Northern California.

The purchase price for Lewis Homes was approximately \$449.2 million, comprised of the assumption of approximately \$303.2 million in debt and the issuance of 7.9 million shares of the Company's common stock valued at approximately \$146.0 million. The purchase price was based on the

December 31, 1998 net book values of the entities purchased. The excess of the purchase price over the estimated fair value of net assets acquired was \$177.6 million and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years. The shares of Company common stock issued in the acquisition are "restricted" shares and may not be resold without a registration statement or compliance with Securities and Exchange Commission regulations that limit the number of shares that may be resold in a given period. The Company has agreed to file a registration statement for those shares in three increments at the Lewis family's request from July 1, 2000 to July 1, 2002. Under the terms of the purchase agreement, a Lewis family member has also been appointed to the Company's Board of Directors.

In connection with the acquisition of Lewis Homes, the Company obtained a \$200 million unsecured Term Loan Agreement with various banks to refinance certain debt assumed. The Term Loan Agreement dated January 7, 1999 provides for three payments of \$25 million, due on January 31, 2000, April 30, 2000 and July 31, 2000, with the remaining principal balance due on April 30, 2001. Interest is payable monthly at the London Interbank Offered Rate plus an applicable spread. Under the terms of the Term Loan Agreement, the Company is required, among other things, to maintain certain financial statement ratios and a minimum net worth and is subject to limitations on acquisitions, inventories and indebtedness. The financing obtained under the Term Loan Agreement did not affect the amounts available under the pre-existing borrowing arrangements, although the Company used borrowings under its \$500 million domestic unsecured revolving credit facility to refinance certain other debt assumed in the Lewis Homes acquisition.

The acquisition consideration for Lewis Homes was determined by arms-length negotiations between the parties. The acquisition was accounted for as a purchase, with the results of Lewis Homes included in the Company's consolidated financial statements as of January 7, 1999.

During the second half of 1999, the Company completed the acquisition of the outstanding shares of Park, a French apartment builder, for a total price of approximately \$16.6 million. The acquisition was financed by a three-year bank loan that provides for interest at the Euro Interbank Offered Rate Plus 1.45%. The acquisition was accounted for under the purchase method, and the results of operations of the builder are included in the Company's consolidated financial statements as of the date of purchase. The excess of the purchase price over the estimated fair value of net assets acquired was \$10.0 million and was allocated to goodwill. The Company is amortizing goodwill related to the acquisition on a straight-line basis over a period of ten years.

On August 4, 1999, the Company's Board of Directors authorized a share repurchase program which allowed the Company to purchase up to 2.5 million shares of the Company's common stock at prices not to exceed \$28 per share. The Company repurchased all of the 2.5 million shares originally authorized and on November 1, 1999, the Board of Directors authorized the repurchase of up to 4.0 million additional shares of Company common stock. As of November 30, 1999, the Company had repurchased 3.8 million shares under the repurchase program.

As of February 3, 2000, the Company had repurchased a total of 6.5 million shares of the Company's common stock under authorizations made by the Board of Directors on August 4, 1999 and November 1, 1999. On February 3, 2000, the Company's Board of Directors authorized the repurchase of up to an additional 4.0 million shares of the Company's common stock.

In connection with the repurchase program, on August 27, 1999, the Company established a grantor stock ownership trust (the "Trust") into which the repurchased shares are transferred. The Trust, administered by an independent trustee, acquires, holds and distributes the shares of common stock for the purpose of funding certain employee compensation and employee benefit obligations of the Company under its existing stock option, 401(k) and other employee benefit plans. The existence of the Trust will have no impact on the amount of benefits or compensation that will be paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheet. The difference between the Trust share value and the fair market value on the date shares are released from the Trust, for the benefit of employees, will be included in additional paid-in capital. Common stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 3.8 million shares of common stock at November 30, 1999. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

External sources of financing for the Company's construction activities include its domestic unsecured revolving credit facility, other domestic and foreign bank lines, third-party secured financings, and the public debt and equity markets. Substantial unused lines of credit remain available for the Company's future use, if required, principally through its domestic unsecured revolving credit facility. Under this facility, \$500.0 million remained committed and \$416.9 million was available for the Company's future use at November 30, 1999. The domestic unsecured revolving credit facility is comprised of a \$400 million revolving credit facility scheduled to expire on April 30, 2001 and a 364-day revolving credit facility which has provisions for annual renewal. In addition, the Company's French subsidiaries have lines of credit with various banks which totaled \$198.7 million at November 30, 1999 and have various committed expiration dates through November 2001. Under these unsecured financing agreements, \$148.8 million was available in the aggregate at November 30, 1999.

Depending upon available terms and its negotiating leverage related to specific market conditions, the Company also finances certain land acquisitions with purchase-money financing from land sellers and other third parties. At November 30, 1999, the Company had outstanding seller-financed notes payable of \$30.6 million secured primarily by the underlying property which had a carrying value of \$106.3 million.

On December 5, 1997, the Company filed a universal shelf registration statement with the Securities and Exchange Commission for up to \$500 million of the Company's debt and equity securities. The universal shelf registration provides that securities may be offered from time to time in one or more series and in the form of senior, senior subordinated or subordinated debt, preferred stock, common stock, and/or warrants to purchase such securities. The registration was declared effective on December 16, 1997, and no securities have been issued thereunder.

On July 7, 1998, the Company, together with a KBHC Trust that is wholly owned by the Company, issued an aggregate of (i) 18,975,000 Feline Prides, and (ii) 1,000,000 KBHC Trust capital securities, with a \$10 stated liquidation amount. The Feline Prides consisted of (i) 17,975,000 Income Prides with the stated amount per Income Prides of \$10, which are units comprised of a capital security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments, and (ii) 1,000,000 Growth Prides with a face amount per Growth Prides equal to the \$10 stated amount, which are units consisting of a 1/100th beneficial interest in a zero-coupon U.S. treasury security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments.

The distribution rate on the Income Prides is 8.25% per annum and the distribution rate on the Growth Prides is .75% per annum. Under the stock purchase contracts, investors will be required to purchase shares of common stock of the Company for an effective price ranging between a minimum of \$31.75 per share and a maximum of \$38.10 per share, and the Company will issue approximately 5 to 6 million common shares by August 16, 2001, depending upon the price of the common stock upon settlement of the purchase contracts (subject to adjustment under certain circumstances). The capital securities associated with the Income Prides and the U.S. treasury securities associated with the Growth Prides have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts. The capital securities issued by the KBHC Trust are entitled to a distribution rate of 8% per annum of their \$10 stated liquidation amount.

The Company uses its capital resources primarily for land purchases, land development and housing construction. The Company typically manages its investments in land by purchasing property under options and other types of conditional contracts whenever possible, and similarly controls its investment in housing inventories by emphasizing the pre-sale of homes over speculative construction and carefully managing the timing of the production process. During the 1990's, the Company's inventories became geographically more diverse, primarily as a result of its extensive domestic expansion outside of California. The Company continues to concentrate its housing operations in desirable areas within targeted growth markets, principally oriented toward entry-level purchasers.

The principal sources of liquidity for the Company's mortgage banking operations are internally generated funds from the sales of mortgages and related servicing rights. Mortgages originated by the mortgage banking operations are generally sold in the secondary market within 60 days of origination. External sources of financing for these operations include a \$250.0 million revolving mortgage warehouse facility, which expires on February 23, 2000. At November 30, 1999, the mortgage banking operations had borrowed the maximum amount available under the facility. The Company's mortgage banking subsidiary is currently in the process of renewing its revolving mortgage warehouse facility.

On May 25, 1999, the Company's mortgage banking subsidiary entered into a \$150.0 million Master Loan and Security Agreement with an investment bank. The agreement, which expires on May 25, 2000, provides for a facility fee based on the \$150.0 million maximum amount available and provides for interest to be paid monthly at the Eurodollar Rate plus an applicable spread on amounts borrowed.

The amounts outstanding under the revolving mortgage warehouse facility and the Master Loan and Security agreement are secured by a borrowing base, which includes certain mortgage loans held under commitments of sale and are repayable from sales proceeds. There are no compensating balance requirements under either facility. Both facilities include financial covenants and restrictions which, among other things, require the maintenance of certain financial statement ratios, a minimum tangible net worth and a minimum net income.

Debt service on the Company's collateralized mortgage obligations is funded by receipts from mortgage-backed securities. Such funds are expected to be adequate to meet future debt-payment schedules for the collateralized mortgage obligations and therefore these securities have virtually no impact on the capital resources and liquidity of the mortgage banking operations.

The Company continues to benefit in all of its operations from the strength of its capital position, which has allowed it to maintain overall profitability during troubled economic times, finance domestic and international expansion, re-engineer product lines and diversify into new markets. Secure access to capital at competitive rates, among other reasons, should enable the Company to continue to grow and expand. As a result of its geographic diversification, the disciplines of the KB2000 operational business model and its strong capital position, the Company believes it has adequate resources and sufficient credit line facilities to satisfy its current and reasonably anticipated future requirements for funds needed to acquire capital assets and land, to construct homes, to fund its mortgage banking operations, and to meet other needs of its business, both on a short and long-term basis.

YEAR 2000 ISSUE

The term "year 2000 issue" is a general term that was used to describe the complications that were feared would arise from the use of existing computer hardware and software designed by applicable manufacturers without consideration for the change in the century as of January 1, 2000. If not corrected, software programs with this embedded problem were considered to possibly cause computer systems to fail or to miscalculate data.

During the late 1990's, the Company invested in information systems required to support its KB2000 operational business model and effectively manage and control growth. In conjunction with this investment in technology, and with respect to the year 2000 issue in particular, the Company undertook to modify or replace portions of its existing computer operating systems to ensure that they would function properly with respect to dates in the year 2000 and thereafter.

In 1998, the Company formed a "Year 2000 Project Office" to direct the Company-wide efforts encompassed by this project. During calendar year 1999, the Company successfully completed a year 2000 effort that was comprised of 13 distinct projects. Each of the projects was timely completed and certified as year 2000 compliant by key management participants. With the passing of the new year and the month of January 2000 completed, neither the Company nor any of its key vendors or other third party providers have been materially adversely impacted by technological issues associated with the turning of the century. At this time, the Company considers the risk of any year 2000 related failures or the consequences of any year 2000 failures to be extremely low. Management believes that the year 2000 issue has not and will not have any material adverse effect on the Company's liquidity, financial condition or results of operations.

Several of the projects included in the Company's year 2000 plan were projects which were necessary to support the Company's KB2000 operational business model, and would have been undertaken regardless of year 2000 exposure. The total cost of all of the Company's projects associated with its year 2000 plan was approximately \$4.0 million; however, because such projects involved conversions and upgrades that were not necessitated to meet year 2000 concerns, it is not possible to determine the portion of the total cost which is specifically attributable to year 2000 compliance efforts.

CONVERSION TO THE EURO CURRENCY

On January 1, 1999, certain member countries of the European Union (the "EU") established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The Company conducts substantial business in France, an EU member country. During the established transition period for the introduction of the euro, which extends to June 30, 2002, the Company will address the issues involved with the adoption of the new currency. The most important issues facing the Company include: converting information technology systems; reassessing currency risk; negotiating and amending contracts; and processing tax and accounting records.

Based upon progress to date, the Company believes that use of the euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the euro is not expected to have a material effect on the Company's financial condition or results of operations.

SUBSEQUENT EVENTS

On January 24, 2000, Kaufman & Broad S.A. ("KBSA"), the Company's wholly owned French subsidiary filed a preliminary public offering memorandum for the initial public offering of ordinary shares of KBSA. On February 7, 2000, KBSA successfully completed its public offering and is now listed on the Premier Marche of the ParisBourse. The offering of approximately 5.1 million shares (before exercise of the over allotment option) was made in France and in Europe and was priced at 23 euros per share, representing a total offering of approximately \$120.0 million.

Proceeds from the offering will be used to fund internal and external growth of the French homebuilding operations, obtain better financing conditions, and finance the payment of a dividend of approximately \$85.0 million to the Company, which the Company will use to reduce its domestic debt and repurchase additional shares of its common stock. The Company continues to own a majority interest in KBSA and will continue to consolidate these operations in its financial statements.

In connection with the ongoing review of its assets and operations, and to reposition its core homebuilding operations, the Company is actively exploring the sale of certain of its operating divisions. Such divisions, which do not individually or in the aggregate comprise a material portion of the Company's financial position or results of operations, operate businesses that are inconsistent with the Company's strategic focus on fewer, larger homebuilding markets to maximize execution of its KB2000 operational business model. To the extent the sale of any division occurs during fiscal year 2000 as planned, the Company does not anticipate such transactions to have a material effect on its financial position or results of operations in fiscal year 2000 or in future years.

OUTLOOK

The Company's residential backlog at November 30, 1999 consisted of 8,558 units, representing aggregate future revenues of \$1.38 billion. Both amounts established new year-end records, and reflected increases of 23.3% and 38.2%, respectively, when compared to the 6,943 units in residential backlog, representing aggregate future revenues of \$1.00 billion, at year-end 1998.

Company-wide net orders for the fourth quarter of 1999 totaled 4,869, up 12.7% from the comparable quarter of 1998. The 1999 fourth quarter net order total included orders generated by the acquired Lewis Homes operations and operations acquired in France. Excluding the impact of acquisitions within the trailing twelve-month period, Company-wide net orders decreased 12.2% in the fourth quarter of 1999 compared to the year-earlier quarter.

The Company's domestic residential backlog at November 30, 1999 increased to \$1.15 billion, up 36.0% from \$848.6 million at year-end 1998. On a unit basis, the domestic backlog stood at 7,185 units at year-end 1999, up 20.6% from 5,959 units at year-end 1998. Improvement occurred in both California and Other U.S. operations, and resulted primarily from the Lewis Homes acquisition, completed during the first quarter of 1999, higher order rates reflecting generally good market conditions throughout the United States, particularly in California, and the Company's empha-

sis on pre-sales. The success of communities designed under its KB2000 operational business model also contributed to the increase in total United States backlog levels. California operations produced substantial year-over-year growth, with backlog at November 30, 1999 rising to \$457.4 million on 1,879 units from \$288.3 million on 1,220 units at November 30, 1998. Net orders from California operations increased 33.4% in the fourth quarter of 1999 to 1,314 units, up from 985 units in the fourth quarter of 1998; however, excluding 504 net orders associated with the Company's Lewis Homes acquisition, fourth quarter net orders in California operations decreased 17.8%. In Other U.S. operations, backlog increased to \$696.5 million on 5,306 units at November 30, 1999, up from \$560.3 million on 4,739 units at November 30, 1998, as the average number of active communities rose 53.9% from the prior year. Fourth quarter 1999 net orders in Other U.S. operations increased 10.6% to 2,908 units from 2,630 units in the year-earlier period.

In France, residential backlog at November 30, 1999 totaled \$227.2 million on 1,369 units, up 55.7% and 42.5%, respectively, from \$145.9 million on 961 units at year-end 1998. French net orders decreased 7.3% to 647 units in the fourth quarter of 1999 from 698 units in the year-earlier period primarily due to existing communities selling out more quickly than expected. The value of the backlog associated with French commercial development activities totaled approximately \$1.7 million at November 30, 1999 from \$1.8 million at year end 1998, reflecting a reduced level of activity.

Substantially all homes included in the year-end 1999 backlog are expected to be delivered during 2000. However, cancellations could occur, particularly if market conditions deteriorate or mortgage interest rates increase, thereby decreasing backlog and related future revenues.

Company-wide net orders during the first two months of fiscal 2000 decreased 2.1% from the comparable period of 1999. Domestic net orders during the two-month period decreased 3.7% due to a 5.9% decrease in net orders from Other U.S. operations, partially offset by a 1.9% increase in net orders from California operations. Excluding net orders from operations acquired in the trailing twelve-month period, domestic net orders decreased 14.8% in the first two months of fiscal 2000 compared to the same period a year ago. The decrease is primarily due to higher mortgage interest rates compared to the year-earlier period. In France, net orders for the first two months of fiscal 2000 increased 12.9% compared to the same period in 1999, reflecting the inclusion of Park and new community openings. Excluding net orders from operations acquired in the trailing twelve-month period, French net orders rose 3.2% in the first two months of fiscal 2000. Full year Company-wide net order results could be further affected by current global market uncertainties, mortgage interest rate volatility, declines in consumer confidence and/or other factors.

As a result of continued domestic expansion outside of California, the percentage of domestic unit deliveries generated from California operations decreased to 31.7% in 1999 from 35.8% in 1998. On a revenue basis, these percentages were 46.8% in 1999 and 51.3% in 1998. In response to persistently weak conditions for new housing and general recessionary trends in California during the first half of the 1990's and in order to spur growth, the Company diversified its business through aggressive expansion into other western states. Since then, the housing market has improved significantly in California, and the Company remains cautiously optimistic that the improved economic climate will continue for the foreseeable future, thereby generally enabling the housing market, and the Company's business in the state to retain its strength.

Other U.S. operations continued to experience substantial growth in 1999. The acquisition of Lewis Homes' market-leading operations in Nevada, coupled with the continued expansion of preexisting Other U.S. operations, resulted in a 56.5% increase in deliveries in 1999 compared to the prior year. The Company has also achieved the most significant penetration of its KB2000 operational business model in these Other U.S. markets. The Company is seeking to continue to expand its Other U.S. operations and continues to explore opportunities to enter new markets as well as grow its existing markets.

The French housing market has continued to improve in recent years. In 1999, unit deliveries in France rose by 53.2% from the previous year, including the impact of the acquisition of Park. The Company anticipates that increases in deliveries from French housing operations in 2000 will be in line with that nation's improving economy. French commercial activities are not likely to increase materially, consistent with the strategy to focus primarily on the expansion of its residential development business. The initial public offering of KBSA, completed in February 2000, has strengthened the French business by providing it with access to additional capital to support its growth.

As the Company enters fiscal year 2000, it plans to continue to operate under the principles of the KB2000 operational business model — now renamed KBnxt — and to strive for continued growth. The Company believes its KB2000 operational business model has been instrumental in its achievement of record deliveries and earnings in 1998 and 1999. Since implementing KB2000 in 1997, the Company has leveraged the business model with additional and complementary initiatives including strategies to establish leading market positions and maintain focus on acquisitions.

In order to leverage the benefits of the KB2000/KBnxt operational business model, the Company has concentrated on a strategy designed to achieve a leading position in its major markets. By operating in fewer, larger markets at sufficiently large volume levels, the Company believes it can better execute its operational business model and use economies of scale to increase profits. The expected benefits of this strategy can include lower land acquisition costs, improved terms with suppliers and subcontractors, the ability to offer maximum choice and the best value to customers, and the retention of the best management talent.

The Company hopes to continue to increase overall unit delivery growth in future years, with its current primary growth strategies to expand existing operations to optimal market volume levels, while still exploring entry into new markets, at high volume levels, through acquisitions.

The Company expects to continue to consider acquisitions from time to time to supplement growth in existing markets and facilitate expansion into new markets. However, the Company's ability to acquire other homebuilders could be affected by several factors, including, among other things, conditions in U.S. securities markets, the Company's stock price, the general availability of applicable acquisition candidates, pricing for such transactions, competition among other national or regional builders for such target companies, changes in general and economic conditions nationally and in target markets, and capital or credit market conditions. Merger and acquisition activity within the U.S. homebuilding industry has slowed in recent months as a result of the generally depressed stock prices of leading builders.

The Company is also in the process of reviewing its assets and businesses for the purpose of monetizing non-strategic or marginal positions, and has instituted even more stringent criteria for prospective land acquisitions. Included among these initiatives is the Company's exploration of the sale of certain operating divisions, which do not individually or in the aggregate comprise a material portion of the Company's business. These initiatives are intended to increase cash flows available to reduce debt and/or repurchase additional stock. The Company believes that the improvement in its debt ratio from the end of the third quarter to the end of the fourth quarter of fiscal 1999, which occurred despite the stock buyback program, reflects the early benefits of this review.

The Company's agreement to joint venture its interest in "City Ranch", a master planned community in north Los Angeles County, California, is an example of its ongoing asset review process.

Notwithstanding the asset review, the Company hopes to continue to increase overall unit deliveries in future years. Subject to various risk factors, the Company's growth strategies include expanding existing operations to sizable market volume levels, as well as entering new markets at high volume levels, principally through acquisitions. Growth in existing markets will be driven by the Company's ability to increase the average number of active communities in its major markets through the successful implementation of its operational business model.

Based on its current projections, the Company expects to establish record earnings in fiscal 2000, although this goal could be materially affected by various risk factors such as changes in general economic conditions, either nationally or in the regions in which the Company operates or may commence operations, job growth and employment levels, home mortgage interest rates or consumer confidence, and the extent of its internal asset review, among other things. In particular, interest rates have risen since the beginning of the Company's 1999 fiscal year. Recent increases in short-term interest rates instituted by the Federal Reserve Board may give rise to further increases in mortgage interest rates. With its acquisition of companies in 1998 and 1999, including Lewis Homes, its asset repositioning program, and its high current backlog levels, the Company believes it is well-positioned to achieve record earnings in 2000.

IMPACT OF INFLATION

The Company's business is significantly affected by general economic conditions, particularly by inflation and its generally associated adverse effect on interest rates. Although inflation rates have been low in recent years, rising inflation would likely affect the Company's revenues and earning power by reducing demand for homes as a result of correspondingly higher interest rates. In periods of high inflation, the rising costs of land, construction, labor, interest and administrative expenses have often been recoverable through increased selling prices, although this has not always been possible because of high mortgage interest rates and competitive factors in the marketplace. In recent years, inflation has had no significant adverse impact on the Company, as average annual cost increases have not exceeded the average rate of inflation.

* * *

Investors are cautioned that certain statements contained in this document, as well as some statements by the Company in periodic press releases and some oral statements by Company officials to securities analysts and stockholders during presentations about the Company are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "hopes", and similar expressions constitute forward-looking statements. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the homebuilding industry, among other things. These statements are not guaranties of future performance, and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in the forward-looking statements made by the Company or Company officials due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, national or regional changes in general economic conditions, employment levels, costs of homebuilding material and labor, home mortgage and other interest rates, the secondary market for mortgage loans, competition, currency exchange rates as they affect the Company's operations in France, consumer confidence, government regulation or restrictions on real estate development, capital or credit market conditions affecting the Company's cost of capital; the availability and cost of land in desirable areas; environmental factors, governmental regulations, unanticipated violations of Company policy, property taxes, and unanticipated delays in the Company's operations.

Consolidated Statements of Income

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

Years Ended November 30,	1999	1998	1997
Total revenues	\$ 3,836,295	\$ 2,449,362	\$ 1,878,723
Construction:			
Revenues	\$ 3,772,121	\$ 2,402,966	\$ 1,843,614
Construction and land costs	(3,051,698)	(1,949,729)	(1,512,766)
Selling, general and administrative expenses	(461,316)	(304,565)	(229,097)
Operating income	259,107	148,672	101,751
Interest income	7,806	5,674	5,078
Interest expense, net of amounts capitalized	(28,340)	(23,341)	(29,829)
Minority interests	(29,392)	(7,002)	(425)
Equity in pretax income (loss) of unconsolidated joint ventures	224	1,151	(53)
Construction pretax income	209,405	125,154	76,522
Mortgage banking:			
Revenues:			
Interest income	19,186	15,569	13,303
Other	44,988	30,827	21,806
	64,174	46,396	35,109
Expenses:			
Interest	(16,941)	(15,046)	(12,699)
General and administrative	(11,614)	(9,937)	(7,902)
Secondary marketing trading loss	(18,155)		
Mortgage banking pretax income	17,464	21,413	14,508
Total pretax income	226,869	146,567	91,030
Income taxes	(79,400)	(51,300)	(32,800)
Net income	\$ 147,469	\$ 95,267	\$ 58,230
Basic earnings per share	\$ 3.16	\$ 2.41	\$ 1.50
Diluted earnings per share	\$ 3.08	\$ 2.32	\$ 1.45

See accompanying notes.

Consolidated Balance Sheets

IN THOUSANDS, EXCEPT SHARES

November 30,	1999	1998
Assets		
Construction:		
Cash and cash equivalents	\$ 15,576	\$ 56,602
Trade and other receivables	205,847	140,771
Mortgages and notes receivable	58,702	54,070
Inventories	1,521,265	1,134,402
Investments in unconsolidated joint ventures	21,290	5,608
Deferred income taxes	99,519	24,094
Goodwill	205,618	45,533
Other assets	86,259	81,464
	2,214,076	1,542,544
Mortgage banking:		
Cash and cash equivalents	12,791	6,751
Receivables:		
First mortgages and mortgage-backed securities	47,080	58,262
First mortgages held under commitments of sale and other receivables	386,076	249,702
Other assets	4,212	2,945
	450,159	317,660
Total assets	\$2,664,235	\$1,860,204
Liabilities and stockholders' equity		
Construction:		
Accounts payable	\$ 328,528	\$ 211,380
Accrued expenses and other liabilities	222,855	148,508
Mortgages and notes payable	813,424	529,846
	1,364,807	889,734
Mortgage banking:		
Accounts payable and accrued expenses	9,711	8,924
Notes payable	377,666	239,413
Collateralized mortgage obligations secured by mortgage-backed securities	36,219	49,264
	423,596	297,601
Minority interests:		
Consolidated subsidiaries and joint ventures	9,499	8,608
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	189,750	189,750
	199,249	198,358
Stockholders' equity:		
Preferred stock—\$1.00 par value; authorized, 10,000,000 shares: none outstanding		
Common stock—\$1.00 par value; authorized, 100,000,000 shares; 48,090,615 and 39,992,004 shares outstanding at November 30, 1999 and 1998, respectively	48,091	39,992
Paid-in capital	335,324	193,520
Retained earnings	376,626	243,356
Accumulated other comprehensive income	(1,584)	(2,357)
Grantor stock ownership trust, at cost: 3,750,100 shares at November 30, 1999	(81,874)	
Total stockholders' equity	676,583	474,511
Total liabilities and stockholders' equity	\$2,664,235	\$1,860,204

See accompanying notes.

Consolidated Statements of Stockholders' Equity

IN THOUSANDS	Number of Shares		Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Grantor Stock Ownership Trust	Total Stockholders' Equity
	Common Stock	Grantor Stock Ownership Trust						
Years Ended November 30, 1999, 1998 and 1997								
Balance at November 30, 1996	38,828		\$38,828	\$183,801	\$113,398	\$ 4,323		\$340,350
Comprehensive income:								
Net income					58,230			58,230
Foreign currency translation adjustments						(6,310)		(6,310)
Total comprehensive income								51,920
Dividends on common stock					(11,668)			(11,668)
Exercise of employee stock options	169		169	2,285				2,454
Balance at November 30, 1997	38,997		38,997	186,086	159,960	(1,987)		383,056
Comprehensive income:								
Net income					95,267			95,267
Foreign currency translation adjustments						(370)		(370)
Total comprehensive income								94,897
Dividends on common stock					(11,871)			(11,871)
Exercise of employee stock options	995		995	15,699				16,694
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company – contract adjustment payments and issuance costs				(8,265)				(8,265)
Balance at November 30, 1998	39,992		39,992	193,520	243,356	(2,357)		474,511
Comprehensive income:								
Net income					147,469			147,469
Foreign currency translation adjustments						773		773
Total comprehensive income								148,242
Dividends on common stock					(14,199)			(14,199)
Exercise of employee stock options	212		212	3,686				3,898
Issuance of common stock related to an acquisition	7,887		7,887	138,118				146,005
Grantor stock ownership trust		(3,750)					\$(81,874)	(81,874)
Balance at November 30, 1999	48,091	(3,750)	\$48,091	\$335,324	\$376,626	\$(1,584)	\$(81,874)	\$676,583

See accompanying notes.

Consolidated Statements of Cash Flows

IN THOUSANDS	1999	1998	1997
Years Ended November 30,			
Cash flows from operating activities:			
Net income	\$ 147,469	\$ 95,267	\$ 58,230
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Equity in pretax (income) loss of unconsolidated joint ventures	(224)	(1,151)	53
Minority interests	29,392	7,002	425
Amortization of discounts and issuance costs	1,501	1,882	2,341
Depreciation and amortization	38,251	16,178	11,860
Provision for deferred income taxes	(25,913)	474	(5,028)
Change in assets and liabilities, net of effects from acquisitions:			
Receivables	(184,116)	(50,040)	(118,123)
Inventories	(38,761)	(125,719)	5,157
Accounts payable, accrued expenses and other liabilities	130,257	51,283	20,064
Other, net	8,911	(8,025)	(4,023)
Net cash provided (used) by operating activities	106,767	(12,849)	(29,044)
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(11,646)	(162,818)	
Investments in unconsolidated joint ventures	(15,022)	2,214	1,921
Net sales (originations) of mortgages held for long-term investment	(2,756)	1,686	164
Payments received on first mortgages and mortgage-backed securities	14,629	12,933	9,988
Purchases of property and equipment, net	(19,160)	(15,859)	(5,917)
Net cash provided (used) by investing activities	(33,955)	(161,844)	6,156
Cash flows from financing activities:			
Net proceeds from credit agreements and other short-term borrowings	119,425	63,187	37,900
Proceeds from Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company		183,057	
Proceeds from issuance of senior notes			172,182
Payments on collateralized mortgage obligations	(14,098)	(12,324)	(9,531)
Payments on mortgages, land contracts and other loans	(73,329)	(45,239)	(8,047)
Redemption of senior notes			(100,000)
Payments from (to) minority interests	(43,723)	(7,006)	513
Payments of cash dividends	(14,199)	(11,871)	(11,668)
Repurchases of common stock	(81,874)		
Net cash provided (used) for financing activities	(107,798)	169,804	81,349
Net increase (decrease) in cash and cash equivalents	(34,986)	(4,889)	58,461
Cash and cash equivalents at beginning of year	63,353	68,242	9,781
Cash and cash equivalents at end of year	\$ 28,367	\$ 63,353	\$ 68,242
Supplemental disclosures of cash flow information:			
Interest paid, net of amounts capitalized	\$ 43,014	\$ 37,915	\$ 43,559
Income taxes paid	74,560	40,521	29,982
Supplemental disclosures of noncash activities:			
Cost of inventories acquired through seller financing	\$ 43,529	\$ 29,911	\$ 15,098
Issuance of common stock related to an acquisition	146,005		
Debt assumed related to an acquisition	303,239		

See accompanying notes.

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations Kaufman and Broad Home Corporation (the “Company”) is a regional builder of single-family homes with domestic operations throughout the western United States, and international operations in France. The Company is also a developer of commercial and high-density residential projects in France. Through its mortgage banking subsidiary, Kaufman and Broad Mortgage Company, the Company provides mortgage banking services to its domestic homebuyers.

Basis of Presentation The consolidated financial statements include the accounts of the Company and all significant subsidiaries and joint ventures in which a controlling interest is held. All significant intercompany transactions have been eliminated. Investments in unconsolidated joint ventures in which the Company has less than a controlling interest are accounted for using the equity method.

Use of Estimates The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management. Actual results could differ from these estimates.

Cash and Cash Equivalents The Company considers all highly liquid debt instruments and other short-term investments purchased with a maturity of three months or less to be cash equivalents. As of November 30, 1999 and 1998, the Company’s cash equivalents totaled \$704,000 and \$20,246,000, respectively.

Foreign Currency Translation Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in stockholders’ equity as foreign currency translation adjustments.

Construction Operations Housing and other real estate sales are recognized when title passes to the buyer and all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured. In France, revenues from development and construction of apartments, condominiums and commercial buildings, under long-term contracts with individual investors who own the land, are recognized using the percentage of completion method, which is generally based on costs incurred as a percentage of estimated total costs of individual projects. Revenues recognized in excess of amounts billed are classified as receivables. Amounts received from buyers in excess of revenues recognized, if any, are classified as other liabilities.

Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are allocated on a relative fair value basis to units within a parcel or subdivision. Land and land development costs generally include related interest and property taxes incurred until development is substantially completed or deliveries have begun within a subdivision.

Land to be developed and projects under development are stated at cost unless the carrying amount of the parcel or subdivision is determined not to be recoverable, in which case the impaired inventories are written down to fair value. Write-downs of impaired inventories are recorded as adjustments to the cost basis of the inventory. The Company’s inventories typically do not consist of completed projects.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is amortized by the Company over periods ranging from five to ten years using the straight-line method. Accumulated amortization was \$52,765,000 and \$25,804,000 at November 30, 1999 and 1998, respectively. In the event that facts and circumstances indicate that the carrying value of goodwill may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the goodwill would be compared to its carrying amount to determine if a write-down to fair value or discounted cash flow is required.

Mortgage Banking Operations First mortgages and mortgage-backed securities consist of securities held for long-term investment and are valued at amortized cost. First mortgages held under commitments of sale are valued at the lower of aggregate cost or market. Market is principally based on public market quotations or outstanding commitments obtained from investors to purchase first mortgages receivable.

Principal and interest payments received on mortgage-backed securities are invested in short-term securities maturing on the next debt service date of the collateralized mortgage obligations for which the securities are held as collateral. Such payments are restricted to the payment of the debt service on the collateralized mortgage obligations.

Secondary Marketing Trading Loss On August 31, 1999, the Company disclosed that it had discovered unauthorized mortgage loan trading activity by an employee of its mortgage banking subsidiary resulting in a pretax trading loss of \$18,155,000 (\$11,755,000, or \$.25 per diluted share, on an after tax basis). It is normal practice for the Company’s mortgage banking subsidiary to sell loans into the market that approximately match loan commitments to the Company’s homebuyers. This practice is intended to hedge exposure to changes in interest rates that may occur until loans are sold to secondary market investors in the ordinary course of business. The loss was the result of a single employee engaging in unauthorized mortgage loan trading largely unrelated to mortgage originations. The employee who conducted the unauthorized trading was terminated.

Stock Options The Company’s employee stock option plans are accounted for under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB Opinion No. 25”).

Income Taxes Income taxes are provided for at rates applicable in the countries in which the income is earned. Provision is made currently for United States federal income taxes on earnings of foreign subsidiaries which are not expected to be reinvested indefinitely.

Earnings Per Share Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the average number of shares outstanding including all dilutive potentially issuable shares under various stock option plans and stock purchase contracts. Earnings per share amounts for all periods have been presented and, where necessary, restated to conform to the Statement of Financial Accounting Standards No. 128, “Earnings Per Share” requirements. The following table presents a reconciliation of average shares outstanding:

IN THOUSANDS			
Years Ended November 30,			
	1999	1998	1997
Basic average shares outstanding	46,730	39,553	38,889
Net effect of stock options assumed to be exercised	1,101	1,480	1,169
Diluted average shares outstanding	47,831	41,033	40,058

Comprehensive Income During the quarter ended February 28, 1999, the Company adopted Statement of Financial Accounting Standards No. 130, “Reporting Comprehensive Income”, which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements.

Segment Information Effective November 30, 1999, the Company adopted Statement of Financial Accounting Standards No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“SFAS No. 131”). SFAS No. 131 establishes new standards for segment reporting which are based on the way management organizes segments within a company for making operating decisions and assessing performance.

In accordance with SFAS No. 131, the Company identified two reportable segments: construction and mortgage banking. The Company’s construction segment consists primarily of domestic and foreign homebuilding operations. The Company’s construction operations are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to the first-time homebuyer. Domestically, the Company currently sells homes in six western states. Internationally, the Company operates in France. The Company also builds commercial projects and high-density residential properties, such as condominium and apartment complexes, in France. The Company’s mortgage banking operations provide mortgage banking services to the Company’s domestic homebuyers. The mortgage banking segment originates, processes and sells mortgages to third-party investors. The Company does not retain or service the mortgages that it originates but, rather, sells the mortgages and related servicing rights to investors.

Information for the Company's reportable segments are presented in its consolidated statements of income and consolidated balance sheets included herein. The Company's reporting segments follow the same accounting policies used for the Company's consolidated financial statements as described in the summary of significant accounting policies. Management evaluates a segment's performance based upon a number of factors including pretax results.

Recent Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires all derivatives to be recorded on the balance sheet at fair value. The Company will adopt SFAS No. 133 in its fiscal year 2000. The Company does not anticipate that the adoption of SFAS No. 133 will have a significant effect on its results of operations or financial position.

Reclassifications Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to the 1999 presentation.

NOTE 2. ACQUISITIONS

During the second quarter of 1998, the Company acquired three privately held home builders with regional operations in certain key markets. On March 19, 1998, the Company acquired all of the issued and outstanding capital stock of Houston-based Hallmark Residential Group ("Hallmark") for approximately \$54,000,000, including the assumption of debt. Hallmark built single-family homes primarily in Houston (with additional operations in San Antonio and Austin, Texas) under the trade names of Dover Homes and Ideal Builders. The Company acquired substantially all of the assets of Denver-based PrideMark Homebuilding Group ("PrideMark") on March 23, 1998 for approximately \$65,000,000, including the assumption of trade liabilities and debt. PrideMark built single-family homes in Denver, Colorado. On April 9, 1998, the Company acquired all of the issued and outstanding capital stock of Estes Homebuilding Co. ("Estes") for approximately \$48,000,000, including the assumption of debt. Estes built single-family homes in Phoenix and Tucson, Arizona.

On August 18, 1998, the Company acquired a majority ownership investment in General Homes Corporation ("General Homes"), a builder of single-family homes primarily in Houston, Texas. The Company invested approximately \$31,837,000, including the assumption of debt, to acquire 50.3% of the outstanding stock of General Homes, pursuant to a completed plan of reorganization. Effective January 4, 1999, the Company invested approximately \$14,500,000 to acquire the remaining 49.7% of the outstanding stock of General Homes, bringing its ownership interest to 100%.

The acquisitions of Hallmark, PrideMark, Estes and General Homes were financed by borrowings under the Company's domestic unsecured revolving credit facility. Each acquisition was accounted for under the purchase method and the results of operations of the acquired entities were included in the Company's consolidated financial statements as of their respective dates of acquisition. The purchase prices were allocated to the assets acquired and liabilities assumed based upon their estimated fair market values at the date of acquisition. The excess of the purchase prices over the fair value of net assets acquired was \$23,450,000 on an aggregate basis and was allocated to goodwill. The Company is amortizing goodwill related to the acquisitions on a straight-line basis over a period of ten years.

Effective January 7, 1999, the Company acquired substantially all of the homebuilding assets of the Lewis Homes group of companies ("Lewis Homes"). Lewis Homes was engaged in the acquisition, development and sale of residential real estate in California and Nevada. Prior to the acquisition, Lewis Homes was one of the largest privately held single-family homebuilders in the United States based on units delivered, with revenues for the year ended December 31, 1998 of \$715,000,000 on 3,631 unit deliveries. Lewis Homes also owned or controlled approximately 24,000 lots and had a backlog of approximately 900 homes at December 31, 1998. Lewis Homes' principal markets were Las Vegas and Northern Nevada, Southern California and the greater Sacramento area in Northern California.

The purchase price for Lewis Homes was approximately \$449,244,000, comprised of the assumption of approximately \$303,239,000 in debt and the issuance of 7,886,686 shares of the Company's common stock valued at approximately \$146,005,000. The purchase price was based on the December 31, 1998 net book values of the entities purchased. The excess of the purchase price over the estimated fair value of net assets acquired

was \$177,600,000 and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years. The shares of Company common stock issued in the acquisition are "restricted" shares and may not be resold without a registration statement or compliance with Securities and Exchange Commission regulations that limit the number of shares that may be resold in a given period. The Company has agreed to file a registration statement for those shares in three increments at the Lewis family's request from July 1, 2000 to July 1, 2002. Under the terms of the purchase agreement, a Lewis family member has also been appointed to the Company's Board of Directors. In connection with the acquisition of Lewis Homes, the Company obtained a \$200,000,000 unsecured term loan agreement with various banks (the "Term Loan Agreement") to refinance certain debt assumed. The Company used borrowings under its existing \$500,000,000 domestic unsecured revolving credit facility to refinance certain other debt assumed in the Lewis Homes acquisition.

The acquisition consideration for Lewis Homes was determined by arm's-length negotiations between the parties. The acquisition was accounted for as a purchase, with the results of Lewis Homes included in the Company's consolidated financial statements as of January 7, 1999.

The following unaudited pro forma information presents a summary of the consolidated results of operations of the Company as if the acquisitions of Hallmark, PrideMark, Estes, General Homes and Lewis Homes had occurred as of December 1, 1997 with pro forma adjustments to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS		
Years Ended November 30,	1999	1998
Total revenues	\$3,919,247	\$3,279,287
Total pretax income	231,384	184,993
Net income	150,384	120,293
Basic earnings per share	3.16	2.54
Diluted earnings per share	3.09	2.46

This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated as of December 1, 1997, nor are they necessarily indicative of future operating results.

NOTE 3. RECEIVABLES

Construction Trade receivables amounted to \$138,250,000 and \$67,771,000 at November 30, 1999 and 1998, respectively. Included in these amounts are unbilled receivables due from buyers on French apartment, condominium and commercial building sales accounted for using the percentage of completion method, totaling \$97,264,000 at November 30, 1999 and \$37,804,000 at November 30, 1998. The buyers are contractually obligated to remit payments against their unbilled balances. Other receivables of \$67,597,000 at November 30, 1999 and \$73,000,000 at November 30, 1998 included escrow deposits and amounts due from municipalities and utility companies.

At November 30, 1999 and 1998, receivables were net of allowances for doubtful accounts of \$16,578,000 and \$9,146,000, respectively.

Mortgage Banking First mortgages and mortgage-backed securities consisted of loans of \$9,089,000 at November 30, 1999 and \$6,334,000 at November 30, 1998 and mortgage-backed securities of \$37,991,000 and \$51,928,000 at November 30, 1999 and 1998, respectively. The mortgage-backed securities serve as collateral for related collateralized mortgage obligations. The properties covered by the mortgages underlying the mortgage-backed securities are single-family residences. Issuers of the mortgage-backed securities are the Government National Mortgage Association and Fannie Mae. The first mortgages and mortgage-backed securities bore interest at an average rate of 8½% and 8¼% at November 30, 1999 and 1998, respectively (with rates ranging from 7% to 12% in both 1999 and 1998).

First mortgages and mortgage-backed securities were net of discounts and premiums of \$18,000 at November 30, 1999 and \$546,000 at November 30, 1998. These discounts and premiums, which primarily represent loan origination discount points and acquisition price discounts or premiums, are deferred as an adjustment to the carrying value of the related first mortgages and mortgage-backed securities and amortized into interest income using the interest method.

The Company's mortgage-backed securities held for long-term investment have been classified as held-to-maturity and are stated at amortized cost, adjusted for amortization of discounts and premiums to maturity. Such amortization is included in interest income. The total gross unrealized gains and gross unrealized losses on the mortgage-backed securities were \$685,000 and \$0, respectively at November 30, 1999 and \$3,457,000 and \$0, respectively at November 30, 1998.

First mortgages held under commitments of sale and other receivables consisted of first mortgages held under commitments of sale of \$376,377,000 at November 30, 1999 and \$242,537,000 at November 30, 1998 and other receivables of \$9,699,000 and \$7,165,000 at November 30, 1999 and 1998, respectively. The first mortgages held under commitments of sale bore interest at an average rate of 7½% at both November 30, 1999 and 1998. The balance in first mortgages held under commitments of sale and other receivables fluctuates significantly during the year and typically reaches its highest level at quarter-ends, corresponding to the Company's home and mortgage delivery activity.

NOTE 4. INVENTORIES

Inventories consisted of the following:

IN THOUSANDS	1999	1998
November 30,		
Homes, lots and improvements in production	\$1,063,505	\$ 835,300
Land under development	457,760	299,102
Total inventories	\$1,521,265	\$1,134,402

Land under development primarily consists of parcels on which 50% or less of estimated development costs have been incurred.

The impact of capitalizing interest costs on consolidated pretax income is as follows:

IN THOUSANDS	1999	1998	1997
Years Ended November 30,			
Interest incurred	\$ 78,041	\$ 54,299	\$ 52,468
Interest expensed	(28,340)	(23,341)	(29,829)
Interest capitalized	49,701	30,958	22,639
Interest amortized	(44,257)	(30,752)	(25,480)
Net impact on consolidated pretax income	\$ 5,444	\$ 206	\$ (2,841)

NOTE 5. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The Company participates in a number of joint ventures in which it has less than a controlling interest. These joint ventures are based in California, Nevada, New Mexico, Texas and France and are engaged in the development, construction and sale of residential properties and commercial projects. Combined condensed financial information concerning the Company's unconsolidated joint venture activities follows:

IN THOUSANDS

November 30,	1999	1998
Cash	\$ 3,386	\$ 6,286
Receivables	4,914	5,727
Inventories	82,021	15,042
Other assets	377	637
Total assets	\$90,698	\$27,692
Mortgages and notes payable	\$30,988	\$ 4,593
Other liabilities	11,111	5,696
Equity of:		
The Company	21,290	5,608
Others	27,309	11,795
Total liabilities and equity	\$90,698	\$27,692

The joint ventures finance land and inventory investments primarily through a variety of borrowing arrangements. The Company typically does not guarantee these financing arrangements.

IN THOUSANDS

Years Ended November 30,	1999	1998	1997
Revenues	\$13,889	\$ 17,657	\$ 98,183
Cost of sales	(9,842)	(12,245)	(94,901)
Other expenses, net	(426)	(384)	(6,147)
Total pretax income (loss)	\$ 3,621	\$ 5,028	\$ (2,865)
The Company's share of pretax income (loss)	\$ 224	\$ 1,151	\$ (53)

The Company's share of pretax income (loss) includes management fees earned from the unconsolidated joint ventures.

NOTE 6. MORTGAGES AND NOTES PAYABLE

Construction Mortgages and notes payable consisted of the following (interest rates are as of November 30):

IN THOUSANDS	1999	1998
November 30,		
Unsecured domestic borrowings with banks under a revolving credit agreement (6¾% in 1999)	\$ 50,000	
Other unsecured domestic borrowings with banks due within one year (6¾% to 6½% in 1999)	9,000	
Unsecured French borrowings (3¾% to 7% in 1999 and 4¼% to 5¾% in 1998)	49,940	\$ 33,647
Term loan borrowings due 2001 (6¾% in 1999)	200,000	
Mortgages and land contracts due to land sellers and other loans (7% to 10¼% in 1999 and 8% to 10¼% in 1998)	30,583	22,492
Senior notes due 2004 at 7¾%	175,000	175,000
Senior subordinated notes due 2003 at 9¾%	174,370	174,221
Senior subordinated notes due 2006 at 9¾%	124,531	124,486
Total mortgages and notes payable	\$813,424	\$529,846

On April 21, 1997, the Company entered into a \$500,000,000 domestic unsecured revolving credit agreement (the "Revolving Credit Facility") with various banks. The Revolving Credit Facility is comprised of a \$400,000,000 revolving credit facility scheduled to expire on April 30, 2001 and a \$100,000,000 364-day revolving credit facility. Upon expiration, the \$100,000,000 revolving credit facility is renewable at the lenders' option or may be converted, at the Company's option, to a term loan expiring on April 30, 2001. Under the Revolving Credit Facility, \$500,000,000 remained committed and \$416,904,000 was available for the Company's future use at November 30, 1999. The Revolving Credit Facility provides for interest on borrowings at either the applicable bank reference rate or the London Interbank Offered Rate plus an applicable spread and an annual commitment fee based on the unused portion of the commitment.

On January 7, 1999, in connection with the acquisition of Lewis Homes, the Company obtained a \$200,000,000 Term Loan Agreement to refinance certain debt assumed. The Term Loan Agreement provides for three payments of \$25,000,000, due on January 31, 2000, April 30, 2000 and July 31, 2000, with the remaining principal balance due on April 30, 2001. Interest is payable monthly at the London Interbank Offered Rate plus an applicable spread. Under the terms of the Term Loan Agreement, the Company is required, among other things, to maintain certain financial statement ratios and a minimum net worth and is subject to limitations on acquisitions, inventories and indebtedness. The financing obtained under the Term Loan Agreement did not affect the amounts available under the Company's pre-existing borrowing arrangements.

The Company's French subsidiaries have lines of credit with various banks which totaled \$198,658,000 at November 30, 1999 and have various committed expiration dates through November 2000. These lines of credit provide for interest on borrowings at either the French Federal Funds Rate or the Paris Interbank Offered Rate plus an applicable spread.

The weighted average interest rate on aggregate unsecured borrowings, excluding the senior and senior subordinated notes, was 6½% and 4¾% at November 30, 1999 and 1998, respectively.

On April 26, 1993, the Company issued \$175,000,000 principal amount of 9¾% senior subordinated notes at 99.202%. The notes are due May 1, 2003 with interest payable semi-annually. The notes represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The Company may redeem the notes, in whole or in part, at any time on or after May 1, 2000 at 100% of their principal amount.

On October 29, 1996, the Company filed a universal shelf registration statement (the "1996 Shelf Registration") with the Securities and Exchange Commission for up to \$300,000,000 of the Company's debt and equity securities. The Company's previously outstanding shelf registration for debt securities in the amount of \$100,000,000 was subsumed within the 1996 Shelf Registration. On November 14, 1996, the Company utilized the 1996 Shelf Registration to issue \$125,000,000 of 9¾% senior subordinated notes at 99.525%. The notes, which are due November 15, 2006 with interest payable semi-annually, represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The notes are redeemable at the option of the Company, in whole or in part, at 104.8125% of their principal amount beginning November 15, 2001, and thereafter at prices declining annually to 100% on and after November 15, 2004.

On September 4, 1997, the Company completed the optional redemption of its \$100,000,000 principal amount of 10¼% senior notes due in 1999. The Company used borrowings under its Revolving Credit Facility to retire the entire \$100,000,000 of senior notes at 100% of the principal amount of the notes, together with accrued and unpaid interest.

On October 14, 1997, pursuant to the 1996 Shelf Registration, the Company issued \$175,000,000 of 7¼% senior notes at 100% of the principal amount of the notes. The notes, which are due October 15, 2004 with interest payable semi-annually, represent unsecured obligations of the Company and rank pari passu in right of payment with all other senior unsecured indebtedness of the Company. The notes are not redeemable by the Company prior to stated maturity. This offering resulted in the issuance of all available securities under the 1996 Shelf Registration.

The 7¼% senior notes and 9¾% and 9¾% senior subordinated notes contain certain restrictive covenants that, among other things, limit the ability of the Company to incur additional indebtedness, pay dividends, make certain investments, create certain liens, engage in mergers, con-

solidations, or sales of assets, or engage in certain transactions with officers, directors and employees. Under the terms of the Revolving Credit Facility, the Company is required, among other things, to maintain certain financial statement ratios and a minimum net worth and is subject to limitations on acquisitions, inventories and indebtedness. Based on the terms of the Company's Revolving Credit Facility, Term Loan Agreement, senior notes and senior subordinated notes, retained earnings of \$150,180,000 were available for payment of cash dividends or stock repurchases at November 30, 1999.

Principal payments on senior and senior subordinated notes, term loan borrowings, mortgages, land contracts and other loans are due as follows: 2000, \$91,767,000; 2001, \$135,644,000; 2002, \$1,389,000; 2003, \$175,205,000; 2004, \$175,948,000; and thereafter, \$124,531,000.

Assets (primarily inventories) having a carrying value of approximately \$106,266,000 are pledged to collateralize mortgages, land contracts and other secured loans.

On December 5, 1997, the Company filed a new universal shelf registration statement with the Securities and Exchange Commission for up to \$500,000,000 of the Company's debt and equity securities. This universal shelf registration provides that securities may be offered from time to time in one or more series and in the form of senior, senior subordinated or subordinated debt, preferred stock, common stock, and/or warrants to purchase such securities. The registration was declared effective on December 16, 1997, and no securities have been issued thereunder.

Mortgage Banking Notes payable included the following (interest rates are as of November 30):

IN THOUSANDS November 30,	1999	1998
Notes payable secured by trust deed notes (6¼% to 7¼% in 1999 and 5¾% in 1998)	\$377,666	\$239,413
Total notes payable	\$377,666	\$239,413

First mortgages receivable are financed through a \$250,000,000 revolving mortgage warehouse agreement (the "Mortgage Warehouse Facility"). The Mortgage Warehouse Facility, which expires on February 23, 2000, provides for an annual fee based on the committed balance of the facility and provides for interest at either the Federal Funds Rate or the London Interbank Offered Rate plus an applicable spread on amounts borrowed. The Company is in the process of renewing this facility.

On May 25, 1999, the Company's mortgage banking subsidiary entered into a \$150,000,000 Master Loan and Security Agreement with an investment bank. The agreement, which expires on May 25, 2000, provides for a facility fee based on the \$150,000,000 maximum amount available and provides for interest to be paid monthly at the Eurodollar Rate plus an applicable spread on amounts borrowed.

The amounts outstanding under the Mortgage Warehouse Facility and the Master Loan and Security Agreement are secured by a borrowing base, which includes certain mortgage loans held under commitments of sale and are repayable from sales proceeds. There are no compensating balance requirements under either facility. Both facilities include financial covenants and restrictions which, among other things, require the maintenance of certain financial statement ratios, a minimum tangible net worth and a minimum net income.

Collateralized mortgage obligations represent bonds issued to third parties which are collateralized by mortgage-backed securities with substantially the same terms. At both November 30, 1999 and 1998, the collateralized mortgage obligations bore interest at rates ranging from 8% to 12¼% with stated original principal maturities ranging from 3 to 30 years. Actual maturities are dependent on the rate at which the underlying mortgage-backed securities are repaid. No collateralized mortgage obligations have been issued since 1988.

NOTE 7. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY DEBENTURES OF THE COMPANY (FELINE PRIDES)

On July 7, 1998, the Company, together with KBHC Financing I, a Delaware statutory business trust (the "KBHC Trust") that is wholly owned by the Company, issued an aggregate of (i) 18,975,000 Feline Prides, and (ii) 1,000,000 KBHC Trust capital securities, with a \$10 stated liquidation amount. The Feline Prides consisted of (i) 17,975,000 Income Prides with a stated amount per Income Prides of \$10 (the "Stated Amount"), which are units comprised of a capital security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments, and (ii) 1,000,000 Growth Prides with a face amount per Growth Prides equal to the Stated Amount, which are units consisting of a $\frac{1}{100}$ th beneficial interest in a zero-coupon U.S. treasury security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments.

The distribution rate on the Income Prides is 8.25% per annum and the distribution rate on the Growth Prides is .75% per annum. Under the stock purchase contracts, investors will be required to purchase shares of common stock of the Company for an effective price ranging between a minimum of \$31.75 per share and a maximum of \$38.10 per share, and the Company will issue approximately 5,000,000 to 6,000,000 common shares by August 16, 2001, depending upon the price of the common stock upon settlement of the purchase contracts (subject to adjustment under certain circumstances). The capital securities associated with the Income Prides and the U.S. treasury securities associated with the Growth Prides have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts. The capital securities issued by the KBHC Trust are entitled to a distribution rate of 8% per annum of their \$10 stated liquidation amount.

The KBHC Trust utilized the proceeds from the issuance of the Feline Prides and capital securities to purchase an equivalent principal amount of the Company's 8% Debentures due August 16, 2003 (the "8% Debentures"). The 8% Debentures are the sole asset of the KBHC Trust. The Company's obligations under the Debentures and related agreements, taken together, constitute a firm and unconditional guarantee by the Company of the KBHC Trust's obligations under the capital securities. The interest rate on the 8% Debentures and the distribution rate on the capital securities of the KBHC Trust are to be reset, subject to certain limitations, effective August 16, 2001. The Company has recorded the present value of the contract adjustment payments on the Feline Prides, totaling \$1,600,000, as a liability and a reduction of stockholders' equity. The liability will be reduced as the contract adjustment payments are made. The Company has the right to defer the contract adjustment payments and the payment of interest on the 8% Debentures, but any such election will subject the Company to restrictions on the payment of dividends on, and redemption of, its outstanding shares of common stock, and on the payment of interest on, or redemption of, debt securities of the Company junior in rank to the 8% Debentures, none of which are currently outstanding. Distributions totaling \$15,180,000 and \$6,072,000 are included as minority interests in the Company's results of operations for the years ended November 30, 1999 and 1998, respectively.

NOTE 8. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined based on available market information and appropriate valuation methodologies. However, judgment is necessarily required in interpreting market data to develop the estimates of fair value. In that regard, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying values and estimated fair values of the Company's financial instruments, except for those financial instruments for which the carrying values approximate fair values, are summarized as follows:

IN THOUSANDS November 30,	1999		1998	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Construction:				
Financial liabilities				
7 $\frac{3}{4}$ % Senior notes	\$175,000	\$163,520	\$175,000	\$169,698
9 $\frac{3}{8}$ % Senior subordinated notes	174,370	174,738	174,221	178,833
9 $\frac{3}{8}$ % Senior subordinated notes	124,531	125,700	124,486	134,288
Mortgage banking:				
Financial assets				
Mortgage-backed securities	37,991	38,676	51,928	55,386
Financial liabilities				
Collateralized mortgage obligations secured by mortgage-backed securities	36,219	36,897	49,264	53,693
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	189,750	141,800	189,750	162,200

The Company used the following methods and assumptions in estimating fair values:

Cash and cash equivalents; first mortgages held under commitments of sale and other receivables; borrowings under the Revolving Credit Facility, Term Loan Agreement, French lines of credit, Mortgage Warehouse Facility and Master Loan and Security Agreement: The carrying amounts reported approximate fair values.

Senior notes and senior subordinated notes: The fair values of the Company's senior notes and senior subordinated notes are estimated based on quoted market prices.

Mortgage-backed securities and collateralized mortgage obligations secured by mortgage-backed securities: The fair values of these financial instruments are estimated based on quoted market prices for the same or similar issues.

Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company: The fair values of these financial instruments are based on quoted market prices on the New York Stock Exchange.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the usual obligations of homebuilders for the completion of contracts and those incurred in the ordinary course of business. The Company is also involved in litigation incidental to its business, the disposition of which should have no material effect on the Company's financial position or results of operations.

NOTE 10. STOCKHOLDERS' EQUITY

On February 4, 1999, the Company adopted a new Stockholder Rights Plan to replace its preexisting shareholder rights plan adopted in 1989 (the "1989 Rights Plan"), and declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock, such rights were issued on March 7, 1999, simultaneously with the expiration of the rights issued under the 1989 Rights Plan. Under certain circum-

stances, each right entitles the holder to purchase $\frac{1}{100}$ th of a share of the Company's Series A Participating Cumulative Preferred Stock at a price of \$135.00, subject to certain antidilution provisions. The rights are not exercisable until the earlier to occur of (i) 10 days following a public announcement that a person or group has acquired Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock or (ii) 10 days following the commencement of a tender offer for Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock. The holdings of or acquisitions by any of the members of the Lewis family, a former officer of Lewis Homes and any entity controlled by any of them (the "Lewis Holders"), who held in the aggregate approximately 16% of the Company's common stock as of January 7, 1999, will not cause the rights to become exercisable by virtue of their ownership so long as their aggregate ownership remains below 17% of the issued and outstanding common stock. In the event the aggregate ownership of the Lewis Holders falls below 15.5% of the issued and outstanding shares of the Company's common stock, the rights will become exercisable as described above if their holdings should at anytime thereafter exceed 16% of the issued and outstanding shares of the Company's common stock. In the event the aggregate ownership of the Lewis Holders falls below 14.5% of the issued and outstanding shares of the Company's common stock, the Lewis Holders' exemption will terminate, and the rights will become exercisable as described above. If, without approval of the Board of Directors, the Company is acquired in a merger or other business combination transaction, or 50% or more of the Company's assets or earning power is sold, each right will entitle its holder to receive, upon exercise, common stock of the acquiring company having a market value of twice the exercise price of the right; and if, without approval of the Board of Directors, any person or group acquires Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock, each right will entitle its holder to receive, upon exercise, common stock of the Company having a market value of twice the exercise price of the right. At the option of the Company, the rights are redeemable prior to becoming exercisable at \$.005 per right. Unless previously redeemed, the rights will expire on March 7, 2009. Until a right is exercised, the holder will have no rights as a stockholder of the Company, including the right to vote or receive dividends.

NOTE 11. EMPLOYEE BENEFIT AND STOCK PLANS

Benefits are provided to most employees under the Company's 401(k) Savings Plan under which contributions by employees are partially matched by the Company. The aggregate cost of this plan to the Company was \$3,937,000 in 1999, \$3,025,000 in 1998 and \$2,081,000 in 1997.

The Company's 1988 Employee Stock Plan (the "1988 Plan") and the 1999 Incentive Plan (the "1999 Plan") provide that stock options, associated limited stock appreciation rights, restricted shares of common stock, stock units and other securities may be awarded to eligible individuals for periods of up to 15 years. The Company also has a Performance-Based Incentive Plan for Senior Management (the "Incentive Plan") and the Company's 1998 Stock Incentive Plan which provide for the same awards as may be made under the 1988 Plan and the 1999 Plan, but require that such awards be subject to certain conditions which are designed to assure that annual compensation paid in excess of \$1,000,000 to participating executives is tax deductible for the Company. The 1988 Plan and the 1999 Plan are the Company's primary existing employee stock plans.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), issued in October 1995, established financial accounting and reporting standards for stock-based employee compensation plans. As permitted by SFAS No. 123, the Company elected to continue to use APB Opinion No. 25 and related interpretations, in accounting for its stock options. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards in 1999, 1998 and 1997 consistent with the provisions of SFAS No. 123, the Company's net income and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

Years Ended November 30,	1999	1998	1997
Net income — as reported	\$147,469	\$95,267	\$58,230
Net income — pro forma	142,816	91,398	57,463
Diluted earnings per share — as reported	3.08	2.32	1.45
Diluted earnings per share — pro forma	2.99	2.24	1.44

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 1999, 1998 and 1997, respectively: a risk free interest rate of 6.14%, 4.38% and 5.84%; an expected volatility factor for the mar-

ket price of the Company's common stock of 43.14%, 41.31% and 34.62%; a dividend yield of 1.36%, 1.19% and 1.38%; and an expected life of 4 years, 4 years and 4 years. The weighted average fair value of options granted in 1999, 1998 and 1997 was \$6.92, \$6.09 and \$3.68, respectively.

Stock option transactions are summarized as follows:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	2,965,067	\$15.22	2,747,318	\$ 9.98	2,830,268	\$10.00
Granted	2,241,736	20.12	1,318,017	22.83	387,000	14.07
Exercised	(211,925)	16.43	(995,235)	10.70	(169,183)	12.10
Cancelled	(145,056)	21.00	(105,033)	16.56	(300,767)	14.25
Options outstanding at end of year	4,849,822	\$17.26	2,965,067	\$15.22	2,747,318	\$ 9.98
Options exercisable at end of year	2,041,106	\$13.83	1,586,455	\$12.16	1,816,346	\$ 7.92
Options available for grant at end of year	2,867,334		2,464,014		1,776,998	

Stock options outstanding at November 30, 1999 are as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 4.38 to \$14.13	1,232,191	5.97	\$ 7.40	1,086,761	\$ 6.58
\$14.38 to \$17.75	1,339,250	14.10	17.22	127,185	14.78
\$19.06 to \$22.44	1,749,193	13.57	21.94	372,965	21.43
\$23.06 to \$33.94	529,188	13.64	24.82	454,195	24.70
\$ 4.38 to \$33.94	4,849,822	11.79	\$17.26	2,041,106	\$13.83

The Company records proceeds from the exercise of stock options as additions to common stock and paid-in capital. The tax benefit, if any, is recorded as additional paid-in capital.

In 1991, the Board of Directors approved the issuance of restricted stock awards under the 1988 Plan of up to an aggregate 600,000 shares of common stock to certain officers and key employees. Restrictions lapse each year through May 10, 2005 on specified portions of the shares awarded to each participant so long as the participant has remained in the continuous employ of the Company. Restricted shares under this grant outstanding at the end of the year totaled 129,998 in 1999, 151,665 in 1998 and 226,668 in 1997.

On August 4, 1999, the Company's Board of Directors authorized a share repurchase program which allows the Company to purchase up to 2,500,000 shares of the Company's common stock at prices not to exceed \$28 per share. The Company repurchased all of the 2,500,000 shares originally authorized and on November 1, 1999, the Board of Directors authorized the repurchase of up to 4,000,000 additional shares of Company common stock. As of November 30, 1999, the Company had repurchased 3,750,100 shares under the repurchase program.

In connection with its share repurchase program, on August 27, 1999, the Company established a grantor stock ownership trust (the "Trust") into which the repurchased shares are transferred. The Trust, administered by an independent trustee, acquires, holds and distributes the shares of common stock for the purpose of funding certain employee compensation and employee benefit obligations of the Company under its existing stock option, 401(k) and other employee benefit plans. The existence of the Trust will have no impact on the amount of benefits or compensation that will be paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheet. The difference between the Trust share value and the fair market value on the date shares are released from the Trust, for the benefit of employees, will be included in additional paid-in capital. Common stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 3,750,100 shares of common stock at November 30, 1999. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

NOTE 12. INCOME TAXES

The components of pretax income are as follows:

IN THOUSANDS			
Years Ended November 30,	1999	1998	1997
Domestic	\$200,272	\$136,042	\$87,545
Foreign	26,597	10,525	3,485
Total pretax income	\$226,869	\$146,567	\$91,030

The components of income taxes are as follows:

IN THOUSANDS				
	Total	Federal	State	Foreign
1999				
Currently payable	\$ 87,428	\$ 65,557	\$11,755	\$10,116
Deferred	(8,028)	(12,411)		4,383
Total	\$ 79,400	\$ 53,146	\$11,755	\$14,499
1998				
Currently payable	\$ 52,628	\$ 39,989	\$ 8,498	\$ 4,141
Deferred	(1,328)	(3,145)		1,817
Total	\$ 51,300	\$ 36,844	\$ 8,498	\$ 5,958
1997				
Currently payable	\$ 35,159	\$ 28,254	\$ 4,847	\$ 2,058
Deferred	(2,359)	(1,892)		(467)
Total	\$ 32,800	\$ 26,362	\$ 4,847	\$ 1,591

Deferred income taxes result from temporary differences in the financial and tax bases of assets and liabilities. Significant components of the Company's deferred tax liabilities and assets are as follows:

IN THOUSANDS		
November 30,	1999	1998
Deferred tax liabilities:		
Installment sales	\$ 15,471	\$ 6,520
Bad debt and other reserves	449	166
Capitalized expenses	15,704	20,800
Partnerships and joint ventures	2,439	2,457
Repatriation of foreign subsidiaries	12,381	12,018
Other	12,179	3,491
Total deferred tax liabilities	58,623	45,452
Deferred tax assets:		
Warranty, legal and other accruals	29,210	15,315
Depreciation and amortization	27,957	7,476
Capitalized expenses	16,370	9,827
Partnerships and joint ventures	13,183	4,186
Noncash charge for impairment of long-lived assets	7,686	8,902
Foreign tax credits	12,346	11,857
Net operating losses	40,121	931
Other	11,269	11,052
Total deferred tax assets	158,142	69,546
Net deferred tax assets	\$ 99,519	\$24,094

Net operating loss carryforwards expire in various years from 2000 through 2019. The Company expects that the entire deferred tax benefit of the tax loss carryforwards will be recognized in future periods.

Income taxes computed at the statutory United States federal income tax rate and income tax expense provided in the financial statements differ as follows:

IN THOUSANDS			
Years Ended November 30,	1999	1998	1997
Amount computed at statutory rate	\$ 79,404	\$51,298	\$31,861
Increase (decrease) resulting from:			
State taxes, net of federal income tax benefit	7,641	5,524	3,150
Differences in foreign tax rates	4,379	1,594	(885)
Intercompany dividends	1,153	977	352
Tax credits	(11,329)	(3,351)	(2,046)
Other, net	(1,848)	(4,742)	368
Total	\$ 79,400	\$51,300	\$32,800

The Company has commitments to invest \$12,900,000 over six years in affordable housing partnerships which are scheduled to provide tax credits.

The Company had foreign tax credit carryforwards at November 30, 1999 of \$3,433,000 for United States federal income tax purposes which expire in 2000, 2002 and 2004.

The undistributed earnings of foreign subsidiaries, which the Company plans to invest indefinitely and for which no United States federal income taxes have been provided, totaled \$28,421,000 at November 30, 1999. If these earnings were currently distributed, the resulting withholding taxes payable would be \$1,420,000.

NOTE 13. GEOGRAPHICAL INFORMATION

Geographical information follows:

IN THOUSANDS	Revenues	Operating Income	Identifiable Assets
1999			
<i>Construction:</i>			
California	\$1,579,226	\$110,942	\$ 905,890
Other U.S.	1,780,595	112,765	987,141
Foreign	412,300	35,400	321,045
<i>Total construction</i>	<i>3,772,121</i>	<i>259,107</i>	<i>2,214,076</i>
<i>Mortgage banking</i>	<i>64,174</i>	<i>17,464</i>	<i>450,159</i>
Total	\$3,836,295	\$276,571	\$2,664,235
1998			
<i>Construction:</i>			
California	\$1,105,849	\$ 79,871	\$ 655,920
Other U.S.	1,042,408	55,343	656,389
Foreign	254,709	13,458	230,235
<i>Total construction</i>	<i>2,402,966</i>	<i>148,672</i>	<i>1,542,544</i>
<i>Mortgage banking</i>	<i>46,396</i>	<i>21,413</i>	<i>317,660</i>
Total	\$2,449,362	\$170,085	\$1,860,204
1997			
<i>Construction:</i>			
California	\$ 993,921	\$ 65,554	\$ 717,949
Other U.S.	670,590	34,166	283,794
Foreign	179,103	2,031	132,118
<i>Total construction</i>	<i>1,843,614</i>	<i>101,751</i>	<i>1,133,861</i>
<i>Mortgage banking</i>	<i>35,109</i>	<i>14,508</i>	<i>285,130</i>
Total	\$1,878,723	\$116,259	\$1,418,991

NOTE 14. QUARTERLY RESULTS (UNAUDITED)

Quarterly results for the years ended November 30, 1999 and 1998 follow:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	First	Second	Third	Fourth
1999				
Revenues	\$694,143	\$862,270	\$1,057,113	\$1,222,769
Operating income	34,134	56,494	72,058	113,885
Pretax income	24,886	43,975	58,781	99,227
Net income	16,186	28,575	38,181	64,527
Basic earnings per share	.36	.60	.80	1.39
Diluted earnings per share	.35	.58	.78	1.36
1998				
Revenues	\$426,245	\$537,459	\$659,014	\$826,644
Operating income	18,323	32,637	48,888	70,237
Pretax income	12,698	26,222	43,298	64,349
Net income	8,098	17,222	28,098	41,849
Basic earnings per share	.21	.44	.70	1.05
Diluted earnings per share	.20	.42	.68	1.02

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

NOTE 15. SUBSEQUENT EVENTS (UNAUDITED)

On January 24, 2000, Kaufman & Broad S.A. ("KBSA"), the Company's wholly owned French subsidiary filed a preliminary public offering memorandum for the initial public offering of ordinary shares of KBSA. On February 7, 2000, KBSA successfully completed its public offering and is now listed on the Premier Marche of the ParisBourse. The offering of 5,148,937 shares (before exercise of the over allotment option) was made in France and in Europe and was priced at 23 euros per share, representing a total offering of approximately \$120,000,000.

Proceeds from the offering will be used to fund internal and external growth of the French homebuilding operations, obtain better financing conditions, and finance the payment of a dividend of approximately \$85,000,000 to the Company, which the Company will use to reduce its domestic debt and repurchase additional shares of its common stock. The Company continues to own a majority interest in KBSA and will continue to consolidate these operations in its financial statements.

As of February 3, 2000, the Company had repurchased a total of 6,500,000 shares of the Company's common stock under authorizations made by the Board of Directors on August 4, 1999 and November 1, 1999. On February 3, 2000, the Company's Board of Directors authorized the repurchase of up to an additional 4,000,000 shares of the Company's common stock.

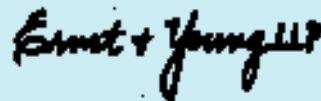
Report of Independent Auditors

To the Board of Directors and Stockholders of Kaufman and Broad Home Corporation:

We have audited the accompanying consolidated balance sheets of Kaufman and Broad Home Corporation as of November 30, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kaufman and Broad Home Corporation at November 30, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 1999, in conformity with accounting principles generally accepted in the United States.



Los Angeles, California
December 23, 1999

Report on Financial Statements

The accompanying consolidated financial statements are the responsibility of management. The statements have been prepared in conformity with generally accepted accounting principles. Estimates and judgments of management based on its current knowledge of anticipated transactions and events are made to prepare the financial statements as required by generally accepted accounting principles. Management relies on internal accounting controls, among other things, to produce records suitable for the preparation of financial statements.

The responsibility of our external auditors for the financial statements is limited to their expressed opinion on the fairness of the consolidated financial statements taken as a whole. Their examination is performed in accordance with generally accepted auditing standards which include tests of our accounting records and internal accounting controls and evaluation of estimates and judgments used to prepare the financial statements. The Company employs a staff of internal auditors whose work includes evaluating and testing internal accounting controls.

An audit committee of outside members of the Board of Directors periodically meets with management, the external auditors and the internal auditors to evaluate the scope of auditing activities and review results. Both the external and internal auditors have the unrestricted opportunity to communicate privately with the audit committee.



Michael F. Henn
Senior Vice President and Chief Financial Officer
December 23, 1999

Board of Directors

Ron Burkle⁴

Managing Partner, The Yucaipa Companies
Chairman of the Executive Committee of the Board,
The Kroger Company
Los Angeles

Jane Evans^{1,3}

President and Chief Executive Officer,
@Hand.com, Inc.
Los Angeles

Dr. Ray R. Irani^{3,4}

Chairman and Chief Executive Officer,
Occidental Petroleum Corporation
Los Angeles

James A. Johnson^{3,4}

Chairman and Chief Executive Officer,
Johnson Capital Partners
Former Chairman and Chief Executive Officer,
Fannie Mae
Washington, D.C.

Bruce Karatz²

Chairman and Chief Executive Officer,
Kaufman and Broad Home Corporation
Los Angeles

Committees of the Board of Directors

¹ Audit and Compliance Committee

² Executive Committee

³ Nominating and Corporate Governance Committee

⁴ Personnel, Compensation and Stock Plan Committee

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Executive Vice President,
Lewis Operating Corp.
Los Angeles

Dr. Barry Munitz¹

President,
The J. Paul Getty Trust
Los Angeles

Guy Nafilyan

Executive Vice President,
Kaufman and Broad Home Corporation
Los Angeles
Chairman and Chief Executive Officer,
Kaufman & Broad S.A., France
Paris

Luis G. Nogales^{1,4}

President,
Nogales Partners
Los Angeles

Sanford C. Sigoloff^{1,2}

Chairman, President and Chief Executive Officer,
Sigoloff & Associates, Inc.
Los Angeles

Management

C O R P O R A T E O F F I C E R S

Glen Barnard

Executive Vice President,
President e.kb

George A. Brenner

Vice President and
Chief Information Officer

James R. Caldwell

Vice President,
Information Technology
Resource Center and Strategic Planning

William R. Cardon

Senior Vice President and
Regional General Manager

Cory F. Cohen

Vice President, Tax

John “Buddy” E. Goodwin

Senior Vice President,
Regional General Manager and
President, San Antonio Division

Lawrence B. Gottlieb

Vice President,
Government and Public Affairs

Michael F. Henn

Senior Vice President and
Chief Financial Officer

William R. Hollinger

Vice President and Controller

Lisa G. Kalmbach

Senior Vice President

Bruce Karatz

Chairman and Chief Executive Officer

Kimberly N. King

Corporate Secretary and Director,
Corporate Legal Affairs

Kathleen L. Knoblauch

Vice President,
National Human Resources

Leonard P. Lechnitz

Vice President, Northern
California Legal Affairs

Wendy L. Marlett

Vice President, Marketing and
Employee Communications

Mary M. McAboy

Vice President, Investor and
Public Relations

Jeffrey T. Mezger

Executive Vice President and
Chief Operating Officer

Guy Nafilyan

Executive Vice President,
Kaufman and Broad Home Corporation
Chairman and Chief Executive Officer,
Kaufman & Broad S.A., France

Barton P. Pachino

Senior Vice President and
General Counsel

Albert Z. Praw

Senior Vice President,
Asset Management and Acquisitions

Gary A. Ray

Senior Vice President,
Human Resources

Nancy S. Schwappach

Vice President,
Southern Region Legal Affairs

D I V I S I O N M A N A G E M E N T

Pierre Beauchef

President, Condominium Division
Kaufman & Broad S.A., France

John H. Bremond

President, Tucson Division

Leah S. W. Bryant

President, Las Vegas Division

Michael A. Costa

President, Kaufman and Broad
Multi-Housing Group

Mark Crivelli

President, Kaufman and Broad
Mortgage Company

Jeffry M. David

Executive Vice President,
Reno Division

Steven M. Davis

Regional General Manager and
President, Phoenix Division

Robert Freed

Regional General Manager and
President, South Bay Division

Michael J. Heim

Senior Vice President, New Mexico Division

William A. June

President, North Bay Division

Martin Lighterink

President, San Diego Division

Chris L. Matzke

President, Dallas Division

Joel Monribot

President,
Single Family Homes Division
Kaufman & Broad S.A., France

Jay L. Moss

Regional General Manager and
President, Greater Los Angeles Division

Larry E. Oglesby

President, Austin Division

Eric A. Wittenberg

President, Orange County Division

Dennis Welsch

Regional General Manager and
President, Colorado Division

Cora B. Wiltshire

President, Houston Division

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Kaufman & Broad S.A.

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Stockholder Information

C O M M O N S T O C K P R I C E S

	1999		1998	
	High	Low	High	Low
First Quarter	\$31	\$21 ³ / ₈	\$26 ⁷ / ₈	\$20 ⁵ / ₁₆
Second Quarter	28 ³ / ₄	21	34 ¹ / ₂	22 ⁵ / ₁₆
Third Quarter	25 ⁷ / ₁₆	19 ¹ / ₄	35	21 ³ / ₈
Fourth Quarter	25 ⁷ / ₁₆	16 ³ / ₄	31 ¹ / ₄	17 ¹ / ₈

D I V I D E N D D A T A

Kaufman and Broad Home Corporation paid a quarterly cash dividend of \$.075 per common share in 1999 and 1998.

A N N U A L S T O C K H O L D E R S ' M E E T I N G

The 2000 Annual Stockholders' meeting will be held at the Company's offices at 10990 Wilshire Boulevard, Seventh Floor, in Los Angeles, California, at 9:00 a.m. on Thursday, April 6, 2000.

S T O C K E X C H A N G E L I S T I N G S

Kaufman and Broad Home Corporation's common stock is listed on the New York Stock Exchange and is also traded on the Boston, Cincinnati, Midwest, Pacific and Philadelphia Exchanges. The ticker symbol is KBH.

Kaufman & Broad S.A. is listed on the ParisBourse. The ticker symbol is KOF.

T R A N S F E R A G E N T

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www.chasemellon.com

I N D E P E N D E N T A U D I T O R S

Ernst & Young LLP
Los Angeles, California

S H A R E H O L D E R I N F O R M A T I O N

The Company's common stock is traded on the New York Stock Exchange under the symbol KBH. There were 48,090,615 shares of common stock outstanding as of February 1, 2000.

F O R M 1 0 - K

The Company's 1999 Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by writing to the Company's Investor Relations department, or by visiting the Company's Web site at kbhomes.com.

H E A D Q U A R T E R S

Kaufman and Broad Home Corporation
10990 Wilshire Boulevard, Seventh Floor
Los Angeles, California 90024
(310) 231-4000
(310) 231-4222 Fax
Location and Community Information:
kbhomes.com
(800) 34-HOMES

I N V E S T O R C O N T A C T

Mary M. McAboy
Vice President, Investor and Public Relations
Kaufman and Broad Home Corporation
10990 Wilshire Boulevard, Seventh Floor
Los Angeles, California 90024
(310) 231-4033
mmcaboy@kbhomes.com

B O N D H O L D E R S E R V I C E S A D D R E S S E S & P H O N E N U M B E R S

8¹/₄% \$189,750,000 FELINE PRIDES – Due 8/16/01
Trustee:
Bank One, N.A.
Corporate Trust Investor Relations
One Bank One Plaza
Mail Code IL1-0126
Chicago, Illinois 60670
bondholder@em.fcncbd.com
(800) 524-9472

9³/₈% \$175,000,000 Note – Due 5/1/03
Trustee:
State Street Bank and Trust Company of California, N.A.
Corporate Trust Department
633 West 5th Street, 12th Floor
Los Angeles, California 90071
corporatetrust.statestreet.com
(800) 531-0368

7³/₄% \$175,000,000 Note – Due 10/15/04
9⁵/₈% \$125,000,000 Note – Due 11/15/06
Trustee:
Sun Trust Bank
Corporate Trust Division
Mail Code 008
25 Park Place, 24th Floor
Building 10, Suite 810
Atlanta, Georgia 30303-2900
olga.warren@suntrust.com
(800) 711-1614

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