

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2022

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File No. 001-09195

KB HOME

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3666267

(I.R.S. Employer
Identification No.)

10990 Wilshire Boulevard, Los Angeles, California 90024

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (310) 231-4000

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant on May 31, 2022 was \$3,237,609,721, including 6,705,247 shares held by the registrant's grantor stock ownership trust and excluding 6,840,184 shares held in treasury.

There were 83,990,399 shares of the registrant's common stock, par value \$1.00 per share, outstanding on December 31, 2022. The registrant's grantor stock ownership trust held an additional 6,705,247 shares of the registrant's common stock on that date.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the 2023 Annual Meeting of Stockholders (incorporated into Part III).

KB HOME
FORM 10-K
FOR THE YEAR ENDED NOVEMBER 30, 2022
TABLE OF CONTENTS

	<u>Page Number</u>
<u>PART I</u>	
Item 1. Business	1
Item 1A. Risk Factors	16
Item 1B. Unresolved Staff Comments	24
Item 2. Properties	24
Item 3. Legal Proceedings	24
Item 4. Mine Safety Disclosures	24
Information about our Executive Officers	25
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6. [Reserved]	26
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	54
Item 8. Financial Statements and Supplementary Data	56
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	98
Item 9A. Controls and Procedures	98
Item 9B. Other Information	99
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	100
Item 11. Executive Compensation	100
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	100
Item 13. Certain Relationships and Related Transactions, and Director Independence	100
Item 14. Principal Accounting Fees and Services	101
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	101
Item 16. Form 10-K Summary	104
Signatures	105

PART I

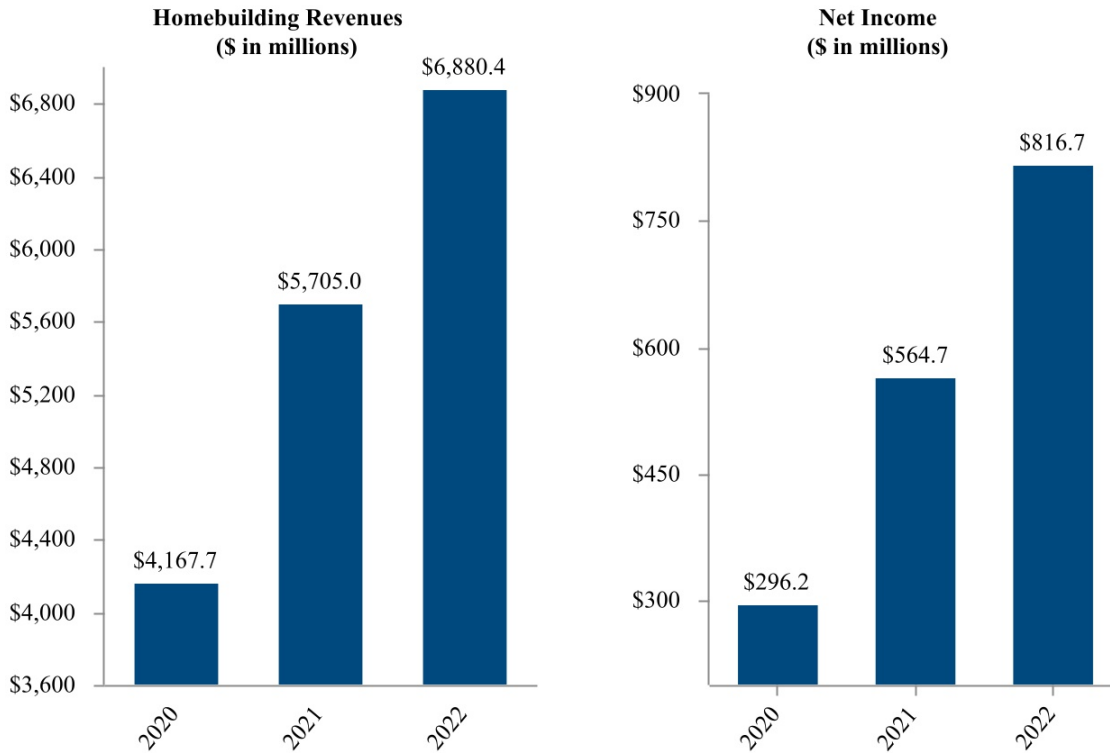
Item 1. BUSINESS

General

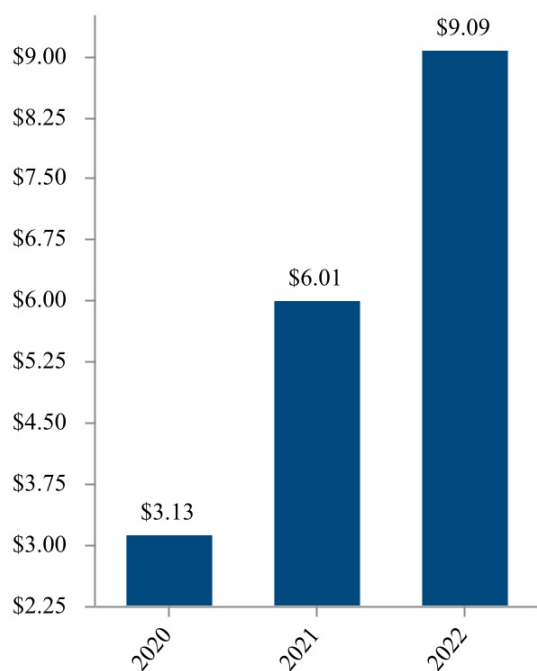
KB Home is one of the largest and most recognized homebuilding companies in the U.S. We have been building homes for more than 65 years, with over 670,000 homes delivered since our founding in 1957. We build a variety of new homes designed primarily for first-time and first move-up, as well as second move-up and active adult homebuyers, including attached and detached single-family residential homes, townhomes and condominiums. We offer homes in development communities, at urban in-fill locations and as part of mixed-use projects. Our homebuilding operations represent the majority of our business, accounting for 99.7% of our total revenues in 2022. Our financial services operations, which accounted for the remaining .3% of our total revenues in 2022, offer various insurance products to our homebuyers in the markets where we build homes and provide title services in certain of those markets. Our financial services operations also provide mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through KBHS Home Loans, LLC (“KBHS”), which is an unconsolidated joint venture between us and a third party.

Unless the context indicates otherwise, the terms “we,” “our” and “us” used in this report refer to KB Home, a Delaware corporation, and its predecessors and subsidiaries. We also use the following terms in our business with the corresponding meanings: “home” is a single-family residence, whether it is a single-family home or other type of residential property; “homes delivered” are homes for which the sale has closed and title has passed to a customer; “community” is a single development in which new homes are constructed as part of an integrated plan; and “community count” is the number of communities we have open for sales with at least five homes/lots left to sell.

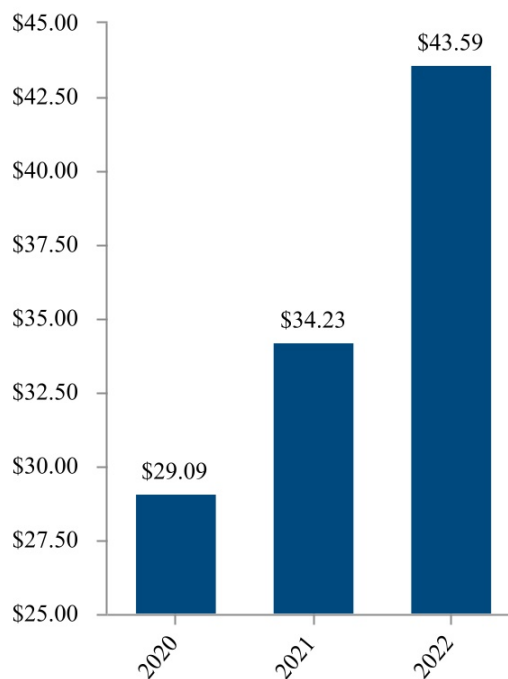
The following charts present homebuilding revenues, net income and diluted earnings per share for the years ended November 30, 2020, 2021 and 2022, and book value per share as of November 30, 2020, 2021 and 2022:



Diluted Earnings Per Share



Book Value Per Share



Markets

Reflecting the geographic reach of our homebuilding business, we have ongoing operations in the nine states and 47 major markets presented below. We also operate in various submarkets within these major markets. We may refer to these markets and submarkets collectively as our “served markets.” For reporting purposes, we organize our homebuilding operations into four segments — West Coast, Southwest, Central and Southeast.

Segment	States	Major Market(s)
West Coast	California	Contra Costa County, Fresno, Hollister, Los Angeles, Madera, Modesto, Oakland, Orange County, Riverside, Roseville, Sacramento, Salinas, San Bernardino, San Diego, San Francisco, San Jose, Santa Rosa-Petaluma, Stockton, Vallejo, Ventura and Yuba City
	Idaho	Boise
	Washington	Olympia and Seattle
Southwest	Arizona	Phoenix and Tucson
	Nevada	Las Vegas
Central	Colorado	Denver, Erie, Firestone and Loveland
	Texas	Austin, Dallas, Fort Worth, Houston and San Antonio
Southeast	Florida	Fort Myers, Jacksonville, Lakeland, Melbourne, Orlando, Palm Coast, Sarasota and Tampa
	North Carolina	Charlotte, Durham-Chapel Hill and Raleigh

Business Strategy

Overview. Our core business strategy, which we refer to as KB Edge, is to expand our scale primarily within our current geographic footprint to achieve a top-five position in each of our served markets (based on homes delivered). KB Edge is a systematic, fact-based and process-driven approach to homebuilding that is grounded in gaining a detailed understanding of consumers’ location and product preferences and product price-to-value perceptions. In our business, we use the term “product” to mean and encompass a home’s floor plan design and interior/exterior style, amenities, functions and features.

KB Edge consists of the following key principles with respect to customers, land, products and operations:

- Customers. With our Built to Order® homebuying process, we provide each of our homebuyers with a highly personalized experience where they can make a wide range of structural and design choices for their future new home, as discussed further below under “Customer Obsession.” We believe this highly interactive, “customer-first” experience that puts our homebuyers firmly in control of designing the home they want based on what they value and how they want to live, at a price they can afford, gives us a meaningful and distinct competitive advantage over other homebuilders and resale and rental homes. In addition, we find our homebuyers can have a strong emotional attachment to our products prior to and after closing when they create a personalized home with the features and finishes they select.
- Land. We seek to manage our working capital and reduce our operating risks by primarily acquiring entitled land parcels within attractive submarkets identified by our market research. We typically focus on metropolitan areas with favorable long-term economic and population growth prospects that we believe have the potential to sustain a minimum of 800 homes delivered per year, and target land parcels that meet our investment return standards. Identified consumer preferences and home sales activity largely direct where our land acquisition teams search for available land. We focus on investments that provide a one- to two-year supply of land or lots per product line, per community, and individual assets that are generally between 50 to 200 lots in size. At the same time, our land investment activity shifts relative to local or national housing market environments or broader economic conditions, increasing in conjunction with strong growth, as occurred in the 2020 second half through most of the 2022 first half, and decreasing in conjunction with slower growth, as occurred in the 2022 second half, as discussed below under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report. Though we evaluate new markets to enter, our primary focus is on our existing geographic footprint. We leverage the relationships we have with landowners, developers and brokers to find and acquire land parcels, and use our experience in working with municipalities to efficiently obtain development approvals.
- Products. We offer our customers a variety of homes with a standardized set of base functions and features generally priced to be affordable for those with household incomes within a range of the local area’s median level. With our Built to Order approach, our customers have the opportunity to select their lot location within a community, floor plan, elevation and structural options, each of which may be at a premium added to a home’s selling price, and to personalize their homes beyond our base offerings by adding numerous design options and upgrades available in our KB Home Design Studios. Our design studios, generally centrally located within our served markets, are a key component of our Built to Order process, with the mix of design options and upgrades we offer at each studio primarily based on the preferences identified by our market survey and purchase frequency data, as discussed further below under “Customer Obsession.” We utilize a centralized internal architectural group that designs homes to meet or exceed customers’ price-to-value expectations while being as efficient as possible to construct. To enhance the simplicity and efficiency of our products and processes, our architectural group has developed a core series of high-frequency, flexible floor plans and elevations that we can offer across many of our served markets. Our library of standardized plans allows us to effectively shift with local demand, which may include adding smaller square footage homes at communities to offer more affordable choices to buyers, and/or project site attributes, such as the size and location of developable lots. This also enables us to better understand in advance the cost to build our products and to compare and implement best land development and home construction practices across divisions and communities. We also incorporate energy-efficient features into our product designs to help lower our homebuyers’ total cost of homeownership and reduce our homes’ impact on the environment, as discussed below under “Environmental, Social and Governance.”
- Operations. In addition to differentiating us from other high-production homebuilders, our Built to Order process helps drive low-cost production. We generally commence construction of a home only after we have a signed purchase contract with a homebuyer and have obtained preliminary credit approval or other evidence of the homebuyer’s financial ability to purchase the home, and seek to build a backlog of sold homes. To help moderate construction-related cost inflation, we, to the extent practicable, enter into fixed-price contracts with our larger trade partners and building material suppliers for specified periods of time. By maintaining a substantial backlog, along with centralized scheduling and standardized reporting processes, we have established a disciplined and scalable operational platform that helps us sustain an even-flow production of pre-sold homes. This reduces our inventory risk, promotes construction efficiencies, enhances our relationships with independent contractors and other business partners, and provides us with greater visibility and predictability on future deliveries. We have also been able to mitigate supply chain-related disruptions over the past few years, which are further discussed below, through implementing construction process workarounds, simplifying our design option and upgrade SKUs, adding new construction service providers and communicating in real-time with our supplier base to help us construct and deliver completed homes as quickly as possible.

There may be market-driven circumstances where we believe it is necessary or appropriate to temporarily deviate from certain of the above principles. These deviations may include starting construction on a small number of homes in a community before corresponding purchase contracts are signed with homebuyers to more quickly meet customer delivery expectations and generate revenues; or acquiring land parcels in peripheral neighborhoods of a core metropolitan area that otherwise fit our growth strategy and meet our investment return standards. In 2020 and 2021, our average construction cycle time lengthened and our even-flow home production process was hindered primarily due to the effects the 2019 coronavirus disease (“COVID-19”) pandemic and related control efforts had on our supply chain, which, in conjunction with high customer demand, resulted in building materials and construction services shortages, unpredictable shipment schedules and other issues. In 2022, although demand decelerated significantly in the second half, as described below under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report, we continued to experience significant supply chain disruptions as well as delays with respect to state and municipal permitting, inspection and utility processes, which have been affected by key equipment shortages, as we worked to deliver our backlog. These factors impacted our operations during these years in many markets by, among other things discussed in this report, causing appreciable delays in opening new communities and delivering homes; and prompting us to revise the sequencing of construction steps from time to time, and in some cases, order items in advance of starting homes to mitigate delays. Other circumstances could arise in the future that may lead us to make specific short-term shifts from our KB Edge principles.

Asset Efficiency. In implementing our KB Edge business strategy, a key tenet of our approach is to enhance asset efficiency. We do this by calibrating home sales rates and selling prices at each of our communities to improve profitability; focusing on controlling direct construction costs within our communities; increasing inventory turns to the extent practical; balancing pace, price and construction starts at each community; structuring land acquisitions to minimize upfront costs where possible, as discussed below under “Community Development and Land Inventory Management”; and deploying excess cash flow from operations to help fuel additional revenue growth or reduce debt, among other steps.

Customer Obsession. Based on more than 65 years of experience, we believe the best homes start with the people who live in them. Our customer-centric approach comes from a deep-rooted operational philosophy and company culture motivated by a paramount objective: to be the most customer-obsessed homebuilder in the world. Driven by this ambitious guidepost, our team seeks to provide a compelling, simple and personalized homebuying process distinguished by phenomenal customer service. We want our customers to know they have a real partner when buying a home with us, and to feel that once their home is built, they can see themselves in their new home. Our team members, supported through our training and development programs, are encouraged to make decisions intended to produce the best results for our customers and our organization. Our customer obsession mindset is built around the following key principles:

- Find out what customers actually want. We ascertain homebuyer product design and location preferences through surveys we conduct of recent buyers of both new and resale homes across our served markets. We also obtain data from our own homebuyers’ selections and post-sale feedback. We use this information on what matters most to homebuyers when making purchase and trade-off decisions to develop and refine our products, as well as our land acquisition targets.

We also cultivate and leverage close supplier and business partner relationships to integrate into or offer with our products architectural elements (such as flex spaces that can serve multiple purposes, quiet zones or home offices), building materials, construction techniques, structural and non-structural systems, and components and devices that are aligned with the preferences identified in our surveys and other data sources.

- Offer customers choice and control. From our synthesis of the foregoing consumer research and related activities, we give our homebuyers a wide array of choices to craft the new home that fits their particular lifestyle and priorities, including their homesite, floor plan, elevation and structural options. Our homebuyers can visit our KB Home Design Studios, where they get both advice and the opportunity to select from a broad range of included features, design options and upgrades that will help personalize their home. When customers build a new home with us, they also enjoy choosing exactly what they want and paying only for what matters most to them. This helps to meet homebuyers’ priorities at price points attainable to them.
- Create collaborative customer relationships. In our view, we are not just selling a house. We are in the business of delivering an exceptional, personalized experience that enables our customers to achieve perhaps the most meaningful purchase they will ever make and an important landmark in their life’s journey — their own home. From this perspective, we strive to form close relationships with our homebuyers. We endeavor to learn key details about what they want, their top priorities today and where they see themselves in the future, so we can co-create a home for their day-to-day lives. We support each person or family, whether it is their first time or they have already been homeowners, with a dedicated community team of sales counselors, design consultants, construction supervisors and

other personnel. This team is available to guide each homebuyer through each major step of the design, construction and closing of their KB home and aims to make the process as easy and straightforward as possible.

- Continue to listen to customers after the sale is done. To help learn and improve our customer experience, we schedule follow up visits with our customers 30 days after they move in, as well as three, six, 10 and 18 months later, to hear about their experience in their new home and to address any concerns they may have, including warranty claims. Information about our KB Home 10-year Limited Warranty program is provided in Note 17 – Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report.

We believe our approach differentiates us in the homebuilding industry and, along with our company culture that sustains it, enhances customer satisfaction. We are proud of the high levels of satisfaction our homebuyers have reported to us and outside survey firms. In 2022, we continued to be the highest-ranked national homebuilder for customer satisfaction in third-party surveys, which we believe reflects the effective dedication we have to our homebuyers.

Promotional Marketing Strategy. To emphasize the distinct combination of innovative designs, personalization, affordability and partnership we offer to our homebuyers and the importance we place on customer satisfaction, we have centered our external brand identity and messaging around Built on Relationships®. Built on Relationships also encapsulates the importance of customer, as discussed above, and other key relationships – with suppliers, trade contractors, land sellers and municipalities – to the success of our business. The key components we highlight as part of our brand identity include:

- Innovative Design. We believe we offer homebuyers product designs that distinctively blend contemporary consumer-preferred elements, such as open floor plans, flexible living spaces, indoor/outdoor flow and extra storage, as discussed above under “Customer Obsession”; quality construction standards; superior energy and water efficiency; and a healthier indoor air environment, guided by the U.S. Environmental Protection Agency (“EPA”) Indoor airPLUS standards, along with advanced technological features and devices, as compared to some other new homes and resale homes with which we compete.
- Personalization. We give our homebuyers the ability to personalize their new home from floor plans to exterior styles, and from design choices to where they live in the community. At our KB Home Design Studios, our homebuyers can get advice and have the opportunity to select from a broad range of included features, design options and upgrades that will help personalize their home.
- Affordability. We offer our customers a variety of homes with a standardized set of base functions and features generally priced to be affordable for those with household incomes within a range of the local area’s median level. In addition, in many of our communities, we can readily introduce smaller square footage floor plans to enable more customers to select and design a personalized home within their budget. Our ENERGY STAR® certified homes can provide long-term significant savings on utility bills compared to typical resale homes and to competitive new homes that are not ENERGY STAR certified.
- Partnership. Our dedicated team of sales counselors, design consultants, construction superintendents and customer service representatives, as well as KBHS loan officers, work closely with our homebuyers throughout the homebuying process.

We typically sell our homes through commissioned sales associate employees from sales offices located in or adjacent to furnished model homes in each community. We also use electronic sales capabilities and technology to give our customers a variety of convenient ways to shop for and purchase a new KB home, including, among other things:

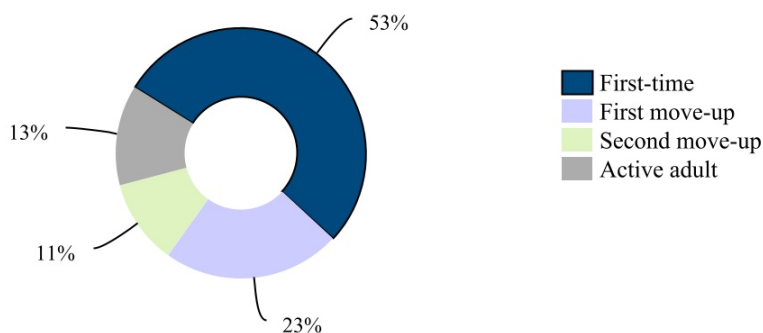
- Offering virtual home tours and online photo galleries for prospective homebuyers;
- Providing access to interactive floor plans and homesite maps for their desired community;
- Conducting virtual appointments and tours of the model homes and design studios;
- Having KBHS pre-qualify our homebuyers for mortgages, and utilizing online tools and/or contactless methods to serve homebuyers where possible;
- Organizing virtual events with the broker community to introduce new communities;
- Presenting homebuyers with the ability to virtually see and walk through their home at various points during its construction and prior to closing; and
- Arranging virtual or drive-through closings, where permitted.

In addition, as part of our commitment to sustainability, which is discussed further below under “Environmental, Social and Governance,” and providing our customers a simple path to homeownership, we continue to work towards the goal of paperless homebuying. Over the past few years, we have eliminated a significant amount of paper from our home purchase contract by reducing the number of forms required to complete the process and digitizing as many of the remaining forms as possible. We plan to make additional investments in our digital sales and marketing tools in 2023.

We market our homes to prospective homebuyers and real estate brokers through a variety of media, and use data analytics to target our advertising and measure its effectiveness and efficiency in terms of generating leads and orders. In recent years and in response to the growing number of millennial and Generation Z homebuyers, we have increased our emphasis on digital marketing, through search engine marketing, interactive Internet-based applications, email, social media, our website and other evolving communication technologies. We also use print media, billboards, radio, magazine and newspaper advertising in our served markets, as necessary.

Homebuyer Profile. We focus on offering a variety of homes with a standardized set of base functions and features that are generally priced to be affordable for those with household incomes within a range of the local area’s median level in order to position our products to be attainable for the largest demand segments of the relevant submarket. Our product portfolio for customers ranges from smaller, higher density homes, with average selling prices typically suited for first-time homebuyers, to larger homes in premium locations with additional amenities and higher average selling prices that generally attract a first or second move-up homebuyer. We also offer a variety of single-story floorplans that typically appeal to an active adult homebuyer age 55 and over, as well as multi-story floorplans that attract a wide range of homebuyers. For more than a decade, first-time and first move-up homebuyers have accounted for an average of over 75% of our annual deliveries; in 2022, these homebuyers accounted for 76% of our deliveries, as shown in the following chart:

2022 Buyer Profile



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

Our corporate management and support personnel develop and oversee the implementation of company-wide strategic initiatives, our overall operational policies and internal control standards, and perform various centralized functions, including architecture; purchasing and national contracts; treasury and cash management; land acquisition approval; risk and litigation management; accounting and financial reporting; internal audit and compliance activities; information technology (“IT”) systems; marketing; and investor and media relations.

Community Development and Land Inventory Management

Developable land for the production of homes is a core resource for our business. Based on our current strategic plans, we seek to own or control land sufficient to meet our forecasted production goals for the next four to six years. In 2023, we intend to continue to invest in and develop land positions within attractive submarkets and selectively acquire or control additional land that meets our investment return standards, though at a lower level than in the prior two years, as discussed below under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report. We may periodically sell certain land interests or monetize land previously held for future development to strategically balance our land portfolio in line with local or national market environments or for other reasons. We may also decide not to exercise certain land option contracts and other similar contracts due to market conditions and/or changes in our marketing strategy.

Our community development process generally consists of four phases: land acquisition, land development into finished lots for a community (if necessary), home construction and delivery of completed homes to homebuyers. Historically, our community development process has typically ranged from 12 to 24 months in our West Coast homebuilding reporting segment, with a somewhat shorter duration in our other homebuilding reporting segments. The development process in our West Coast homebuilding reporting segment is typically longer than in our other segments due to the municipal and regulatory requirements that are generally more stringent in California. Our community development process varies based on, among other things, the extent and speed of required government approvals and utility service activations, the overall size of a particular community, the scope of necessary site preparation activities, the type of product(s) that will be offered, weather conditions, time of year, promotional marketing results, the availability of construction resources, consumer demand, local and general economic and housing market conditions, and other factors. In 2022, as noted above under “Business Strategy,” our community development timelines extended due to supply chain disruptions that, among other things, created building materials and construction services shortages and delays with respect to state and municipal permitting, inspections and utility processes. In addition, while we made substantial investments in land acquisition and land development in the 2022 first half, extending our efforts in 2020 and 2021 to expand our scale and support future community count growth, we pivoted in the 2022 third quarter in response to softening housing market conditions to emphasize developing land positions we already own or control under land option contracts and other similar contracts. As the housing market continued to slow in the 2022 fourth quarter, we decided to further reduce our land investment activity to align with our growth expectations for that period and 2023. We also modified our land development strategy, electing to build smaller phases and, in some cases, deferring the start of communities or phases to align with expected demand in certain local areas. We believe the challenging conditions we experienced in the 2022 second half will generally persist next year, as discussed below under “Outlook.”

Although they vary significantly in size and complexity, our single-family residential home communities typically consist of 50 to 200 lots per product line, with lots ranging in size from 1,700 to 11,000 square feet. In our communities, we typically offer three to 15 home design choices. We also generally build one to three model homes at each community so that prospective homebuyers can preview the various products available. Depending on the community, we may offer premium lots containing more square footage, better views and/or location benefits. Some of our communities consist of multiple-story structures that encompass several attached condominium-style units.

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

As part of the decision-making process for approving a land purchase, we review extensive information about a proposed project, including past use; assessment of environmentally sensitive areas and areas that may be suitable for parks, trails, and open space preservation areas; assessment of site development required, including any work needed to comply with storm water regulations; distance to major employment and retail centers; and site design and product (home designs and specifications) plans that are consistent with our commitment to building 100% ENERGY STAR homes using 100% WaterSense® labeled fixtures, as discussed below under “Environmental, Social and Governance.”

We generally structure our land acquisition and land development activities to minimize, or defer the timing of, expenditures in order to reduce both the market risks associated with holding land and our working capital and financial commitments, including interest and other carrying costs. We typically use contracts that, in exchange for a small initial option payment or earnest money deposit, give us an option or similar right to acquire land at a future date, usually at a pre-determined

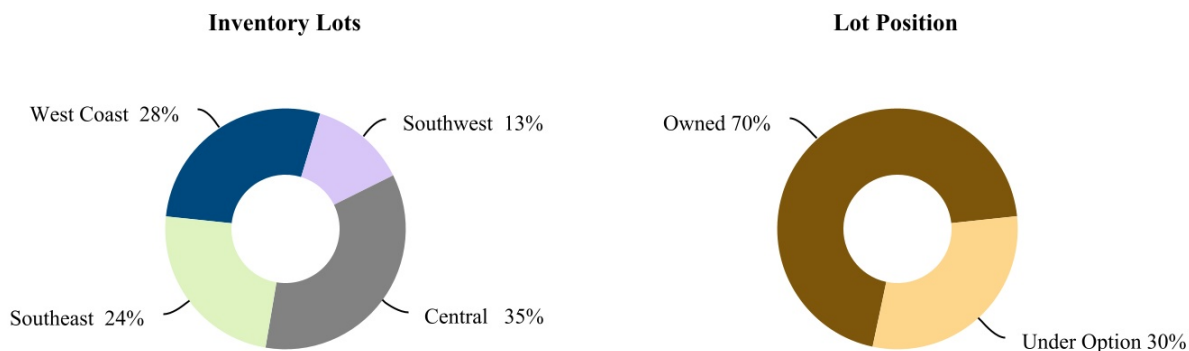
price and pending our satisfaction with the feasibility of developing and selling homes on the land and/or an underlying land seller's completion of certain obligations, such as securing entitlements, developing infrastructure or finishing lots. We refer to land subject to such option or similar contractual rights as being "controlled." Our decision to exercise a particular land option or similar right is based on the results of our due diligence and continued market viability analysis after entering into such a contract.

The following table presents the number of inventory lots we owned, in various stages of development, or controlled under land option contracts or other similar contracts by homebuilding reporting segment as of November 30, 2022 and 2021:

	Homes Under Construction		Land Under Development		Land Under Option (a)		Total Land Owned or Under Option	
	2022	2021	2022	2021	2022	2021	2022	2021
West Coast	1,882	2,838	11,787	10,617	5,633	10,084	19,302	23,539
Southwest	1,937	1,895	5,975	7,207	929	3,237	8,841	12,339
Central	3,659	3,194	12,256	13,082	8,086	12,685	24,001	28,961
Southeast	1,929	1,718	8,630	7,974	6,092	12,237	16,651	21,929
Total	9,407	9,645	38,648	38,880	20,740	38,243	68,795	86,768

(a) Land under option as of November 30, 2022 and 2021 includes 5,543 and 12,434 lots, respectively, under land option contracts or other similar contracts where the associated deposits were refundable at our discretion.

The following charts present the percentage of inventory lots we owned or controlled under land option contracts or other similar contracts by homebuilding reporting segment and the percentage of total lots we owned and had under option as of November 30, 2022:



Home Construction and Deliveries. Following the acquisition of land and, if necessary, the development of the land into finished lots, we typically begin constructing model homes and marketing homes for sale. To minimize the costs and risks of unsold homes in production, we generally commence construction of a home only after we have a signed purchase contract with a homebuyer and have obtained preliminary credit approval or other evidence of the homebuyer's financial ability to purchase the home. Other than model homes, our inventories typically do not consist of a significant number of completed unsold homes. However, cancellations of home purchase contracts prior to the delivery of the underlying homes, the construction of attached products with some unsold units, or specific marketing or other strategic considerations will result in our having some unsold completed or partially completed homes in our inventory. Although our typical cycle time from home sale to delivery has historically ranged from six to seven months, as described above, supply chain disruptions and other production-related issues extended our build times in 2022 and 2021.

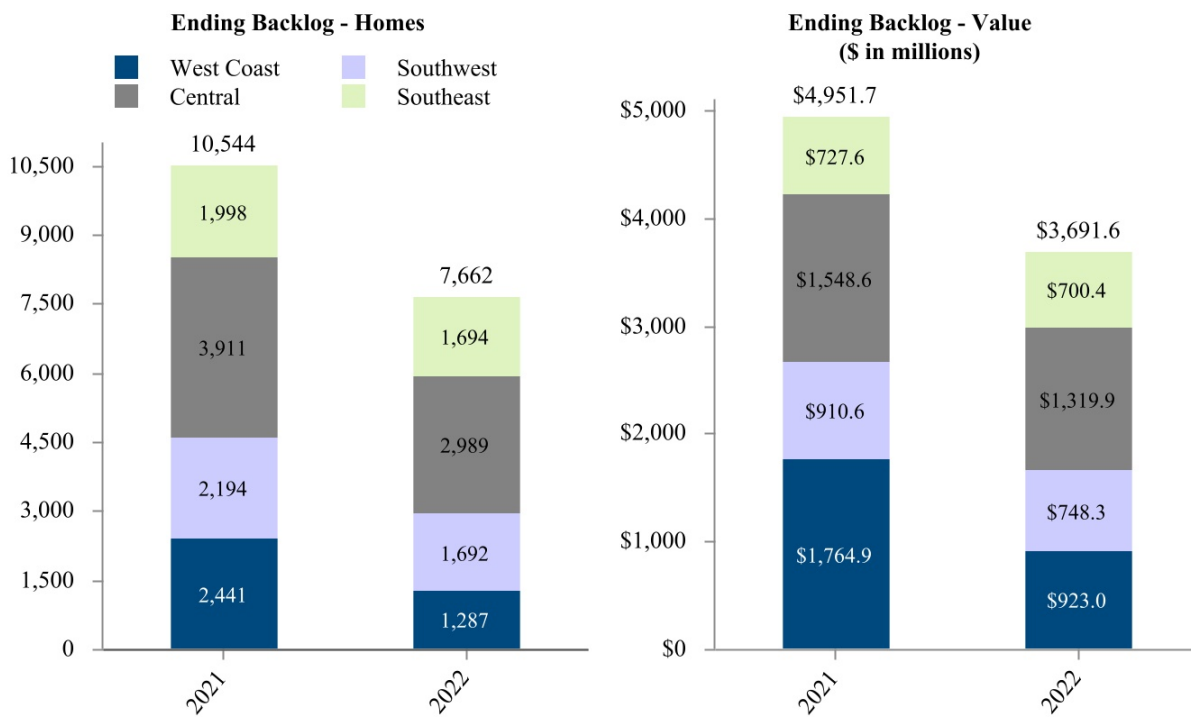
We, or outside general contractors we may engage, contract with a variety of independent contractors, who are typically locally based, to perform all land development and home construction work through these independent contractors' own employees or subcontractors. We do not self-perform any land development or home construction work. These independent contractors also supply some of the building materials required for such production activities. Our contracts with these independent contractors require that they comply with all laws applicable to their work, including wage and safety laws, meet performance standards, follow local building codes and permits, and abide by our Ethics Policy referenced under Item 10 – Directors, Executive Officers and Corporate Governance in this report.

Raw Materials. Outside of land, the principal raw materials used in our production process are concrete and forest products. Other primary materials used in home construction include drywall, and plumbing and electrical items. We source all of our building materials from third parties and seek out products that provide independent sustainability assessments. In addition, our lumber suppliers generally certify that their wood was not sourced from endangered forests or is certified by recognized programs. We attempt to enhance the efficiency of our operations by using, where practical, standardized materials that are commercially available on competitive terms from a variety of outside sources. In addition, we have national and regional purchasing programs for certain building materials, appliances, fixtures and other items that allow us to benefit from large-quantity purchase discounts and, where available, participate in outside manufacturer or supplier rebate programs. When possible, we arrange for bulk purchases of these products at favorable prices from such manufacturers and suppliers.

Backlog

Our “backlog” consists of homes that are under a purchase contract but have not yet been delivered to a homebuyer. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less home purchase contract cancellations) generated during the current period minus the number of homes delivered during the current period. Our backlog at any given time will be affected by cancellations, homes delivered and our community count. Backlog value represents potential future housing revenues from homes in backlog. Our cancellation rates and the factors affecting such rates are further discussed below under both Item 1A – Risk Factors and Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report.

The following charts present our ending backlog (number of homes and value) by homebuilding reporting segment as of November 30, 2021 and 2022:



Competition, Seasonality, Delivery Mix and Other Factors

Competition. The homebuilding industry and housing market are highly competitive with respect to selling homes; contracting for construction services, such as carpentry, roofing, electrical and plumbing; and acquiring attractive developable land, though the intensity of competition can vary and fluctuate between and within individual markets and submarkets. We compete for homebuyers, construction resources and desirable land against numerous homebuilders, ranging from regional and national firms to small local enterprises. As to homebuyers, we primarily compete with other homebuilders on the basis of selling price, community location and amenities, availability of financing options, home designs, reputation, home construction cycle time, and the design options and upgrades that can be included in a home. In some cases, this competition occurs within larger residential development projects containing separate sections other homebuilders design, plan and develop. We also

compete for homebuyers against housing alternatives to new homes, including resale homes, apartments, single-family rentals and other rental housing.

In markets experiencing extensive construction activity, including areas recovering from earthquakes, wildfires, hurricanes, flooding or other natural disasters, there can be craft and skilled trade shortages that limit independent contractors' ability to supply construction services to us, which in turn tends to drive up our costs and/or extend our production schedules. Elevated construction activity, and reallocations of staff for public safety priorities after natural disasters or otherwise, has also contributed to measurable increases in the amount of time needed to obtain governmental approvals or utility service activations and, combined with tariffs imposed or increased by the U.S. and other governments, the cost of certain raw building materials, such as steel, lumber, drywall and concrete, or finished products. Since 2020, we have experienced intensifying building material cost pressures, particularly for lumber, and production capacity issues with some of our main product suppliers, reflecting sustained high levels of homebuilding and renovation activity combined with supply chain disruptions stemming from international and domestic COVID-19 control responses. In addition, since 2013, we have seen higher prices for desirable land amid heightened competition with homebuilders and other developers and investors (both domestic and international), particularly in the land-constrained areas where we operate. We expect these upward cost trends to continue in 2023, if and as there is greater competition for these resources across a disrupted global supply chain.

Seasonality. Our performance is affected by seasonal demand trends for housing. Traditionally, there has been more consumer demand for home purchases and we tend to generate more net orders in the spring and early summer months (corresponding to most of our second quarter and part of our third quarter) than at other times of the year. This "selling season" demand results in our typically delivering more homes and generating higher revenues from late summer through the fall months (corresponding to part of our third quarter and all of our fourth quarter). However, as illustrated in the table below, the outbreak of COVID-19 and the related COVID-19 control responses beginning in mid-March 2020 disrupted our usual seasonal patterns in 2020, with our 2020 second quarter net order activity measurably constrained followed by a significant rebound in our 2020 third and fourth quarters, resulting in a higher percentage of net orders in those quarters, compared to corresponding quarters in previous years. The seasonal pattern of our homes delivered and housing revenues in 2021 and 2022 was slightly more in line with typical historical trends, though the typical fourth quarter slowdown in net orders in 2022 was more pronounced than normal. However, we can provide no assurance whether or to what extent typical seasonal performance trends will occur in 2023, or at all.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Orders				
2022	39 %	36 %	19 %	6 %
2021	26 %	27 %	25 %	22 %
2020	26 %	13 %	32 %	29 %
Homes Delivered				
2022	21 %	25 %	26 %	28 %
2021	21 %	26 %	26 %	27 %
2020	26 %	23 %	24 %	27 %
Housing Revenues				
2022	20 %	25 %	27 %	28 %
2021	20 %	25 %	26 %	29 %
2020	26 %	22 %	23 %	29 %

Delivery Mix and Other Factors. In addition to the overall volume of homes we sell and deliver, our results in a given period are significantly affected by the geographic mix of markets and submarkets in which we operate; the number and characteristics of the communities we have open for sales in those markets and submarkets; and the products we sell from those communities during the period. While there are some similarities, there are differences within and between our served markets in terms of the number, size and nature of the communities we operate and the products we offer to consumers. These differences reflect, among other things, local homebuyer preferences; household demographics (e.g., large families or working professionals; income levels); geographic context (e.g., urban or suburban; availability of reasonably priced finished lots; development constraints; residential density); and the shifts that can occur in these factors over time. These factors in each of our served markets will affect the costs we incur and the time it takes to locate, acquire rights to and develop land, open

communities for sales, and market and build homes; the size of our homes; our selling prices (including the contribution from homebuyers' purchases of design options and upgrades); the pace at which we sell and deliver homes; the rate at which communities are sold out; and our housing gross profits and housing gross profit margins. Therefore, our results in any given period will fluctuate compared to other periods based on the proportion of homes delivered from areas with higher or lower selling prices and on the corresponding land and overhead costs incurred to generate those deliveries, as well as from our overall community count.

Human Capital Resources

At November 30, 2022 and 2021, we had approximately 2,366, and 2,244 full-time employees, respectively. None of our employees are represented by a collective bargaining agreement. For fiscal 2022, our turnover rate was 21%, made up of 19% voluntary turnover and 2% involuntary turnover. For fiscal 2021, our turnover rate was 16%, made up of 15% voluntary turnover and 1% involuntary turnover. We believe these rates are reasonable for our industry and market conditions at the time.

Our Culture. In order to achieve our strategic goals, it is essential for us to attract, promote and retain qualified personnel, particularly the local division leaders who manage our businesses in our served markets and partner with all constituents. Therefore, we strive to create an engaging internal environment that offers our employees satisfying work, with meaningful opportunities for career growth and development, rewarding short- and long-term compensation programs that are aligned with achieving our business goals, employee home purchase and referral programs, and employment milestone service awards. In addition, we offer our employees benefit programs, which include medical, dental and vision insurance, a savings/retirement plan, life and disability insurance, and tuition reimbursement, along with an array of voluntary benefits designed to meet individual needs. We engage nationally recognized outside compensation and benefits consulting firms to objectively evaluate our programs and benchmark them against peers and other similarly sized organizations. In 2022, for the second year in a row, we were named to Forbes' list of America's Best Midsize Employers. We believe this recognition reflects in part our focus on cultivating a supportive and inclusive workplace culture that encourages the growth and development of our team members.

Our top division and regional leaders average more than 11 years of tenure with us, and the local leaders responsible for land acquisition, entitlement, and development average over nine years with us. In addition, our named executive officers who are responsible for setting our overall strategy average 20 years of tenure with us and more than two decades in the homebuilding industry. Our leadership team's long service history provides consistency in managing our business and helps reinforce and sustain our company culture through all levels of the organization.

Promoting High Ethical Standards. We are committed to achieving our business goals with integrity and high ethical standards that apply to our directors, officers and employees. All employees are required to complete training on our Ethics Policy, which includes their affirming compliance with the guidelines contained therein. In addition, we maintain an ethics committee that is focused on compliance and ethics matters for our business. We also have an independently operated hotline and reporting website through which our employees and third parties can report ethics-related concerns.

Diversity. To promote an inclusive workforce and the professional growth of the diverse individuals who join us, our employment policies prohibit discrimination based on race, color, religion, national origin, ancestry, familial status, age, veteran status, physical disability, mental disability, medical condition, gender, gender identity, sexual orientation, marital status, or any other legally protected status. We are committed to supporting a work culture that treats all employees fairly and with respect, promotes inclusivity, provides equal opportunities for the professional growth of the diverse individuals who join us, and advancement based on merit. At November 30, 2022, based on information available to us, females made up approximately 41% of our workforce and 33% of our managerial employees, with ethnic and racial minorities making up approximately 38% of our workforce and 22% of our managerial employees. In addition, 36% of our board of directors are women or ethnic minorities. We intend to continue using a combination of targeted recruiting, talent development and internal promotion strategies to expand the diversity of our employee base across all roles and functions.

Learning and Development. To help advance our employees' personal growth and drive consistent execution of our business strategy, including our customer obsession philosophy, we provide training opportunities that align with team members' responsibilities over the arc of their careers with us. We support a dedicated Internet-based learning platform with a broad portfolio of written, audio-visual and interactive enterprise-wide and discipline-specific policy and training materials. This platform includes a library of approximately 300 self-directed courses and virtual, instructor-led programs for employees at all levels of our organization. New employee orientations, functional role training, and our required annual ethics training and certification, are provided on this platform. During 2022, our team members completed more than 34,000 courses in total, an average of approximately 14 courses per employee. Managers and supervisors are provided training to help their direct reports progress in their professional development.

To recognize and promote outstanding employees, we conduct a comprehensive talent and succession planning review process on an annual basis, focused on identifying top-performing, high-potential, and diverse team members for advancement to key field and corporate leadership roles. This review process is overseen by the management development and compensation committee of our board of directors, the members of which have significant experience and insight into human capital management, talent development and executive compensation across a variety of organizational structures, as well as strong backgrounds in executive leadership.

Employee Safety and Wellness. We strive to provide a safe working environment for our employees, as well as our trade partners, as discussed below under “Social Practices.” In addition to the benefits programs described above, we offer a wellness program designed to support our team members’ general health. To help our team members mitigate stressors arising from the outbreak of the COVID-19 pandemic and the related COVID-19 control responses, we expanded our wellness program offerings and made them available online so that every employee had access to them. Monthly interactive webinars address topics such as holistic health, including nutrition, and preventive care. We have continued to enhance our wellness program throughout 2022 with wellness challenges and monthly wellness webinars, and see it as a positive way to create and strengthen internal connections with and among our employees.

Since the beginning of the COVID-19 pandemic over two years ago, we have strived to provide our employees with the resources to balance their personal and professional obligations amid the challenges associated with periodic outbreaks and control responses of varying severity, with many of our employees working remotely, often in accordance with public health rules.

As we believe a hybrid approach of in-office and remote participation is how many work environments are or will be structured, and it has been effective for most of our operations, we implemented a flexible work program in our division and corporate office locations throughout 2022 that establishes a certain number of in-office workdays and is intended to help our employees to maintain a reasonable professional/personal life balance as we continue to invest in and protect our strong company culture.

Environmental, Social and Governance (“ESG”)

For more than 15 years, we have made a dedicated effort to be an industry leader in sustainability, which encompasses our ESG practices. We believe our initiatives provide tangible benefits for our customers, our operations and the environment, and distinctly differentiate us from other builders of new homes and from resale homes. We have established an Environmental Management System (“EMS”), through which we focus on continually reducing the greenhouse gas (“GHG”) emissions associated with the use of the homes over their multi-decade life cycle. Our EMS, and its related manuals and other documentation, provides a framework for planning, implementing, measuring, evaluating and refining these efforts over time. In addition to our internal executive team who implements and operates within the EMS, we monitor evolving trends and gather input and guidance for our initiatives through our National Advisory Board, which is a panel of external advisors we established in 2009 solely for these purposes. These advisors, who have a broad and diverse set of personal and professional perspectives, experiences and expertise, help us shape our sustainability priorities and reporting, as well as our approach to stakeholder engagement.

Environmental Practices. We are committed to building energy-efficient homes and have progressively expanded our sustainability program and use of technological advancements to make renewable solar energy, water efficiency, waste reduction and indoor environments that support personal wellness available to our buyers. As most of the energy consumed during a home’s multi-decade life occurs after we deliver the home to our customers, our products’ energy efficiency is central to our efforts to help reduce carbon and other GHG emissions. As a result, enhancing the conservation of natural resources in a home’s day-to-day use is a key part of our business strategy.

ENERGY STAR Commitment. The cornerstone of our energy-efficiency initiatives is building 100% ENERGY STAR certified new homes, a standard to which we committed in 2008. ENERGY STAR is a voluntary EPA and Department of Energy program that seeks to help consumers, businesses and industry save money and protect the environment through the adoption of energy-efficient products and practices. We were the first national homebuilder to make every new home we build ENERGY STAR certified, and have built over 175,000 high-performance ENERGY STAR certified new homes since 2000, more than any other builder in the nation. By comparison, the EPA estimates only about 10% of all new homes in the U.S. were ENERGY STAR certified in the past three years. According to the EPA, ENERGY STAR certified new homes achieve a 20% energy-efficiency improvement on average compared to new homes built to local code, and even more compared to resale homes without certification. Each certified home is estimated by the EPA to reduce GHG emissions by approximately 3,287 pounds (1.5 metric tons) per year compared to a typical home. Based on our energy use analysis, our homes currently save our homeowners an estimated average of \$1,300 annually on utility bills compared to typical resale homes. Our commitment to building ENERGY STAR certified homes has also enabled us to earn significant federal tax credits.

GHG Emission Reductions. We have a goal to reduce the estimated GHG emissions (metric tons per year) of our average home built in 2025 by 0.5 metric tons per year, or 8%, from the estimated 6 metric tons per year average for a KB home built in 2020. Our benchmark for measuring the achievement of this goal is the Home Energy Rating System (HERS®) Index, as each HERS Index score point reduction equates to a 1% improvement in energy efficiency relative to a standard new home and potentially reduces GHG emissions by an average of 0.1 metric tons (as calculated based on the states in which we operate). Therefore, we expect to attain our GHG emissions reduction goal if we reduce our national average HERS Index score by five points, from 50 in 2020 to a target of 45 for 2025. For comparison, a typical resale home today has a HERS Index score of 130. Our focus on sustainability has made us the #1 energy-efficient national homebuilder based on having the lowest publicly reported HERS Index among large production homebuilders.

Solar. We built our first solar home in 2005 and introduced our first all solar community in 2011. We have delivered more than 17,500 homes with solar-paneled power systems, producing an estimated total of 848 million kilowatt hours of electrical power. In recent years, we have added higher efficiency solar panels that generate more power using the same roof space. In 2020, we were the first national homebuilder to offer a complete roof-integrated solar-paneled system. In 2022, we built over 3,500 solar homes in California, representing nearly 90% of our homes built in the state that year. As of November 30, 2022, approximately 90% of our model homes and sales offices in California were powered by solar energy.

Indoor Environments. In recent years, we have expanded our sustainability portfolio to include enhancing our homes' indoor environment with high-performance ventilation systems and low- or zero-VOC products. Every KB home incorporates high-performance ventilation that regularly introduces fresh outdoor air and, together with comprehensive air sealing, helps to reduce indoor air pollutants. In addition, since mid-2021, we have included MERV-13 rated air filters, one of the highest-rated residential air filters on the market, as standard in all of our new communities. These filters are designed to remove dust, pollen, mold and certain bacteria and viruses for better air quality compared to lower-rated air filters, and exceed current ENERGY STAR requirements. Our new homes also include a high-efficiency heating and cooling system designed to provide better comfort in every room, as well as smartphone-controllable thermostats, which can learn homeowner patterns and help save money on electric bills each year without impacting comfort.

Consumer Awareness. To assist customers in understanding the energy-efficiency benefits of our homes, we include a KB Home Energy Savings Comparison™, or ESC, with each home that provides an estimate of its monthly energy costs and monthly savings compared to a typical resale home. We also engage in campaigns and other educational efforts, sometimes together with other companies, organizations and groups, to increase consumer awareness of the importance and impact of sustainability in selecting a home and the products within a home. We intend to continue to research, evaluate and utilize new or improved products and construction and business practices consistent with our sustainability commitment, and believe our initiatives in this area can help put us in a better position, compared to resale homes and homebuilders with less-developed programs, to comply with evolving regulations directed at addressing climate change and similar environmental concerns, and to meet growing consumer demand for resource-efficient products, as discussed below under Item 1A – Risk Factors in this report.

Water Conservation. As a homebuilder operating in some of the most water-challenged regions of the country, we also prioritize water conservation. We provide water-saving features in our homes that reduce our homeowners' bills and may help to mitigate strain on local communities' water resources. As water availability is an important consideration for local governments in approving new-home developments, we believe our leadership in this area has positioned us to effectively address water-related development concerns and help preserve this critical resource.

We were the first national homebuilder to join the EPA's WaterSense program, which is a voluntary partnership program that is both a label for water-efficient products and a resource for helping conserve water. According to the EPA, WaterSense labeled products use at least 20% percent less water compared to products that are not WaterSense labeled. To date, we have built over 19,000 WaterSense and Water Smart homes, more than any other homebuilder, and installed over 1.0 million WaterSense labeled fixtures, collectively helping to save an estimated 1.7 billion gallons of water per year. We were the first national homebuilder to implement the new WaterSense Labeled Homes Program, Version 2, which was released in February 2021 and requires homes to be at least 30% more water efficient than a typical new home.

In July 2022, we announced that every home built in our future Arizona, California and Nevada communities will be WaterSense labeled. Additionally, these homes will be rated using the RESNET HERS H₂O® system to ensure they meet the EPA's requirements, helping homeowners use less water as well as lower their utility bills in some of the most drought-affected areas of the country.

Awards and Recognition. We have been recognized with major national awards for our leading sustainability practices, including:

- 2022 ENERGY STAR Partner of the Year – Sustained Excellence Award – Our 12th consecutive award for demonstrating leadership in energy-efficient construction;
- 2022 ENERGY STAR Certified Homes Market Leader Awards – A record 28 awards in all, recognizing excellence in energy-efficient home building;
- 2022 WaterSense Sustained Excellence Award – The eighth consecutive year we have received this award for our achievements in constructing water-efficient homes and our 12th consecutive year being recognized by WaterSense; and
- Newsweek’s 2023 list of America’s Most Responsible Companies – Our third consecutive year recognized for demonstrating leading ESG practices, specifically, our industry-leading environmental initiatives, dedication to social responsibility and strong corporate governance standards.

Our annual sustainability reports, which we have published on our website since 2008, contain more information about our programs, goals, and achievements.

Social Practices. As discussed above under “Human Capital Resources,” we maintain a human capital strategy that supports a diverse and inclusive workforce with equal opportunity and programs for training and career advancement, strong benefits, incentives, and health, safety and wellness initiatives. We have published a Human Rights Statement that outlines our commitment to maintaining a work culture that treats all employees fairly and with respect, promotes inclusivity, provides equal opportunities for the professional growth of the diverse individuals who join us, and advancement based on merit. In 2022 and 2021, we were named to The Wall Street Journal’s Management Top 250 list, which identifies the most effectively managed U.S. companies, as developed by the Drucker Institute, and were the only national homebuilder to receive this recognition in both years. The Management Top 250 measures corporate effectiveness by examining performance in the areas of customer satisfaction, employee engagement and development, innovation, social responsibility and financial strength.

Safety is a priority for our employees, our homebuyers and our independent contractors. To get a sense of our independent contractors’ compliance with their safety obligations, we track nearly 50 checkpoints across key aspects of jobsite safety, including safety documentation, personal protective equipment, scaffolding and ladders, fall protection, trenching and excavation, hazard assessment protocol, first aid and emergency plan, electrical safety and material safety.

Our commitment to the communities we serve is not solely about the homes we build, as we strive to also make social contributions that intersect with the nature of our business. Our KB Cares philanthropic program helps to build strong social ties by, among other things, providing our employees a means of giving back to the areas in which we operate through efforts ranging from assisting people in challenging circumstances to educating the next generation. We have partnered with local nonprofits and community organizations to contribute to the long-term social fabric of the areas in which we build. For instance, we work with Sackcloth & Ashes, an organization that donates a blanket to a local homeless shelter for every blanket we purchase as a housewarming gift for our new homeowners. In addition, over the past several years, we have partnered with Jared Allen’s Home for Wounded Warriors to build homes for wounded veterans with accessibility features that meet their current and future needs. We are also one of the founding partners of the Building Talent Foundation, whose mission is to advance the education, training and career progression of young people and people from underrepresented groups as skilled technical workers and business owners in residential construction.

We have a Supplier Code of Conduct that builds upon the principles, guidelines and standards within our Ethics Policy, including operating in accordance with applicable laws; treating all workers fairly and with dignity and respect; and providing a clean, safe and healthy work environment without the use of any involuntary or forced labor. Our Supplier Code of Conduct also encourages our suppliers to operate in an efficient and environmentally responsible manner, conserve natural resources and minimize waste and the use of environmentally harmful materials.

Corporate Governance Practices. Our board of directors maintains a robust governance framework and leading practices to oversee the management of our business and, among other things, oversees our sustainability initiatives as part of our overall business strategy. Our approach to corporate governance aligns with the principles of the Investor Stewardship Group, a coalition of some of the world’s largest investors and asset managers, as follows:

Stewardship Principle

- Boards are accountable to stockholders.

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- Stockholders should be entitled to voting rights in proportion to their economic interest.

- Boards should be responsive to stockholders and be proactive in order to understand their perspectives.

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- Boards should have a strong, independent leadership structure.

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- Boards should adopt structures and practices that enhance their effectiveness.

-
- Boards should develop management incentive structures that are aligned with the long-term strategy of the company.

What We Do

- Our board is unclassified and directors stand for election annually under a majority voting standard in an uncontested election.

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- We have one class of outstanding voting securities that allow each holder one vote for each share held.

- Stockholders may communicate with us and our board.
- We proactively engage with stockholders year-round. In 2022, many stockholder dialogues included discussions on our ESG programs. Two directors are liaisons to management on ESG matters.
- Our board monitors cybersecurity risks and related evolving physical, electronic and other protection strategies and initiatives.

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- Our board has a strong independent lead director with significant responsibilities and authority.
 - Independent directors lead all board committees.

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- Directors have extensive and relevant experience and skills.
 - 91% of directors are independent; 36% are women or racial or ethnic minorities.
 - Two new directors joined the board in 2021, promoting its refreshment.

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- In response to stockholder feedback, we have implemented changes in our executive compensation program, as discussed in our 2023 Proxy Statement.
 - Management compensation is designed to encourage the achievement of our long-term strategic goals.

More information concerning our corporate governance can be found in our Proxy Statement for the 2023 Annual Meeting of Stockholders (“2023 Proxy Statement”).

Government Regulations and Environmental Matters

Our operations are subject to myriad legal and regulatory requirements concerning land development (including governmental permits, taxes, assessments and fees), the homebuilding process, employment conditions and worksite health and safety. These requirements often provide broad discretion to government authorities, and they could be interpreted or revised in ways that delay or prohibit project development or home sales, and/or make these activities more costly. The costs to comply, or associated with any noncompliance, are, or can be, significant and variable from period to period. A liability for environmental remediation and other environmental costs is accrued when we consider it probable that a liability has been incurred and the amount of loss can be reasonably estimated. Environmental costs and accruals were not material to our operations, cash flows or financial position in 2022, 2021 or 2020.

Under applicable environmental laws (including those aimed at protecting against climate change impacts), we may be responsible for, among other things, removing or remediating hazardous or toxic substances even where we were not aware of their presence or on land we previously owned. In addition to incurring clean-up costs, the presence of harmful substances on or near our properties may prevent us from performing land development or selling homes. Also, we are subject to federal, state and local rules that can require us to undertake extensive measures to prevent or minimize discharges of stormwater and other materials from our communities, and to protect wetlands and other designated areas.

As part of our due diligence process for land acquisitions, we often use third-party environmental consultants to investigate potential environmental risks, and we require disclosures, representations and warranties from land sellers regarding environmental risks. We also take steps prior to our acquisition of the land to gain reasonable assurance as to the precise scope of any remediation work required and the costs associated with removal, site restoration and/or monitoring. To the extent

contamination or other environmental issues have occurred in the past, we will attempt to recover restoration costs from third parties, such as the generators of hazardous waste, land sellers or others in the prior chain of title and/or their insurers. However, despite these efforts, there can be no assurance that we will avoid material liabilities relating to the existence or removal of toxic wastes, site restoration, monitoring or other environmental matters affecting properties currently or previously owned or controlled by us, and no estimate of any potential liabilities can be made.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, beneficial ownership reports on Forms 3, 4 and 5 and proxy statements, as well as all amendments to those reports are available free of charge through our investor relations website at investor.kbhome.com, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (“SEC”). They can also be found at the SEC website at www.sec.gov. We will also provide these reports in electronic or paper format free of charge upon request made to our investor relations department at investorrelations@kbhome.com or at our principal executive offices. We intend for our investor relations website to be the primary location where investors and the general public can obtain announcements regarding, and can learn more about, our financial and operational performance, business plans and prospects, our board of directors, our senior executive management team, and our corporate governance policies, including our articles of incorporation, By-Laws, corporate governance principles, board committee charters, and ethics policy. We may from time to time choose to disclose or post important information about our business on or through our investor relations website, and/or through other electronic channels, including social media outlets, such as Facebook® (Facebook.com/KBHome) and Twitter® (Twitter.com/KBHome), and other evolving communication technologies. The content available on or through our primary website at www.kbhome.com, our investor relations website, including our sustainability reports, Human Rights Statement, Supplier Code of Conduct and other ESG-related policies, or social media outlets and other evolving communication technologies is not incorporated by reference in this report or in any other filing we make with the SEC, and our references to such content are intended to be inactive textual or oral references only.

Item 1A. RISK FACTORS

Although we have operated through a number of varying economic cycles, there are several risks that could affect our ability to conduct our business, which we discuss below. If any of these risks materialize, they could, among other things, (a) materially and adversely impact our results of operations and consolidated financial statements; and (b) cause our results to differ materially from the forward-looking and other statements we make in our SEC filings; in our news releases and other public reports and communications, including those we post on or make available through our websites or other electronic channels; or orally through our personnel and representatives. These risks, and other factors outside of our control, could also create or increase volatility in our common stock’s market price.

Consumer Demand Risks. The following could negatively affect consumer demand for our products, thereby unfavorably impacting our net orders, homes delivered, average selling prices, revenues and/or profitability:

- Soft or negative economic or housing market conditions. Adverse conditions in our served markets or nationally could be caused or worsened by factors outside of our control, including slow or negative economic growth, and sustained elevated mortgage loan interest rates, which predominated during much of 2022 and substantially tempered demand as discussed below under Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations in this report. Among other impacts, a severe or sustained economic contraction may trigger a rise in home purchase contract cancellations, which we and the homebuilding industry experienced in our 2022 third and fourth quarters and which we anticipate will continue into 2023, resulting in significantly lower net orders as compared to corresponding year-earlier periods. In addition, these conditions, along with heightened competition from other homebuilders and sellers of resale homes, as discussed below, may lead us to reduce our home selling prices or offer other concessions to attract or retain buyers, which we did in our 2022 second half and expect to continue doing in 2023 to varying degrees, negatively affecting our revenues and margins. An extended downturn in the U.S. housing market could result in an oversupply of new home and resale inventory and greater foreclosure activity, which would further impair our ability to sell homes at the same volume, prices and margins as in prior periods.
- Reduced employment levels and job and wage growth. While employment has mostly grown since mid-2020, it may rise more slowly or decline in 2023, especially if inflation and interest rates remain elevated and other national and global macroeconomic conditions, including fallout from the ongoing military conflict in Ukraine that began in February 2022, continue to stress the U.S. economy. If it does, our core first-time and first move-up homebuyer segments could be particularly affected, impacting us more severely than homebuilders targeting a different buyer demographic.

- Lower population growth, household formations or other unfavorable demographic changes. These may be driven by, among other things, birth rate changes, economic factors or U.S. immigration policies.
- Diminished consumer confidence, whether generally or as to purchasing a home. Consumers may be reluctant to purchase a home compared to housing alternatives (such as renting apartments or homes, or remaining in their existing home) due to location or lifestyle preferences, affordability and home selling price perceptions (particularly in markets that experienced rapid home price appreciation), employment instability or otherwise. Consumers may also decide not to search for a new home, or cancel their home purchase contracts with us, due to economic or personal financial uncertainty. We saw this during the 2022 second half, as U.S. housing demand weakened significantly compared to the year-ago period and much of the 2022 first half due primarily to a combination of sharply higher mortgage interest rates since early 2022, several years of rising housing prices, volatility across financial markets, elevated inflation and various other macroeconomic and geopolitical concerns weighing on consumer budgets and confidence. These housing affordability and other pressures negatively impacted homebuyer sentiment, resulting in many prospective buyers pausing their homebuying decisions, including deciding not to complete home purchase contracts, and are expected to continue, and possibly worsen, in 2023.
- Tightened availability or affordability of mortgage loans and homeowner insurance coverage. Most of our buyers need a mortgage loan to purchase their home. Their ability to obtain a mortgage loan is largely subject to prevailing interest rates, lenders' credit standards and appraisals, and the availability of government-supported programs, such as those from the Federal Housing Administration, the Veterans Administration, Federal National Mortgage Association (also known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (also known as Freddie Mac). If mortgage loan interest rates further increase, which they did to a significant degree in 2022 with the U.S. Federal Reserve's focus on moderating inflation, credit standards are tightened, appraisals for our homes are lowered or mortgage loan programs are curtailed, potential buyers of our homes may not be able to obtain necessary mortgage financing to be able to purchase a home from us.

Insurance companies are increasingly drawing back from issuing, or are measurably raising premiums for, homeowner insurance policies in areas that have experienced, or are thought to be at risk of experiencing, significant wildfires, hurricanes, flooding or other natural disasters, such as in the states of California and Florida. If potential homebuyers are unable to obtain affordable homeowner insurance coverage, they may decide not to pursue purchasing a home or may cancel a home purchase contract with us.

- Poor lender performance. We depend on third-party lenders, including GR Alliance Ventures, LLC ("GR Alliance," f/k/a Stearns Ventures, LLC), our third-party partner in KBHS, to provide mortgage loans to our homebuyers, unlike homebuilders with a wholly-owned mortgage lender. These lenders may be unable or unwilling to complete, timely or at all, the loan originations they start for our homebuyers. Poorly performing lenders can significantly delay home closings, disrupting our production schedules and delivery forecasts, or cause home purchase contract cancellations. If GR Alliance or KBHS perform poorly and our customers use another lender, the income from and value of our KBHS equity interest would decline.
- Adverse tax law changes. If federal or state laws are changed to eliminate or reduce the income tax benefits associated with homeownership, such as personal tax deductions for mortgage loan interest costs and real estate taxes, the after-tax cost of homeownership could measurably increase and diminish consumer interest in buying a home, as could increases in personal income tax rates.
- Competition. We face significant competition for customers from other homebuilders, sellers of resale homes and other housing industry participants, including rental-housing operators. This competitive environment may, among other things, cause us to reduce our home selling prices or offer other concessions to attract or retain buyers. The weakening in buyer demand we experienced in the 2022 second half, as discussed below under Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations in this report, significantly increased competitive pressures for our business during the period and is expected to continue into 2023.
- Seasonality. As discussed above under Item 1 – Business in this report, we historically have experienced fluctuations in our quarterly operating results with measurably more homes delivered and revenues generated in our third and fourth fiscal quarters. However, as was the case in 2021 and 2020, this pattern may not continue in the future at all or to the same degree as in the past.
- Inflation. We, along with the homebuilding industry, have been adversely affected by the rising inflation in the U.S. economy throughout 2022, which, among other things, increased our land and construction costs, particularly the costs of building materials and construction service providers' rates, warranty repair costs, and compensation and benefit expenses to attract and retain talent, and is expected to continue to do so in 2023. Inflation may also increase our

financing costs, as borrowings under our unsecured revolving credit facility with various banks (“Credit Facility”) and our senior unsecured term loan with the lenders party thereto (“Term Loan”) typically accrue interest at a variable rate based on short-term Secured Overnight Financing Rate (“SOFR”), which can float higher with inflation. In addition, higher mortgage loan interest rates can affect the affordability of mortgage financing to prospective homebuyers. While we attempt to pass on increases in our costs through increased selling prices, including for design options and upgrades, market forces, such as the housing market slowdown as we experienced in the 2022 second half, can limit our ability to do so. If we are unable to raise sales prices enough to compensate for higher costs, or if mortgage loan interest rates continue to increase significantly, our revenues, housing gross profit margin and net income could be adversely affected.

Supply Risks. The following could negatively affect our ability to increase our owned and controlled lot inventory, community count, operational scale and market share, and to grow our business, if at all:

- Lack of available land. Securing sufficient developable land that meets our investment return standards is critical for us to meet our strategic goals and profitably expand our business’ scale. Land availability depends on several factors, including geographical/topographical/governmental constraints, sellers’ business relationships and reputation within the residential real estate community, and competition from other parties, some of which can bid more for land. Though we and other homebuilders have pivoted since the 2022 third quarter to reduce land acquisition spending, as discussed above, we expect to continue to face competition for desirable land in our served markets in 2023 and beyond, pressuring its availability and our ability to profitably develop communities and sell homes on such land.
- Supply chain and construction services shortages. Our business relies on a network of suppliers and trade partners to source materials and services to build homes. However, our industry and the U.S. economy have experienced since mid-2020 labor shortages, supply chain constraints and rising and volatile raw material prices and availability, particularly related to building materials and appliances, such as with paint, garage doors, insulation, electrical materials, cabinets, HVAC equipment and water heaters, as well as delays with respect to state and municipal construction permitting, inspections and utility processes. Such constraints, cost pressures and delays have increased our costs, reduced our revenues in particular reporting periods, and in some instances, led to home purchase contract cancellations or lower customer satisfaction, and we expect these trends to continue into 2023. In an effort to manage our cycle times and deliver homes to our homebuyers, we, among other things, expanded our supplier base and added new construction service providers; worked with our national suppliers to get products and materials, or available temporary or permanent substitutes, delivered, including communicating in real-time with them; ordered items in advance of starting homes; implemented construction process workarounds; simplified our design option and upgrade SKUs; paced lot releases to align with our production capacity; and balanced pace, price and construction starts to enhance margins. However, we had measurable delays in delivering homes in 2022 because of the above-described issues, and believe these challenging conditions will generally persist into 2023 and potentially throughout the year, as discussed below under “Outlook.” We may also face increased future home warranty and construction defect claims associated with replacing or servicing substitute products or materials used in some instances to address supply shortages in certain served markets or communities.
- Insufficient financial resources. Our business needs considerable cash to, among other things, acquire and develop land, build homes and provide customer service. We expect to meet our needs with existing cash, future operational cash flow, our Credit Facility and unsecured letter of credit facility with certain financial institutions (“LOC Facility”), or outside sources, including loans that are specifically obtained for, or secured by, particular communities or other inventory assets, which we refer to as project financing. However, outside financing may be unavailable, costly and/or considerably dilute stockholders. For instance:
 - Tight capital or financial market conditions may hinder our ability to obtain external financing or performance bonds, or use or expand our Credit Facility and LOC Facility, on favorable terms or at all. Also, if a rating agency downgrades our credit rating or outlook, external financing may be difficult and costly for us to obtain.
 - Noncompliance with our Credit Facility, Term Loan and senior notes covenants may restrict our ability to borrow; accelerate repayment of our debt, which may not be feasible for us; or cause our lenders to impose significant fees or cease lending to us.
 - As described in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report, if a change of control or fundamental change occurs before our senior notes mature, we may need to offer to purchase certain of them. This may require us to refinance or restructure our debt, which we may be unable to do at all or on favorable terms.

- Our debt and debt-to-capital levels could require us to dedicate substantial cash flow to debt service; inhibit our ability to respond to business changes or adjust our debt maturity schedule; curb execution on our current strategies; and/or make us more vulnerable in a downturn than our less-leveraged competitors. The Term Loan will mature on August 25, 2026, or earlier under certain circumstances. The Credit Facility will mature on February 18, 2027. Our next senior note maturity is our \$300.0 million in aggregate principal amount of 6.875% senior notes due June 15, 2027 (“6.875% Senior Notes due 2027”).
- Decreased land inventory value. Our land inventory’s value depends on market conditions, including our estimates of applicable future demand and revenue generation. If conditions deteriorate during the typically significant amount of time between our acquiring ownership/control of land and delivering homes on that land; if we cannot sell land held for sale at its estimated fair value; or if we make strategic changes, we may need to record inventory-related charges as we did in 2022. We may also record charges if we decide to sell land at a loss or activate or sell land held for future development.

In addition, our business could be negatively affected if our net orders, homes delivered or backlog-to-homes delivered conversion rate fall; if often-volatile building materials prices or construction services costs increase, which has been the trend over the past few years and was particularly the case with lumber in 2022 and 2021; or if our community openings are delayed due to, among other things, prolonged development from supply chain disruptions, construction services shortages or otherwise, our strategic adjustments, or protracted government approvals or utility service activations from staff or resource cuts or reallocations for public safety priorities (e.g., earthquakes, wildfires, flooding, hurricanes or other natural disasters).

- Trade disputes and defective materials. The federal government has imposed, and may in the future impose, new or increased import tariffs or sanctions, and other countries have implemented retaliatory measures, raising the cost and reducing the supply of several home construction items. For example, the U.S., European Union and other countries have imposed wide-ranging sanctions on Russian business sectors, financial organizations, individuals and raw materials due to the military conflict in Ukraine that, in combination with restrictions caused by the hostilities, contributed to higher costs and shortages of building materials. In addition, shortages or rising prices of building materials may ensue from manufacturing defects, resulting in recalls of materials. If such disputes continue or recalls occur, our costs and supply chain disruptions, as described above, could increase further.
- Poor contractor availability and performance. Independent contractors perform essentially all of our land development and home construction work. Though we schedule and oversee such activities at our community sites, we have no control over our independent contractors’ availability or work methods. If qualified contractors are not available (due to general shortages in a tight labor market, as was the case throughout 2022 and is anticipated into 2023, competition from other builders or otherwise), or do not timely perform, we may incur production delays and other inefficiencies, or higher costs for substitute services. Also, if our trade partners’ work or materials quality does not meet our standards, we could face more home warranty and construction defect claims, and they or their insurers may not be able to cover the associated repair costs.
- Potential expansion of employment-related obligations. Governmental agencies or others might assert that we should be subjected to California law and associated regulations that, in certain circumstances, impose responsibility upon direct contractors for certain wages and benefits that subcontractors of the direct contractor have failed to pay to their employees. It might also be alleged that California law and regulations impose other liabilities upon us with respect to the employees of our trade partners. Further efforts in California or elsewhere to impose such external labor-related obligations on us could create substantial exposure for us in situations beyond our control.

Strategy Risks. Our strategies, and any related initiatives or actions, and any changes thereto, may not be successful in achieving our goals or generate any growth, earnings or returns, particularly in the highly volatile business environment of the past few years and as expected in 2023, due to the extended supply chain disruptions, building materials and construction services shortages and delays in municipal construction permitting, inspection and utility processes that marked 2022 and 2021; significant inflation, interest rate and financial market volatility or social distress; or the meaningful slowdown in housing market activity during the 2022 second half. We may not achieve positive operational or financial results, or results equal to or better than we did in any prior period or in comparison to other homebuilders. We may also incur higher costs, or experience sourcing or supply chain disruptions that result in extended times to build our homes, as compared to other homebuilders due to our commitment to sustainability, as discussed above under “Environmental, Social and Governance.” Among other strategic risks, our business is presently concentrated in California, Florida, Nevada and Texas. Poor conditions in any of those markets could have a measurable negative impact on our results, and the impact could be larger for us than for other less-concentrated homebuilders. In addition, we may not be successful in generating positive results from our 2021 expansion into the Boise, Idaho market and re-entry into the Charlotte, North Carolina market, or if we choose to enter into any other new markets, based

on our relative inexperience with the local homebuilding and economic environment and the need to make a significant investment to achieve effective scale and profitable returns, which we may not be able to accomplish.

Adverse conditions in California would have particular significance to our business. We generate the highest proportion of our revenues from and make significant inventory investments in our California operations. However, we may be constrained or delayed in entitling land and selling and delivering homes in California, and incur higher development or construction costs, from water conservation or wildfire protection measures (including precautionary and event-induced electricity blackouts, temporary or extended local or regional evacuations, development moratoriums in high-risk areas, and community resiliency design requirements) that are intended to address severe drought and climate conditions that have arisen in recent years. In addition, as large-scale wildfires and flooding due to such conditions in California, as well as hurricanes, heavy rains and other climate change-driven natural disasters in other of our served markets, become more frequent and intense, as discussed below under “Climate Risk,” we may experience greater disruption to our land development and homebuilding activities, delaying orders and home deliveries, among other impacts.

Also, California’s highly regulated and litigious business environment has made the state an increasingly difficult place for us to operate. This includes implementing regulations under the state’s Global Warming Solutions Act of 2006 (AB32) intended to lower GHG emissions. For instance, we have and will continue to incur higher construction costs because of a state law requirement that effectively requires that all new homes permitted to build in 2020 and beyond have solar power systems, and we may be unable to offset (through customer leases) or cover such costs through selling price increases due to competition and consumer affordability concerns. Also, in 2022, the California Air Resources Board adopted a plan to eliminate installing natural gas appliances in new homes built in 2026 and beyond. While this plan has not been formalized into law or state building codes, the state’s energy commission issued new energy efficiency standards effective January 1, 2023 requiring all new residences to be electric-ready for heating, cooling, cooking, clothes drying and water heating systems, and certain local jurisdictions have passed ordinances effectively mandating electrification in new homes by as early as 2023. In addition, California and certain of its local governments are considering or have implemented restrictions on or disincentives with respect to the creation or size of new suburban and exurban residential communities, in part due to regulatory assessments of the vehicle miles traveled to reach them, generally in favor of higher-density, urban developments that can be attractive to some buyers, but in many cases are on smaller parcels with higher building costs and more complicated entitlement requirements and may be subject to affordable housing mandates, prevailing wage requirements, greater local opposition and/or additional site remediation work. Depending on their scope, these efforts have and could further significantly increase our land acquisition and development costs and, along with competition from other homebuilders and investors for available developable land, limit our California operations’ growth, while making new homes less affordable to potential buyers in the state, including as a result of its public utilities commission’s December 2022 decision to significantly reduce net metering payments to homeowners for the rooftop solar power they export to the grid from systems installed on or after April 14, 2023. Partially offsetting these trends, California’s governor and certain legislators have taken positions to promote new housing construction, including the adoption of SB 8, which extends into 2030 the provisions of the Housing Crisis Act of 2019 (SB 330) intended to expedite the approval process for housing development in order to address the housing shortage in California.

Climate Risk. GHG emissions are driving global climate change that is expected to have various impacts on our operations, ranging from more frequent extreme weather events to extensive governmental policy developments and shifts in consumer preferences, which have the potential individually or collectively to significantly disrupt our business as well as negatively affect our suppliers, independent contractors and customers. Experiencing or addressing the various physical, regulatory and adaptation/transition risks from climate change may significantly reduce our revenues and profitability, or cause us to generate losses. For instance, incorporating greater resource efficiency into our home designs, whether to comply with upgraded building codes or recommended practices given a region’s particular exposure to climate conditions, or undertaken to satisfy demand from increasingly environmentally conscious customers or to meet our own sustainability goals, often raises our costs to construct homes. In evaluating whether to implement voluntary improvements, we also consider that choosing not to enhance our homes’ resource efficiency can make them less attractive to municipalities, and increase the vulnerability of residents in our communities to rising energy and water expenses and use restrictions. We weigh the impact of the costs associated with offering more resource-efficient products against our priorities of generating higher returns and delivering homes that are affordable to our core first-time and first move-up buyers. We also consider whether our buyers may face higher costs for, or may be unable to obtain, fire, flood or other hazard insurance coverage in certain areas due to local environmental conditions or historical events. In balancing these objectives, we may determine we need to absorb most or all the additional operating costs that come with making our homes more efficient and/or from operating in areas with more extensive regulatory requirements, such as California, or certain climates. While our years of experience in sustainable homebuilding, as discussed above under “Environmental Practices,” and ability to leverage economies of scale may give us an advantage over other homebuilders in managing these absorbed costs, they may be substantial for us.

Beyond the commercial pressures implicated by climate change concerns, our operations in any of our served markets may face potential adverse physical effects. For example, California, our largest market, has historically experienced, and is

projected to continue to experience, climate-related events at an increasing frequency including drought, water scarcity, heat waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. In addition, hurricanes in Florida and conditions negatively impacting the U.S. shipping and railway transportation corridors contributed to the supply chain disruptions that have significantly affected our business, as discussed above under “Strategy Risks.” While we have health and safety protocols in place for our construction sites and take steps to safeguard our administrative functions, including our IT resources, as described below under “Information Technology and Information Security Risks,” we can provide no assurance that we or our suppliers or trade partners can successfully operate in areas experiencing a significant weather event or natural disaster, and we or they may be more impacted and take longer, and with higher costs, to resume operations in an affected location than other homebuilders or businesses, depending on the nature of the event or other circumstances.

As discussed above under “Strategy Risks,” and below under “Legal and Compliance Risks,” international, federal, state and local authorities and legislative bodies have issued, implemented or proposed regulations, penalties, standards or guidance intended to restrict, moderate or promote activities consistent with resource conservation, GHG emission reduction, environmental protection or other climate-related objectives. Compliance with those directed at or otherwise affecting our business or our suppliers’ (or their suppliers’) operations, products or services, could increase our costs, such as with California’s requirement that all new homes have solar power systems and agency plans to require all-electric readiness and potentially eliminate natural gas appliances in new homes built in the state by 2026; delay or complicate home construction, for example, due to a need to reformulate or redesign building materials or components, or source updated or upgraded items or equipment, or specially trained or certified independent contractors, in limited or restricted supply, which has been a challenge for us in certain cases in 2022 and 2021, such as with paint, garage doors, insulation, electrical materials, cabinets, HVAC equipment and water heaters that have been out of stock and delayed home construction or required us to install or use temporary or permanent substitutes due to the supply chain disruptions we have experienced; or diminish consumer interest in homes mandated to include or omit certain features, amenities or appliances, particularly if home prices increase as a result.

Adapting to or transitioning from the use of certain items or methods in home construction, or adjusting the products we offer to our buyers, whether due to climate-related governmental rules affecting home construction or our supply chain, market dynamics or consumer preferences, can negatively affect our costs and profitability, production operations in affected markets and customer satisfaction during the transition period, which could be prolonged. For instance, in certain local markets in California where natural gas use is banned in new homes, we have faced some disruptions in reorienting our purchase order, independent contractor engagement, design studio and home construction processes to accommodate the restriction and, longer term, have implemented certain architectural design changes for all-electric homes. To the extent other jurisdictions or the state adopt such bans and as we implement the state’s all-electric readiness requirements, as discussed above, we will face similar issues.

Though practically available technology and resources allow us only to make certain estimates, and not definitive measurements, of the effectiveness and overall impact of our longstanding and broad-based environmental sustainability initiatives described above under “Environmental Practices,” we feel these initiatives and their evolution over time represent how we can best address climate change risks in the context of our business, industry and the wider, and rapidly changing, economic, social and political environment. However, climate change is an intrinsically complex global phenomenon with inherent residual risks across its physical, regulatory and adaptation/transition dimensions that cannot be mitigated given their wide-ranging, (sometimes unexpectedly) interdependent and largely unpredictable potential scope, nature, timing or duration. Therefore, though we have not as of the date of this report identified or experienced any particular material impact, whether singular or in combination, to our consolidated financial statements from climate change or the associated regulatory, physical, transition and other risks discussed above, we cannot provide any assurance that we have or can successfully prepare for, or are or will be able to reduce or manage any of them to the extent they may arise. For instance, the SEC has proposed extensive climate-related disclosure rules, which, if adopted, would likely impose significant compliance costs on us. In addition, we may experience substantial negative impacts to our business if an unexpectedly severe weather event or natural disaster damages our operations or those of our suppliers or independent contractors in our primary markets, such as in California, Florida, Nevada and Texas, or from the unintended consequences of regulatory changes that directly or indirectly impose substantial restrictions on our activities or adaptation requirements.

Warranty Risks. Our homebuilding business is subject to warranty and construction defect claims. Though we have insurance coverage to partially reduce our exposure, it is limited and costly, in part due to a shrinking provider market, and we have high self-insured retentions that are expected to increase. We self-insure some of our risk through a wholly-owned insurance subsidiary.

Due to our dependence on the performance of independent suppliers and contractors to provide products and materials and carry out our homebuilding activities, and the associated risks described above under “Supply chain and construction services shortages” and “Poor contractor availability and performance,” as well as inherent uncertainties, including obtaining recoveries

from responsible parties and/or their or our insurers, our recorded warranty and other liabilities may be inadequate to address future claims, which, among other things, could require us to record charges to increase such liabilities. We may also record charges to reflect our then-current claims experience, including the actual costs incurred. Home warranty and other construction defect issues may also generate negative publicity, including on social media and the Internet, that detracts from our reputation and efforts to sell homes.

Deferred Tax Asset Recovery and Tax Position Risks. Our realization of our deferred tax assets depends on our generating sufficient future taxable income, which may not occur. Also, our deferred tax assets' value can increase or decrease with: (a) changes in the federal corporate income tax rate; (b) our undergoing a "change of ownership" under federal tax rules, which would significantly reduce and possibly eliminate their value; and (c) adjustments in statutory or taxing authority treatment of such assets. We have filed our tax returns based on certain positions we believe are appropriate, and we may owe additional taxes if taxing authorities disagree with those positions.

Human Capital Risks. Our directors, officers and employees are important resources. If we cannot attract, retain and develop talent at reasonable pay and benefits levels, which has become more challenging with the persistent elevated inflation experienced in 2022, or, alternatively, if we need to implement personnel or compensation reductions, our performance, profitability and ability to achieve our strategic goals could be significantly impaired. In addition, in many of our served markets, we need to have personnel with certain professional licenses, including building contractor and real estate brokerage licenses. Our home selling and construction activities may be severely disrupted or delayed if we do not have sufficient licensed individuals in our workforce.

Information Technology and Information Security Risks. We use IT resources to carry out important operational activities and maintain our business records. Third parties provide and maintain many of our IT resources, including disaster recovery and business continuity services intended to safeguard access to and use of our IT resources during a general or local network outage, under agreements with evolving security and service level standards. Our senior IT executives also periodically update the audit and compliance committee of our board of directors on our cybersecurity practices and risks, most recently in October 2022. A reporting process has been established, and periodically tested and refined with the assistance of outside experts, to escalate notice within our organization of and coordinate and deploy our response to IT security events. Depending on the severity of an event, our incident reporting process includes informing as early as practicable our senior corporate management and members of our board of directors.

Our systems have faced a variety of phishing, denial-of-service and other attacks and occasional theft of encrypted employee laptops. We have administrative, physical and multi-layered technical controls and processes in place to address and mitigate cybersecurity risks and help protect our IT resources, including employee education and awareness training, as well as third-party assessments. Our technical defense layers are designed to provide multiple, redundant measures to protect against exploitation of a vulnerability that may arise or if a security control fails. We rely on artificial intelligence, machine learning computer network monitoring, malware and antivirus resources, firewall and intrusion detection systems, vendor cloud service defenses, Internet address and content filtering monitoring software that secures against known malicious websites and potential data exfiltration, and a variety of cyber intelligence threat monitoring sources that provide ongoing updates, all provided from third parties that we believe are capable of performing the protective service for which we have engaged them. We conduct periodic incident response tabletop exercises, with third-party support and reviews, and have established communication channels with KBHS security personnel and key partners regarding their breach and incident response processes. In addition, we perform an annual cybersecurity risk assessment based on the National Institute of Standards and Technology framework to identify potential areas of focus. We also depend on our service providers, GR Alliance and other mortgage lenders with whom we share some personal identifying and confidential information to secure our information and the homebuyer information they collect from us. Our IT security costs, including cybersecurity insurance, are significant and will likely rise in tandem with the sophistication and frequency of system attacks.

However, our, GR Alliance's and our service providers' measures may be inadequate and possibly have operational or security vulnerabilities that could go undetected for some period of time. If our IT resources are compromised by an intentional attack, natural or man-made disaster, electricity blackout, IT failure or systems misconfiguration, service provider error, mismanaged user access protocols, personnel action, or otherwise, we may be severely limited in conducting our business and achieving our strategic goals for an extended period, experience internal control failures or lose access to operational assets or funds. A substantial disruption, or security breach suffered by GR Alliance/KBHS or a service provider, could damage our reputation and result in the loss of customers or revenues, in sensitive personal information being publicly disclosed or misused and/or legal proceedings against us. We may incur significant expenses to resolve such issues. While, to date, we have not had a significant cybersecurity breach or attack that had a material impact on our business or results of operations, there can be no assurance our efforts to maintain the security and integrity of these systems will be effective or that attempted security breaches, cyber-attack, data theft or disruptions would not occur in the future, be successful or damaging.

We have invested significant resources over the past few years to develop and implement a new enterprise resource planning (“ERP”) system designed to improve the efficiency of our internal operational and administrative activities. There are inherent risks in undertaking this type of broad-based IT project and we have experienced complications and delays during the implementation process. We expect these will continue as we progress and expand the scope of the system in 2023 and that we will incur appreciable additional costs in doing so. In addition, the testing and use of the new system during this rollout could increase our exposure to the security risks and consequences discussed in the foregoing paragraph.

Legal and Compliance Risks. As discussed above under Item 1 – Business in this report, our operations are subject to myriad legal and regulatory requirements, which can delay our operational activities, raise our costs and/or prohibit or restrict homebuilding in some areas. For example, certain of our Texas operations are subject to rules mandating enhanced flood management practices stemming from recent large hurricanes and rainstorms. These requirements often provide broad discretion to government authorities, and they could be interpreted or revised in ways unfavorable to us. The costs to comply, or associated with any noncompliance, are, or can be, significant and variable from period to period. With respect to environmental laws, in addition to the risks and potential operational costs discussed above, we have been, and we may in the future be, involved in federal, state and local air and water quality agency investigations or proceedings for potential noncompliance with their rules, including rules governing discharges of materials into the air and waterways; stormwater discharges from community sites; and wetlands and listed species habitat protection. We could incur penalties and/or be restricted from developing or building at certain community locations during or as a result of such agencies’ investigations or findings.

Additionally, we are involved in legal, arbitral or regulatory proceedings or investigations incidental to our business, the outcome or settlement of which could result in material claims, losses, monetary damage awards, penalties, or other direct or indirect payments recorded against our earnings, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices. Any adverse results could be beyond our expectations, insurance coverages and/or accruals at particular points in time. Unfavorable outcomes, as well as unfavorable investor, analyst or news reports related to our industry, company, personnel, governance or operations, may also generate negative publicity, including on social media and the Internet, damaging our reputation and resulting in the loss of customers or revenues.

To reduce the risks and expected significant costs of defending intra-corporate proceedings in multiple venues and to help ensure that such matters are considered within a well-established body of law, our By-Laws provide that, subject to certain exceptions, Delaware state courts are the exclusive forum for specified internal corporate affairs actions. In addition, our board of directors recently amended our By-Laws to provide that federal courts are the exclusive forum for any action asserting a claim arising under the Securities Act of 1933, as amended, as discussed below in Item 9B – Other Information in this report. These provisions may limit a stockholder’s ability to bring a claim in their favored forum. At the same time, if a court were to allow for an alternative forum, or we waive the provision’s application, for a particular matter, we may incur additional costs associated with resolving an otherwise relevant action in another jurisdiction(s).

The European Union and state governments, notably California and Nevada, have enacted or enhanced data privacy regulations, and other governments are considering establishing similar or stronger protections. These regulations impose certain obligations for securing, and potentially removing, specified personal information in our systems, and for apprising individuals of the information we have collected about them. We have incurred costs in an effort to address these data privacy risks and requirements, and our costs may increase significantly as risks become increasingly complex or if new or changing requirements are enacted, and based on how individuals exercise their rights. For example, in November 2020, California voters approved Proposition 24 (Consumer Personal Information Law and Agency Initiative), which will increase data privacy requirements for our business when its provisions take effect in 2023. Despite our efforts, any noncompliance could result in our incurring substantial penalties and reputational damage.

KBHS’ operations are heavily regulated. If GR Alliance, which oversees KBHS’ operations, or KBHS is found to have violated regulations, or mortgage investors demand KBHS repurchase mortgage loans it has sold to them, or cover their losses, for claimed contract breaches, KBHS could face significant liabilities, which, if they exceed its reserves, could result in our recognizing losses on our KBHS equity interest.

Our financial results may be materially affected by the adoption of new or amended financial accounting standards, and regulatory or outside auditor guidance or interpretations. In addition, to the extent we expand our disclosures on our sustainability initiatives in line with certain private reporting frameworks and investor requests, or the proposed SEC rules mentioned above, if adopted, our failure to report accurately or achieve progress on our metrics on a timely basis, or at all, could adversely affect our reputation, business, financial performance and growth.

Pandemic Risks. An epidemic, pandemic or similar serious public health issue, and the measures undertaken by governmental authorities to address it, could significantly disrupt or prevent us from operating our business in the ordinary course for an extended period, and thereby, and/or along with any associated economic and/or social instability or distress, have

a material adverse impact on our consolidated financial statements. We experienced significant impacts to our business during 2020, beginning in mid-March, due to the outbreak of COVID-19 and the related COVID-19 control responses by international, federal, state and local public health and governmental authorities, including quarantines, “stay-at-home” orders and similar mandates. Although we gradually resumed nearly all of our operations with the relaxing of the early COVID-19 control responses beginning late in our 2020 second quarter, we can provide no assurance as to whether any future public health efforts for COVID-19 will be intensified to such an extent, particularly in response to any resurgence in infections, whether due to the spread of any variants of the virus or otherwise, combined with the seasonal flu and/or other viruses, that we will not be able to conduct any business operations in certain of our served markets or at all for an indefinite period.

Should the adverse public health measures described above (or others that are currently unknown) occur, whether individually or collectively, we could experience decreases in our net orders, homes delivered, average selling prices, revenues and profitability, as we did during our 2020 second quarter, and such impacts could be material to our consolidated financial statements. Among other things, this could result in our recognizing charges in future periods, which may be material, for inventory impairments or land option contract abandonments, or both, related to our inventory assets, and along with an increase in cancellations of home purchase contracts, if there are prolonged government restrictions on our business and our customers, and/or an extended economic recession, we could be unable to produce revenues and cash flows sufficient to conduct our business; meet the terms of our covenants and other requirements under the Credit Facility, the Term Loan, our senior notes and the related indenture, and/or mortgages and land contracts due to land sellers and other loans; service our outstanding debt; or pay any dividends to our stockholders. Such a circumstance could, among other things, exhaust our available liquidity (and ability to access liquidity sources) and/or trigger an acceleration to pay a significant portion or all of our then-outstanding debt obligations, which we may be unable to do.

Other Risks. The risk factors described above are not our only salient risks. Political events, war, terrorism, weather or other natural/environmental disasters, and other risks that are currently unknown or seen as immaterial, could also have a material adverse impact on our business, consolidated financial statements and/or common stock’s market price.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

None.

Item 3. LEGAL PROCEEDINGS

Our legal proceedings are discussed in Note 18 – Legal Matters in the Notes to Consolidated Financial Statements in this report.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Information about our Executive Officers

The following table presents certain information regarding our executive officers as of December 31, 2022:

Name	Age	Present Position	Year Assumed Present Position	Years at KB Home	Other Positions and Other Business Experience within the Last Five Years	From – To
Jeffrey T. Mezger	67	Chairman, President and Chief Executive Officer (a)	2016	29		
Jeff J. Kaminski	61	Executive Vice President and Chief Financial Officer	2010	12		
Robert V. McGibney	48	Executive Vice President and Chief Operating Officer	2022	22	Executive Vice President and Co-Chief Operating Officer Regional President Division President and Regional General Manager	2021-2022 2018-2021 2016-2018
Albert Z. Praw	74	Executive Vice President, Real Estate and Business Development	2011	26		
Brian J. Woram	62	Executive Vice President and General Counsel	2010	12		

(a) Mr. Mezger has served as a director since 2006.

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

PART II

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

Our common stock is traded on the New York Stock Exchange under the ticker symbol "KBH." As of December 31, 2022, there were 567 holders of record of our common stock.

Information regarding the shares of our common stock that may be issued under our equity compensation plans is provided below under Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in this report.

The following table summarizes our purchases of our own equity securities during the three months ended November 30, 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs (\$000's)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (\$000's)
September 1-30	—	—	—	\$ 200,000
October 1-31	1,826,349	\$ 27.38	\$ 50,000	150,000
November 1-30	71,001	29.14	—	150,000
Total	1,897,350	\$ 27.44	\$ 50,000	

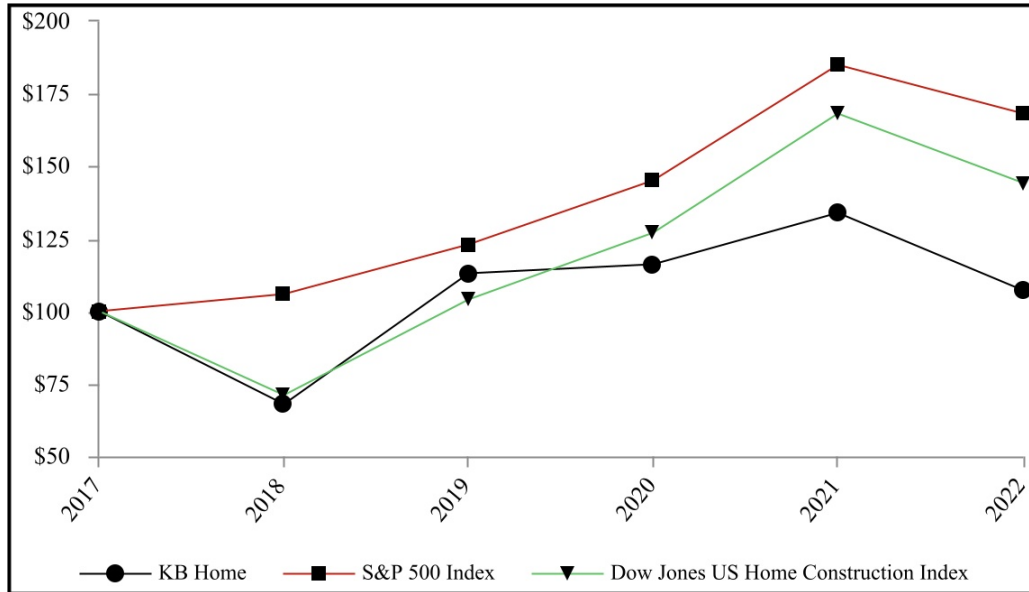
As of November 30, 2021, we had 331,400 shares authorized for repurchase under a share repurchase program approved by our board of directors in July 2021. On April 7, 2022, our board of directors authorized us to repurchase up to \$300.0 million of our outstanding common stock, replacing the prior board of directors authorization, as further discussed in Note 19 – Stockholders' Equity in the Notes to Consolidated Financial Statements in this report. In the 2022 fourth quarter, we purchased 1,826,349 shares of our common stock pursuant to this authorization at a total cost of \$50.0 million, bringing our total repurchases in 2022 to 4,927,499 shares at a total cost of \$150.0 million. As of November 30, 2022, we were authorized to repurchase up to \$150.0 million of our outstanding common stock.

During the three months ended November 30, 2022, we also purchased certain previously issued shares delivered to us by employees to satisfy withholding taxes on the vesting of restricted stock awards. These transactions are not considered repurchases under the board of directors authorization.

Stock Performance Graph

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

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



	2017	2018	2019	2020	2021	2022
KB Home	\$ 100	\$ 68	\$ 113	\$ 116	\$ 134	\$ 107
S&P 500 Index	100	106	123	145	185	168
Dow Jones US Home Construction Index	100	71	104	127	170	144

The above graph is based on the KB Home common stock and index prices calculated as of the last trading day before December 1 of the year-end periods presented. The closing price of KB Home common stock on the New York Stock Exchange was \$31.39 per share on November 30, 2022 and \$39.99 per share on November 30, 2021. The performance of our common stock as presented above reflects past performance only and is not indicative of future performance. Total return assumes \$100 invested at market close on November 30, 2017 in KB Home common stock, the S&P 500 Index and the Dow Jones US Home Construction Index, including reinvestment of dividends.

Item 6. [RESERVED]

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our discussion and analysis below is focused on our 2022 and 2021 financial results, including comparisons of our year-over-year performance between these years. Discussion and analysis of our 2020 fiscal year specifically, as well as the year-over-year comparison of our 2021 financial performance to 2020, are located under Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended November 30, 2021, filed with the SEC on January 21, 2022, which is available on our investor relations website at investor.kbhome.com and the SEC website at www.sec.gov.

RESULTS OF OPERATIONS

Overview. Revenues are generated from our homebuilding and financial services operations. The following table presents a summary of our consolidated results of operations (dollars in thousands, except per share amounts):

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues:					
Homebuilding	\$ 6,880,362	\$ 5,705,029	\$ 4,167,702	21 %	37 %
Financial services	23,414	19,901	15,472	18	29
Total	<u>\$ 6,903,776</u>	<u>\$ 5,724,930</u>	<u>\$ 4,183,174</u>	<u>21 %</u>	<u>37 %</u>
Pretax income:					
Homebuilding	\$ 1,033,615	\$ 656,911	\$ 331,500	57 %	98 %
Financial services	38,451	38,435	32,543	—	18
Total	<u>1,072,066</u>	<u>695,346</u>	<u>364,043</u>	<u>54</u>	<u>91</u>
Income tax expense	<u>(255,400)</u>	<u>(130,600)</u>	<u>(67,800)</u>	<u>(96)</u>	<u>(93)</u>
Net income	<u>\$ 816,666</u>	<u>\$ 564,746</u>	<u>\$ 296,243</u>	<u>45 %</u>	<u>91 %</u>
Earnings per share:					
Basic	<u>\$ 9.35</u>	<u>\$ 6.22</u>	<u>\$ 3.26</u>	<u>50 %</u>	<u>91 %</u>
Diluted	<u>\$ 9.09</u>	<u>\$ 6.01</u>	<u>\$ 3.13</u>	<u>51 %</u>	<u>92 %</u>

Our 2022 fiscal year operating environment and, as a result, business performance were exceptionally volatile, with positive housing market conditions continuing from 2021 through most of the 2022 first half, downshifting considerably in the 2022 third quarter and for the remainder of the year. In the 2022 second half, U.S. housing demand weakened significantly compared to the year-earlier period, with the combination of sharply higher mortgage interest rates since early 2022, elevated inflation, several years of rising housing prices, financial market turbulence, and various other macroeconomic and geopolitical concerns negatively affecting consumer budgets, including their ability to qualify for mortgage loans, and confidence, both generally and specifically as to purchasing a home.

Despite these substantial headwinds, in 2022, we generated year-over-year improvements in our financial results through our ongoing focus on balancing pace, price and construction starts at each community to enhance our returns and build a substantial backlog, and the favorable pricing and housing supply/demand environment prevailing in the 2022 first half and prior periods, when most buyers contracted to purchase the homes delivered this year. However, our 2022 performance was offset by the difficult conditions during the 2022 second half, as well as supply chain challenges and higher construction costs, as described below.

Homebuilding revenues for 2022 grew 21% from the previous year due to an increase in housing revenues that reflected a 2% increase in the number of homes delivered to 13,738 and an 18% increase in the overall average selling price of those homes to \$500,800. Approximately 53% of homes delivered in 2022 were to first-time homebuyers. Homebuilding operating income for 2022 rose 57% year over year to \$1.04 billion and, as a percentage of homebuilding revenues, expanded 350 basis points to 15.1%. The increase in our homebuilding operating income margin was driven by significant improvements in both housing gross profit margin and selling, general and administrative expenses as a percentage of housing revenues. Our pretax income margin improved 340 basis points to 15.5%. Net income and diluted earnings per share increased 45% and 51%, respectively, each as compared to 2021.

Our return on equity (“ROE”) for 2022 improved 470 basis points to 24.6%, compared to 19.9% for 2021. ROE is calculated as net income for the year divided by average stockholders’ equity, where average stockholders’ equity is based on the ending stockholders’ equity balances of the trailing five quarters.

We generated \$183.4 million in cash from operating activities in 2022 and ended the year with total liquidity of \$1.26 billion, comprised of \$328.5 million of cash and cash equivalents and \$933.4 million of available capacity under our Credit Facility. Although we made substantial investments in land acquisition and land development in the 2022 first half, extending our efforts in 2020 and 2021 to expand our scale and support future community count growth, we pivoted in the 2022 third quarter in response to softening housing market conditions to emphasize developing the land positions we already owned or

controlled under land option contracts and other similar contracts. As the housing market continued to slow in the 2022 fourth quarter, we further reduced our land investment activity, as described below under “Liquidity and Capital Resources.”

The housing affordability and other pressures described above caused many prospective buyers in the 2022 second half to pause their homebuying decisions or cancel their home purchase contracts with us, contributing to substantial year-over-year decreases in our net orders and net order value in third quarter that became more pronounced in the fourth quarter. In the 2022 fourth quarter, our year-over-year net orders and net order value declined 80% and 79%, respectively, reflecting a significant reduction in our monthly net orders per community, partly offset by an 11% increase in our average community count due to new community openings and fewer communities selling out. Our cancellation rate as a percentage of gross orders for the 2022 fourth quarter increased to a historically high 68%, from 13% for the corresponding 2021 quarter. With the substantial decline in net orders in the 2022 second half, our ending backlog value at November 30, 2022 decreased 25% from the previous year to approximately \$3.69 billion.

Since 2020, we have experienced intensifying building material cost pressures, particularly for lumber, and production capacity issues with some of our main product suppliers, reflecting sustained high levels of homebuilding and renovation activity combined with supply chain disruptions stemming from international and domestic COVID-19 control responses. In 2021 and 2022, we, like other homebuilders, continued to experience production challenges due to these supply chain disruptions, as well as ongoing restricted construction services availability and delays with respect to state and municipal construction permitting, inspection and utility processes, which have been disrupted by key equipment shortages. While we have implemented measures to help mitigate these disruptions, as discussed above under Item 1 – Business in this report, they extended our construction cycle times and delayed deliveries throughout 2021 and 2022. We believe these challenging circumstances affecting our land development and home construction activities will generally persist and possibly worsen in 2023.

Though we expect affordability pressures and consumer uncertainty to have a significant negative impact on our net orders in 2023 compared to corresponding prior-year periods, we believe the long-term housing market outlook remains positive and we are well positioned to meet current market conditions with our affordable product offerings, lot supply, strong balance sheet and liquidity. We plan to continue to focus on generating cash flows from our homebuilding operations and managing our product offerings, home pricing, sales pace and inventory levels to optimize our returns, subject to housing market conditions.

HOMEBUILDING

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

	Years Ended November 30,		
	2022	2021	2020
Revenues:			
Housing	\$ 6,880,362	\$ 5,694,668	\$ 4,150,793
Land	—	10,361	16,909
Total	6,880,362	5,705,029	4,167,702
Costs and expenses:			
Construction and land costs			
Housing	(5,210,802)	(4,466,053)	(3,365,509)
Land	(2,541)	(3,258)	(14,942)
Total	(5,213,343)	(4,469,311)	(3,380,451)
Selling, general and administrative expenses	(629,645)	(574,376)	(470,779)
Total	(5,842,988)	(5,043,687)	(3,851,230)
Operating income	1,037,374	661,342	316,472
Interest income	704	1,049	2,554
Equity in income (loss) of unconsolidated joint ventures	(865)	(405)	12,474
Loss on early extinguishment of debt	(3,598)	(5,075)	—
Homebuilding pretax income	\$ 1,033,615	\$ 656,911	\$ 331,500

	Years Ended November 30,		
	2022	2021	2020
Homes delivered	13,738	13,472	10,672
Average selling price	\$ 500,800	\$ 422,700	\$ 388,900
Housing gross profit margin as a percentage of housing revenues	24.3 %	21.6 %	18.9 %
Adjusted housing gross profit margin as a percentage of housing revenues	24.8 %	21.8 %	19.6 %
Selling, general and administrative expense as a percentage of housing revenues	9.2 %	10.1 %	11.3 %
Operating income as a percentage of homebuilding revenues	15.1 %	11.6 %	7.6 %

Revenues. Homebuilding revenues of \$6.88 billion for 2022 grew 21% from the prior year due to an increase in housing revenues, partly offset by a decrease in land sale revenues.

Housing revenues in 2022 grew 21% from the previous year, due to a 2% increase in the number of homes delivered and an 18% increase in their overall average selling price that primarily reflected the favorable housing market environment in the 2022 first half and earlier periods when most buyers contracted to purchase those homes, as well as product and geographic mix shifts of homes delivered. Although the homes delivered in 2022 were impacted by the ongoing supply chain disruptions and other production-related issues that extended our cycle times, as described above under “Overview,” housing revenues increased in all four of our homebuilding reporting segments, reflecting double-digit increases in average selling prices in each segment.

We had no land sale revenues in 2022, compared to \$10.4 million in 2021. Generally, land sale revenues fluctuate with our decisions to maintain or decrease our land ownership position in certain markets based upon the volume of our holdings, our business strategy, the strength and number of developers and other land buyers in particular markets at given points in time, the availability of opportunities to sell land at acceptable prices and prevailing market conditions.

Operating Income. Our homebuilding operating income grew 57% in 2022, as compared to the previous year, reflecting higher housing gross profits, partly offset by an increase in selling, general and administrative expenses. In 2022 and 2021, homebuilding operating income included total inventory-related charges of \$37.3 million and \$12.0 million, respectively, as discussed in Note 7 – Inventory Impairments and Land Option Contract Abandonments in the Notes to Consolidated Financial Statements in this report. As a percentage of homebuilding revenues, our homebuilding operating income for 2022 improved 350 basis points year over year to 15.1%. Excluding inventory-related charges for both periods, our homebuilding operating income margin improved 380 basis points to 15.6% in 2022 from 11.8% in 2021.

- **Housing Gross Profits** – In 2022, housing gross profits increased by \$440.9 million, or 36%, to \$1.67 billion from 2021. The year-over-year improvement reflected increases in both our housing revenues and housing gross profit margin. Housing gross profits for 2022 and 2021 included inventory-related charges associated with housing operations of \$34.8 million and \$12.0 million, respectively.

Housing gross profit margin increased 270 basis points from the previous year, mainly as a result of the favorable housing market environment in the 2022 first half and earlier periods when most buyers purchased the homes delivered, which more than offset higher construction costs (approximately 280 basis points); and lower amortization of previously capitalized interest as a percentage of housing revenues (approximately 60 basis points). These favorable impacts were partly offset by increased expenses to support current operations (approximately 30 basis points); an increase in inventory-related charges (approximately 30 basis points); and other miscellaneous factors (approximately 10 basis points). As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations was 2.0% for 2022 and 2.6% for 2021. Excluding the inventory-related charges associated with housing operations described above, our adjusted housing gross profit margin increased 300 basis points to 24.8% in 2022 from 21.8% in 2021. The calculation of adjusted housing gross profit margin, which we believe provides a clearer measure of the performance of our business, is described below under “Non-GAAP Financial Measures.”

- **Land Sale Profits (Losses)** – Land sale losses of \$2.6 million for 2022 were comprised solely of an inventory impairment charge related to a parcel of land previously held for future development that we plan to sell. In 2021, land sales generated profits of \$7.1 million.

- Selling, General and Administrative Expenses – The following table presents the components of our selling, general and administrative expenses (dollars in thousands):

	Years Ended November 30,					
	2022	% of Housing Revenues	2021	% of Housing Revenues	2020	% of Housing Revenues
Marketing expenses	\$ 136,262	2.0 %	\$ 117,481	2.1 %	\$ 116,590	2.8 %
Commission expenses (a)	220,466	3.2	217,608	3.8	164,507	3.9
General and administrative expenses	272,917	4.0	239,287	4.2	189,682	4.6
Total	\$ 629,645	9.2 %	\$ 574,376	10.1 %	\$ 470,779	11.3 %

(a) Commission expenses include sales commissions on homes delivered paid to internal sales counselors and external real estate brokers.

Selling, general and administrative expenses for 2022 increased 10% from the prior year, primarily due to higher costs associated with performance-based employee compensation plans, as well as expenses incurred to support our higher community count. In addition, general and administrative expenses in 2021 benefited from a \$4.3 million Employee Retention Credit (“ERC”), which is described in Note 14 – Income Taxes in the Notes to Consolidated Financial Statements in this report. Marketing expenses in 2022 rose from the prior year primarily due to higher advertising and other costs to support our higher average community count. Our selling, general and administrative expenses as a percentage of housing revenues improved 90 basis points in 2022, largely reflecting lower external sales commissions and increased operating leverage due to our higher housing revenues as compared to the previous year, partly offset by the above-mentioned higher expenses.

Interest Income/Expense. Interest income, which is generated from short-term investments, totaled \$.7 million in 2022 and \$1.0 million in 2021. Generally, increases and decreases in interest income are attributable to changes in the interest-bearing average balances of short-term investments and fluctuations in interest rates.

We incur interest principally from our borrowings to finance land acquisitions, land development, home construction and other operating and capital needs. The amount of interest incurred generally fluctuates based on the average amount of debt outstanding for the period and the interest rate on that debt. In 2022, total interest incurred of \$120.9 million was essentially even with \$120.5 million incurred in 2021. All interest incurred during 2022 and 2021 was capitalized as the average amount of our inventory qualifying for interest capitalization was higher than our average debt level for each period. As a result, we had no interest expense for 2022 or 2021. Further information regarding our interest incurred and capitalized is provided in Note 6 – Inventories in the Notes to Consolidated Financial Statements in this report.

Equity in Income (Loss) of Unconsolidated Joint Ventures. Our equity in income (loss) of unconsolidated joint ventures was nominal for both 2022 and 2021. Further information regarding our investments in unconsolidated joint ventures is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

Loss on Early Extinguishment of Debt. Our \$3.6 million loss on early extinguishment of debt in 2022 was associated with the retirement of \$350.0 million in aggregate principal amount of our 7.50% senior notes due September 15, 2022 (“7.50% Senior Notes due 2022”) before their maturity date. Our \$5.1 million loss on early extinguishment of debt in 2021 was associated with our purchase, pursuant to a tender offer that expired on June 8, 2021, of \$269.8 million in aggregate principal amount of our 7.00% senior notes due December 15, 2021 (“7.00% Senior Notes due 2021”) prior to their maturity date. Further information regarding these transactions is provided in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Net Orders, Backlog and Community Count. The following table presents information about our net orders, cancellation rate, ending backlog, and community count for the years ended November 30, 2022 and 2021 (dollars in thousands):

	Years Ended November 30,	
	2022	2021
Net orders	10,856	16,206
Net order value (a)	\$ 5,620,196	\$ 7,683,990
Cancellation rate (b)	26 %	10 %
Ending backlog — homes	7,662	10,544
Ending backlog — value	\$ 3,691,559	\$ 4,951,725
Ending community count	246	217
Average community count	222	214

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

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

Net Orders. Net orders from our homebuilding operations decreased 33% from 2021 with the pace of monthly net orders per community slowing 35% to 4.1. The value of our 2022 net orders declined 27% from 2021 as the decrease in net orders was partly offset by a 9% increase in the overall average selling price of those orders. Both net orders and net order value were down on a year-over-year basis in each of our four homebuilding reporting segments.

Our net order results for 2022 reflect the generally favorable 2022 first half housing market conditions and the significant weakening in the 2022 second half, as described above under “Overview.” Reflecting the considerable second-half housing market slowdown and our prioritizing delivering our backlog and protecting our margins over pursuing incremental gross orders, our net orders and net order value declined significantly on a year-over-year basis in the 2022 third quarter. The year-over-year decreases became more pronounced in the 2022 fourth quarter, with net orders and net order value down 80% and 79%, respectively, from the year-earlier quarter and decreasing in each of our four homebuilding reporting segments. In addition, our cancellation rate as a percentage of gross orders rose sharply in the 2022 third quarter and increased further in the fourth quarter to 68%, compared to 13% in the year-earlier quarter.

Backlog. The number of homes in our backlog at November 30, 2022 decreased 27% from the previous year, mainly due to the year-over-year decline in our 2022 net orders. The potential future housing revenues in our backlog at November 30, 2022 decreased 25% year over year as a result of fewer homes in our backlog, partly offset by a 3% increase in the average selling price of those homes. The number of homes in backlog and backlog value decreased in each of our four homebuilding reporting segments, with decreases in value ranging from 48% in our West Coast segment to 4% in our Southeast segment. Substantially all the homes in our backlog at November 30, 2022 are expected to be delivered during the year ending November 30, 2023.

Community Count. Our average community count for 2022 increased 4% from the previous year, and our ending community count increased 13%. The year-over-year increases in our average and ending community counts primarily reflected new community openings and fewer communities selling out. While we made substantial investments in land acquisition and land development in 2022, as we did in 2021, to support community count growth, we pivoted our land investment strategy beginning in the 2022 third quarter in response to softening housing market demand, as discussed below under “Liquidity and Capital Resources.”

HOMEBUILDING REPORTING SEGMENTS

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

Segment	Years Ended November 30,					
	Homes Delivered		Net Orders		Cancellation Rates	
	2022	2021	2022	2021	2022	2021
West Coast	4,186	4,008	3,032	4,425	25 %	10 %
Southwest	2,592	2,574	2,090	3,247	18	7
Central	4,339	4,630	3,417	5,504	32	12
Southeast	2,621	2,260	2,317	3,030	25	11
Total	13,738	13,472	10,856	16,206	26 %	10 %

Segment	Net Order Value			Average Community Count		
	2022	2021	Variance	2022	2021	Variance
West Coast	\$ 2,208,610	\$ 3,164,684	(30)%	65	60	8 %
Southwest	947,758	1,342,562	(29)	39	36	8
Central	1,520,520	2,119,617	(28)	76	78	(3)
Southeast	943,308	1,057,127	(11)	42	40	5
Total	\$ 5,620,196	\$ 7,683,990	(27)%	222	214	4 %

Segment	November 30,					
	Backlog – Homes			Backlog – Value		
	2022	2021	Variance	2022	2021	Variance
West Coast	1,287	2,441	(47)%	\$ 923,015	\$ 1,764,911	(48)%
Southwest	1,692	2,194	(23)	748,296	910,583	(18)
Central	2,989	3,911	(24)	1,319,862	1,548,574	(15)
Southeast	1,694	1,998	(15)	700,386	727,657	(4)
Total	7,662	10,544	(27)%	\$ 3,691,559	\$ 4,951,725	(25)%

As discussed above under Item 1 – Business in this report, the composition of our homes delivered, net orders and backlog shifts with the product and geographic mix of our active communities and the corresponding average selling prices of the homes ordered and delivered at these communities in any particular period, changing as new communities open and existing communities wind down or sell out in the ordinary course. In addition, with our Built to Order model, the selling prices of individual homes within a community may vary due to differing lot sizes and locations, home square footage, product premiums and the design studio options and upgrades buyers select in the community. These intrinsic variations in our business limit the comparability of our homes delivered, net orders and backlog, as well as their corresponding values, between sequential and year-over-year periods, in addition to the effect of prevailing economic or housing market conditions in or across any particular periods.

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

In addition to the results of our homebuilding reporting segments presented below, our consolidated homebuilding operating income includes the results of Corporate and other, a non-operating segment described in Note 2 – Segment

Information in the Notes to Consolidated Financial Statements in this report. Corporate and other had operating losses of \$145.3 million in 2022, \$148.9 million in 2021 and \$107.2 million in 2020.

The financial results of our homebuilding reporting segments for 2022 improved largely due to year-over-year increases in the average selling prices of homes delivered that reflected the favorable pricing and supply/demand environment in the 2022 first half and prior periods when most buyers contracted to purchase the homes delivered, as well as the product and geographic mix shifts of homes delivered. At the same time, results were negatively affected by construction services and building material cost pressures, as well as supply chain disruptions and other production-related challenges, as described above under “Overview.”

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

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues	\$ 3,050,506	\$ 2,552,382	\$ 1,748,582	20 %	46 %
Construction and land costs	(2,345,754)	(2,044,274)	(1,480,775)	(15)	(38)
Selling, general and administrative expenses	(184,619)	(162,461)	(129,744)	(14)	(25)
Operating income	\$ 520,133	\$ 345,647	\$ 138,063	50 %	150 %
Homes delivered	4,186	4,008	2,869	4 %	40 %
Average selling price	\$ 728,700	\$ 636,800	\$ 609,400	14 %	4 %
Operating income as a percentage of revenues	17.1 %	13.5 %	7.9 %	360 bps	560 bps

This segment’s revenues, which were generated solely from housing operations in both 2022 and 2021, grew 20% due to an increase in the number of homes delivered and the higher average selling price of those homes. Operating income improved significantly from 2021, reflecting higher housing gross profits, partially offset by higher selling, general and administrative expenses and a \$2.6 million land sale loss, which was comprised solely of an impairment charge related to a parcel of land previously held for future development that we plan to sell. As a percentage of revenues, this segment’s 2022 operating income increased from the previous year, reflecting a 330 basis-point expansion in the housing gross profit margin to 23.2%, and a 30 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 6.1%. The housing gross profit margin expansion was primarily driven by the favorable housing market environment in the 2022 first half and earlier periods when most buyers contracted to purchase the homes delivered, and lower relative amortization of previously capitalized interest. These favorable impacts were partly offset by higher construction costs and an increase in inventory-related charges impacting the housing gross profit margin. Such inventory-related charges rose to \$24.8 million in 2022, compared to \$11.0 million in 2021. The improvement in this segment’s selling, general and administrative expenses as a percentage of housing revenues was mainly due to lower external sales commissions.

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

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues	\$ 1,110,045	\$ 965,139	\$ 796,810	15 %	21 %
Construction and land costs	(789,651)	(702,947)	(596,512)	(12)	(18)
Selling, general and administrative expenses	(82,002)	(75,375)	(66,415)	(9)	(13)
Operating income	\$ 238,392	\$ 186,817	\$ 133,883	28 %	40 %

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Homes delivered	2,592	2,574	2,385	1 %	8 %
Average selling price	\$ 428,300	\$ 371,300	\$ 327,300	15 %	13 %
Operating income as a percentage of revenues	21.5 %	19.4 %	16.8 %	210 bps	260 bps

This segment's revenues in 2022 were generated solely from housing operations. In 2021, revenues were generated from both housing operations and land sales. Housing revenues for 2022 grew 16% year over year from \$955.7 million, mainly due to an increase in the average selling price of homes delivered. Land sale revenues totaled \$9.4 million in 2021. Operating income increased from the previous year, mainly due to higher housing gross profits, partially offset by higher selling, general and administrative expenses and the absence of land sale profits in the current year. As a percentage of revenues, operating income improved from 2021, primarily due to a 220 basis-point increase in the housing gross profit margin to 28.9%, and a 50 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 7.4%. The housing gross profit margin expansion mainly reflected the favorable housing market environment in the 2022 first half and earlier periods when most buyers contracted to purchase the homes delivered, and lower relative amortization of previously capitalized interest, partly offset by higher construction costs. Land sales generated profits of \$7.1 million in 2021. The improvement in this segment's selling, general and administrative expenses as a percentage of housing revenues was mainly due to lower external sales commissions and increased operating leverage from higher housing revenues.

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

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues	\$ 1,749,231	\$ 1,503,857	\$ 1,192,869	16 %	26 %
Construction and land costs	(1,336,986)	(1,172,926)	(941,381)	(14)	(25)
Selling, general and administrative expenses	(140,248)	(130,773)	(122,712)	(7)	(7)
Operating income	\$ 271,997	\$ 200,158	\$ 128,776	36 %	55 %
Homes delivered	4,339	4,630	3,932	(6) %	18 %
Average selling price	\$ 403,100	\$ 324,800	\$ 303,400	24 %	7 %
Operating income as a percentage of revenues	15.6 %	13.3 %	10.8 %	230 bps	250 bps

This segment's revenues, which were generated solely from housing operations in 2022 and 2021, improved 16% from the prior year, reflecting an increase in the average selling price of homes delivered, partly offset by a decrease in the number of homes delivered. Operating income increased from 2021, reflecting growth in housing gross profits, partially offset by higher selling, general and administrative expenses. In 2022, the improvement in operating income as a percentage of revenues reflected a 160 basis-point expansion in the housing gross profit margin to 23.6% and a 70 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 8.0%. The housing gross profit margin expanded from the previous year primarily due to the favorable housing market environment in the 2022 first half and earlier periods when most buyers contracted to purchase the homes delivered, and lower relative amortization of previously capitalized interest, partly offset by higher construction costs and an increase in inventory-related charges. The housing gross margin for 2022 included inventory-related charges of \$3.3 million, compared to nominal charges in 2021. The year-over-year improvement in this segment's selling, general and administrative expenses as a percentage of housing revenues mainly reflected lower external sales commissions and increased operating leverage from higher housing revenues.

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

	Years Ended November 30,			Variance	
	2022	2021	2020	2022 vs 2021	2021 vs 2020
Revenues	\$ 970,580	\$ 683,651	\$ 429,441	42 %	59 %
Construction and land costs	(731,813)	(541,471)	(355,242)	(35)	(52)
Selling, general and administrative expenses	(86,585)	(64,516)	(51,248)	(34)	(26)
Operating income	\$ 152,182	\$ 77,664	\$ 22,951	96 %	238 %
Homes delivered	2,621	2,260	1,486	16 %	52 %
Average selling price	\$ 370,300	\$ 302,100	\$ 288,600	23 %	5 %
Operating income as a percentage of revenues	15.7 %	11.4 %	5.3 %	430 bps	610 bps

This segment's revenues for 2022 were generated solely from housing operations. In 2021, revenues were generated from both housing operations and nominal land sales. Housing revenues for 2022 rose 42% year over year from \$682.7 million due to increases in both the number of homes delivered and the average selling price of those homes. Operating income increased from 2021, reflecting higher housing gross profits, partly offset by higher selling, general and administrative expenses. As a percentage of revenues, operating income rose from 2021 due to a 380 basis-point increase in the housing gross profit margin to 24.6% that mainly reflected the favorable pricing environment and housing supply/demand environment in the 2022 first half and earlier periods when most buyers contracted to purchase the homes delivered, a shift in product and geographic mix, and lower relative amortization of previously capitalized interest, partly offset by higher construction costs and an increase in inventory-related charges. The housing gross margin for 2022 included inventory-related charges of \$5.7 million, compared to nominal charges in 2021. In addition, selling, general and administrative expenses as a percentage of housing revenues improved 50 basis points from 2021 to 8.9%, primarily due to lower internal and external commissions, and increased operating leverage as a result of higher housing revenues.

FINANCIAL SERVICES REPORTING SEGMENT

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

	Years Ended November 30,		
	2022	2021	2020
Revenues	\$ 23,414	\$ 19,901	\$ 15,472
Expenses	(5,762)	(5,055)	(4,083)
Equity in income of unconsolidated joint ventures	20,799	23,589	21,154
Pretax income	\$ 38,451	\$ 38,435	\$ 32,543
Total originations (a):			
Loans	8,402	9,225	7,580
Principal	\$ 3,335,837	\$ 3,252,054	\$ 2,457,522
Percentage of homebuyers using KBHS	71 %	76 %	77 %
Average FICO score	734	729	723
Loans sold (a):			
Loans sold to GR Alliance	7,563	7,706	7,900
Principal	\$ 3,026,290	\$ 2,744,685	\$ 2,536,689
Loans sold to other third parties	861	1,293	310
Principal	\$ 287,436	\$ 420,119	\$ 102,363

	Years Ended November 30,		
	2022	2021	2020
Mortgage loan origination mix (a):			
Conventional/non-conventional loans	67 %	61 %	56 %
FHA loans	20 %	26 %	28 %
Other government loans	13 %	13 %	16 %
Loan type (a):			
Fixed	98 %	99 %	99 %
ARM	2 %	1 %	1 %

(a) Loan originations and sales occurred within KBHS.

Revenues. Our financial services reporting segment, which includes the operations of KB HOME Mortgage Company, generates revenues primarily from insurance commissions and title services. The year-over-year growth in our financial services revenues for 2022 reflected increases in both title services revenues and insurance commissions.

Pretax income. Our financial services pretax income for 2022 was essentially even with the previous year as improved results from our insurance and title services businesses were offset by a decrease in the equity in income of unconsolidated joint ventures. In 2022, the equity in income of our unconsolidated joint venture, KBHS, decreased 12% year over year as a result of a decrease in KBHS' income. KBHS' income decreased from the previous year due to lower margins on loan originations, reflecting increased competition in the primary mortgage market amid rising interest rates, partly offset by a \$20.3 million gain resulting from a substantial increase in the fair value of interest rate lock commitments ("IRLCs") within the joint venture. This gain reflected a greater number of customers who elected to lock their mortgage interest rates and for relatively extended periods in 2022, aligned with their expected home delivery date, due to the sharp rise in such rates during the year. The principal amount of loan originations increased 3% in 2022 mainly due to a 2% increase in the number of homes we delivered and an 18% increase in the average selling price of those homes, partly offset by a decrease in the percentage of homebuyers using KBHS. Further information regarding our investments in unconsolidated joint ventures is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

INCOME TAXES

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

	Years Ended November 30,		
	2022	2021	2020
Income tax expense	\$ 255,400	\$ 130,600	\$ 67,800
Effective income tax rate	23.8 %	18.8 %	18.6 %

Our effective tax rate for 2022 increased from the previous year, mainly due to a \$26.9 million decrease in federal tax credits we recognized and a \$5.3 million decrease in excess tax benefits related to stock-based compensation, partly offset by a \$1.6 million decrease in non-deductible compensation expense.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was enacted into law. The IRA contains significant tax law changes, including a corporate alternative minimum tax ("CAMT") of 15% on adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases after December 31, 2022. If applicable, the CAMT will not be effective for us until our fiscal year ending November 30, 2024. The IRA also extends the federal tax credit for building new energy-efficient homes for homes delivered from January 1, 2022 (retroactively) through December 31, 2032, as well as modifies and increases it starting in 2023. Previously, the federal tax credit expired for homes delivered after December 31, 2021. The federal tax credits we recognized in 2022 reflected the impact of the extension under the IRA. We are currently evaluating the other potential effects of the IRA on our consolidated financial statements.

In June 2020, California enacted tax legislation that approved the suspension of California net operating loss ("NOL") deductions for tax years 2020, 2021 and 2022. On February 9, 2022, California enacted legislation restoring the NOL deduction for tax years beginning on or after January 1, 2022, which would be effective for our 2023 fiscal year. Although the suspension of California NOL deductions did not have an impact on our income tax expense for the years ended November 30, 2022, 2021 and 2020, it contributed to the year-over-year increases in the amount of income taxes we paid in 2022 and 2021.

Under current accounting standards, we expect volatility in our income tax expense in future periods, the magnitude of which will depend on, among other factors, the price of our common stock and the timing and volume of stock-based compensation award activity, such as employee exercises of stock options and the vesting of restricted stock awards and performance-based restricted stock units (each, a “PSU”).

Further information regarding our income taxes is provided in Note 14 – Income Taxes in the Notes to Consolidated Financial Statements in this report.

NON-GAAP FINANCIAL MEASURES

This report contains information about our adjusted housing gross profit margin, which is not calculated in accordance with generally accepted accounting principles (“GAAP”). We believe this non-GAAP financial measure is relevant and useful to investors in understanding our operations, and may be helpful in comparing us with other companies in the homebuilding industry to the extent they provide similar information. However, because it is not calculated in accordance with GAAP, this non-GAAP financial measure may not be completely comparable to other companies in the homebuilding industry and, thus, should not be considered in isolation or as an alternative to operating performance and/or financial measures prescribed by GAAP. Rather, this non-GAAP financial measure should be used to supplement the most directly comparable GAAP financial measure in order to provide a greater understanding of the factors and trends affecting our operations.

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

	Years Ended November 30,		
	2022	2021	2020
Housing revenues	\$ 6,880,362	\$ 5,694,668	\$ 4,150,793
Housing construction and land costs	(5,210,802)	(4,466,053)	(3,365,509)
Housing gross profits	1,669,560	1,228,615	785,284
Add: Inventory-related charges (a)	34,760	11,953	28,669
Adjusted housing gross profits	\$ 1,704,320	\$ 1,240,568	\$ 813,953
Housing gross profit margin as a percentage of housing revenues	24.3 %	21.6 %	18.9 %
Adjusted housing gross profit margin as a percentage of housing revenues	24.8 %	21.8 %	19.6 %

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

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

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

As of November 30, 2022, we had \$1.34 billion in aggregate principal amount of outstanding senior notes, \$150.0 million of borrowings outstanding under the Credit Facility and \$360.0 million in aggregate principal amount of borrowings outstanding under the Term Loan. Our obligations to pay principal and interest on the senior notes and borrowings, if any, under the Credit Facility and the Term Loan are guaranteed on a joint and several basis by certain of our subsidiaries (“Guarantor Subsidiaries”), which are listed on Exhibit 22. Our other subsidiaries, including all of our subsidiaries associated with our financial services operations, do not guarantee any such indebtedness (collectively, “Non-Guarantor Subsidiaries”), although we may cause a Non-Guarantor Subsidiary to become a Guarantor Subsidiary if we believe it to be in our or the

relevant subsidiary's best interest. See Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report for additional information regarding the terms of our senior notes and the Credit Facility and the Term Loan.

The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by us. The guarantees are senior unsecured obligations of each of the Guarantor Subsidiaries and rank equally in right of payment with all unsecured and unsubordinated indebtedness and guarantees of such Guarantor Subsidiaries. The guarantees are effectively subordinated to any secured indebtedness of such Guarantor Subsidiaries to the extent of the value of the assets securing such indebtedness, and structurally subordinated to indebtedness and other liabilities of Non-Guarantor Subsidiaries.

Pursuant to the terms of the indenture governing the senior notes and the terms of the Credit Facility and Term Loan, if any of the Guarantor Subsidiaries ceases to be a "significant subsidiary" as defined by Rule 1-02 of Regulation S-X using a 5% rather than a 10% threshold (provided that the assets of our Non-Guarantor Subsidiaries do not in the aggregate exceed 10% of an adjusted measure of our consolidated total assets), it will be automatically and unconditionally released and discharged from its guaranty of the senior notes, the Credit Facility and the Term Loan so long as all guarantees by such Guarantor Subsidiary of any other of our or our subsidiaries' indebtedness are terminated at or prior to the time of such release.

The following tables present summarized financial information for KB Home and the Guarantor Subsidiaries on a combined basis, excluding unconsolidated joint ventures and after the elimination of (a) intercompany transactions and balances between KB Home and the Guarantor Subsidiaries and (b) equity in earnings from and investments in the Non-Guarantor Subsidiaries. See Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report for additional information regarding our unconsolidated joint ventures.

Summarized Balance Sheet Data (in thousands)	November 30, 2022
Assets	
Cash	\$ 265,916
Inventories	5,118,252
Amounts due from Non-Guarantor Subsidiaries	403,249
Total assets	6,404,755
Liabilities and Stockholders' Equity	
Notes payable	1,836,001
Amounts due to Non-Guarantor Subsidiaries	283,280
Total liabilities	2,977,348
Stockholders' equity	3,427,407

Summarized Statement of Operations Data (in thousands)	Year Ended November 30, 2022
Revenues	\$ 6,610,005
Construction and land costs	(4,973,783)
Selling, general and administrative expenses	(622,257)
Interest income from Non-Guarantor Subsidiaries	15,337
Pretax income	1,029,836
Net income	783,636

LIQUIDITY AND CAPITAL RESOURCES

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

- internally generated cash flows;
- public issuances of debt securities;
- borrowings under the Credit Facility;
- the Term Loan;
- land option contracts and other similar contracts and seller notes;

- public issuances of our common stock; and
- letters of credit and performance bonds.

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

- land acquisitions and land development;
- home construction;
- operating expenses;
- principal and interest payments on notes payable;
- repayments of borrowings under the Credit Facility;
- dividends paid to stockholders; and
- repurchases of our common stock.

Cash flows for each of our communities depend on their stage of development and can differ significantly from reported earnings. Early stages of development or expansion require significant cash outflows for land acquisition, zoning plat and other approvals, land development, and construction of model homes, roads, utilities, landscape and other items. Because these costs are capitalized as a component of our inventory and are not recognized in our income statement until a home is delivered, we incur significant cash outflows prior to the recognition of earnings. In the later stages of a community as homes are delivered, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflows associated with the land and home construction were previously incurred.

We ended 2022 with total liquidity of \$1.26 billion, including cash and cash equivalents and \$933.4 million of available capacity under the Credit Facility. Based on our financial position as of November 30, 2022, and our business forecast for 2023 as discussed below under “Outlook,” we have no material concerns related to our liquidity. While the softening in homebuyer demand in the 2022 second half indicates potential liquidity risks, we believe that our existing cash and cash equivalents, our anticipated cash flows from operations and amounts available under our Credit Facility will be sufficient to fund our anticipated operating and land-related investment needs for at least the next 12 months.

Cash Requirements. Our material cash requirements include the following contractual and other obligations:

Notes Payable. We have outstanding variable-rate borrowings under the Credit Facility and the Term Loan, and outstanding fixed-rate senior notes and mortgages and land contracts due to land sellers and other loans with varying maturities. As of November 30, 2022, our notes payable had an aggregate principal amount of \$1.85 billion, with \$3.2 million payable within 12 months. Future interest payments associated with the Term Loan and our senior notes totaled \$616.0 million as of November 30, 2022, with \$100.4 million payable within 12 months. The Credit Facility and the Term Loan will mature on February 18, 2027 and August 25, 2026, respectively. Our next senior note maturity is our \$300.0 million in aggregate principal amount of 6.875% Senior Notes due 2027. Further information regarding our notes payable is provided in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Leases. We have operating leases for certain property and equipment with an expected term at the commencement date of more than 12 months. As of November 30, 2022, the future minimum payments required under these leases totaled \$30.2 million, with \$10.6 million payable within 12 months. Further information regarding our leases is provided in Note 13 – Leases in the Notes to Consolidated Financial Statements in this report.

Inventory-Related Obligations. As of November 30, 2022, we had inventory-related obligations totaling \$19.1 million, comprised of liabilities for inventory not owned associated with financing arrangements as discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, as well as liabilities for fixed or determinable amounts associated with tax increment financing entity (“TIFE”) assessments. Approximately \$5.6 million of these inventory-related obligations are payable within 12 months. However, TIFE assessment obligations are paid by us only to the extent we do not deliver homes on applicable lots before the related TIFE obligations mature.

Investments in Land and Land Development. Our investments in land and land development decreased 5% to \$2.40 billion in 2022, compared to \$2.53 billion in 2021, reflecting a 24% year-over-year increase for the first half of the year that was more than offset by a 29% year-over-year decrease in the second half of the year. While we made substantial investments in land acquisition and land development in the 2022 first half, extending our efforts in 2020 and 2021 to expand our scale and support future community count growth, we pivoted in the 2022 third quarter in response to softening housing market conditions to emphasize developing land positions we already own or control under land option contracts and other similar contracts. We also evaluated our transaction pipeline and moved to renegotiate pricing and terms for many deals while abandoning others that no longer met our investment return standards. As the housing market continued to slow in the 2022 fourth quarter, we decided to further reduce our land investment activity to align with our growth expectations for that period and 2023. In addition, we

modified our land development strategy, electing to build in smaller phases, and in some cases, to defer the start of the next phase of lots to align with expected demand in certain local areas. Reflecting these shifts in our land strategy, our land acquisition investments for the 2022 fourth quarter decreased 74% to \$68.0 million, compared to \$258.5 million, with our total land and land development expenditures for the quarter decreasing 29% year over year to \$442.7 million, compared to \$621.7 million.

Approximately 34% of our total investments in land and land development in 2022 were related to land acquisitions, compared to approximately 50% in 2021. Although we made strategic investments in land and land development in each of our homebuilding reporting segments during 2022 and 2021, approximately 50% and 53%, respectively, of these investments for each year were made in our West Coast homebuilding reporting segment.

In 2023, we intend to continue to invest in and develop land positions within attractive submarkets and selectively acquire or control additional land that meets our investment standards, though we anticipate at a lower level than in the past two years. Our investments in land and land development in the future will depend significantly on market conditions and available opportunities that meet our investment return standards.

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

Segment	November 30, 2022		November 30, 2021		Variance	
	Lots	Carrying Value	Lots	Carrying Value	Lots	Carrying Value
West Coast	19,302	\$ 2,425,141	23,539	\$ 2,300,096	(4,237)	\$ 125,045
Southwest	8,841	993,059	12,339	875,438	(3,498)	117,621
Central	24,001	1,278,420	28,961	995,811	(4,960)	282,609
Southeast	16,651	846,556	21,929	631,484	(5,278)	215,072
Total	68,795	\$ 5,543,176	86,768	\$ 4,802,829	(17,973)	\$ 740,347

The carrying value of lots we owned or controlled under land option contracts and other similar contracts at November 30, 2022 increased 15% year over year, reflecting our investments in land and land development during 2022 and a greater number of homes in the later stages of the construction cycle. The number of lots we owned or controlled under land option contracts and other similar contracts at November 30, 2022 decreased 21% from November 30, 2021, primarily reflecting the above-mentioned pivot in our land investment strategy, which included our abandoning 15,678 previously controlled lots in the 2022 second half. Our lots controlled under land option contracts and other similar contracts as a percentage of total lots was 30% at November 30, 2022, compared to 44% at November 30, 2021. Generally, this percentage fluctuates with our decisions to control (or abandon) lots under land option contracts and other similar contracts or to purchase (or sell owned) lots based on available opportunities and our investment return standards. The number of lots in inventory as of November 30, 2022 included 5,543 lots under contract where the associated deposits were refundable at our discretion, compared to 12,434 of such lots at November 30, 2021.

Land Option Contracts and Other Similar Contracts. As discussed in Note 8 – Variable Interest Entities in the Notes to Consolidated Financial Statements in this report, our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance. Our decision to exercise a particular land option contract or other similar contract depends on the results of our due diligence reviews and ongoing market and project feasibility analysis that we conduct after entering into such a contract. In some cases, our decision to exercise a land option contract or other similar contract may be conditioned on the land seller obtaining necessary entitlements, such as zoning rights and environmental and development approvals, and/or physically developing the underlying land by a pre-determined date. We typically have the ability not to exercise our rights to the underlying land for any reason and, if applicable, forfeit our deposits without further penalty or obligation to the sellers. If we were to acquire all the land we had under land option contracts and other similar contracts at November 30, 2022, we estimate the remaining purchase price to be paid would be as follows: 2023 – \$655.7 million; 2024 – \$304.2 million; 2025 – \$57.2 million; 2026 – \$86.7 million; 2027 – \$6.0 million; and thereafter – \$3.3 million.

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

	November 30,	
	2022	2021
Cash and cash equivalents	\$ 328,517	\$ 290,764
Credit Facility commitment	1,090,000	800,000
Borrowings outstanding under the Credit Facility	(150,000)	—
Letters of credit outstanding under the Credit Facility	(6,650)	(8,618)
Credit Facility availability	933,350	791,382
Total liquidity	\$ 1,261,867	\$ 1,082,146

The majority of our cash equivalents at November 30, 2022 and 2021 were invested in interest-bearing bank deposit accounts.

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

	November 30,		Variance
	2022	2021	
Credit Facility	\$ 150,000	\$ —	\$ 150,000
Term Loan	357,485	—	357,485
Mortgages and land contracts due to land sellers and other loans	4,760	5,327	(567)
Senior notes	1,326,266	1,679,700	(353,434)
Total	\$ 1,838,511	\$ 1,685,027	\$ 153,484

Our financial leverage, as measured by the ratio of debt to capital, was 33.4% at November 30, 2022, compared to 35.8% at November 30, 2021. The ratio of debt to capital is calculated by dividing notes payable by capital (notes payable plus stockholders' equity).

On June 22, 2022, we completed the underwritten public offering of \$350.0 million in aggregate principal amount of 7.25% senior notes due July 15, 2030 ("7.25% Senior Notes due 2030") at 100% of their aggregate principal amount. On July 7, 2022, we used the net proceeds from the issuance of the 7.25% Senior Notes due 2030, together with cash on hand, to retire our outstanding \$350.0 million in aggregate principal amount of 7.50% Senior Notes due 2022 before their September 15, 2022 maturity date, by redemption pursuant to the optional redemption terms specified for such notes.

LOC Facility. We maintain an LOC Facility to obtain letters of credit from time to time in the ordinary course of operating our business. Under the LOC Facility, which expires on February 13, 2025, we may issue up to \$75.0 million of letters of credit. As of November 30, 2022 and 2021, we had letters of credit outstanding under the LOC Facility of \$36.4 million and \$34.6 million, respectively.

Performance Bonds. As discussed in Note 17 – Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, we had \$1.27 billion and \$1.11 billion of performance bonds outstanding at November 30, 2022 and 2021, respectively.

Unsecured Revolving Credit Facility. On February 18, 2022, we entered into an amendment to our Credit Facility that increased its borrowing capacity from \$800.0 million to \$1.09 billion and extended its maturity from October 7, 2023 to February 18, 2027. The Credit Facility contains an uncommitted accordion feature under which its aggregate principal amount of available loans can be increased to a maximum of \$1.29 billion under certain conditions, including obtaining additional bank commitments. The amount of the Credit Facility available for cash borrowings and the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum available amount under the terms of the Credit Facility. As of November 30, 2022, we had \$150.0 million cash borrowings and \$6.7 million of letters of credit outstanding under the Credit Facility. The Credit Facility is further described in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

Under the terms of the Credit Facility and the Term Loan, as discussed below, we are required, among other things, to maintain compliance with various covenants, including financial covenants regarding our consolidated tangible net worth,

consolidated leverage ratio (“Leverage Ratio”), and either a consolidated interest coverage ratio (“Interest Coverage Ratio”) or minimum liquidity level, each as defined therein. Our compliance with these financial covenants is measured by calculations and metrics that are specifically defined or described by the terms of the Credit Facility and the Term Loan and can differ in certain respects from comparable GAAP or other commonly used terms. The financial covenant requirements under the Credit Facility and the Term Loan are set forth below:

- Consolidated tangible net worth – We must maintain a consolidated tangible net worth at the end of any fiscal quarter greater than or equal to the sum of (a) \$2.09 billion, plus (b) an amount equal to 50% of the aggregate of the cumulative consolidated net income for each fiscal quarter commencing after November 30, 2021 and ending as of the last day of such fiscal quarter (though there is no reduction if there is a consolidated net loss in any fiscal quarter), plus (c) an amount equal to 50% of the cumulative net proceeds we receive from the issuance of our capital stock after November 30, 2021.
- Leverage Ratio – We must also maintain a Leverage Ratio of less than or equal to .60 at the end of each fiscal quarter. The Leverage Ratio is calculated as the ratio of our consolidated total indebtedness to the sum of consolidated total indebtedness and consolidated tangible net worth, all as defined under the Credit Facility and the Term Loan.
- Interest Coverage Ratio or liquidity – We are also required to maintain either (a) an Interest Coverage Ratio of greater than or equal to 1.50 at the end of each fiscal quarter; or (b) a minimum level of liquidity, but not both. The Interest Coverage Ratio is the ratio of our consolidated adjusted EBITDA to consolidated interest incurred, each as defined under the Credit Facility and the Term Loan, in each case for the previous 12 months. Our minimum liquidity is required to be greater than or equal to consolidated interest incurred, as defined under the Credit Facility and the Term Loan, for the four most recently ended fiscal quarters in the aggregate.

In addition, under the Credit Facility and the Term Loan, our equity investments in joint ventures and Non-Guarantor Subsidiaries and other unconsolidated entities as of the end of each fiscal quarter cannot exceed the sum of (a) \$104.8 million and (b) 20% of consolidated tangible net worth. Further, for so long as we do not hold an investment grade credit rating, as defined under the Credit Facility and the Term Loan, the Credit Facility and the Term Loan do not permit our borrowing base indebtedness, which, subject to certain exceptions, is the aggregate principal amount of our and certain of our subsidiaries’ outstanding indebtedness for borrowed money and non-collateralized financial letters of credit, to be greater than our borrowing base (a measure relating to our inventory and unrestricted cash assets).

The covenants and other requirements under the Credit Facility and the Term Loan represent the most restrictive covenants that we are subject to with respect to our notes payable. The following table summarizes the financial covenants and other requirements under the Credit Facility and the Term Loan, and our actual levels or ratios (as applicable) with respect to those covenants and other requirements, in each case as of November 30, 2022:

Financial Covenants and Other Requirements	Covenant Requirement	Actual
Consolidated tangible net worth	≥ \$ 2.50 billion	\$ 3.62 billion
Leverage Ratio	≤ .600	.339
Interest Coverage Ratio (a)	≥ 1.500	10.571
Minimum liquidity (a)	≥ \$ 120.2 million	\$ 178.5 million
Investments in joint ventures and Non-Guarantor Subsidiaries	≤ \$ 828.9 million	\$ 280.2 million
Borrowing base in excess of borrowing base indebtedness (as defined)	n/a	\$ 2.59 billion

(a) Under the terms of the Credit Facility and the Term Loan, we are required to maintain either a minimum Interest Coverage Ratio or a minimum level of liquidity.

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

As of the date of this report, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Facility, the Term Loan, the senior notes, the indenture, and the mortgages and land contracts due to land sellers and other loans. Our ability to access the Credit Facility for cash borrowings and letters of credit and our ability to secure future debt financing depend, in part, on our ability to remain in such compliance. There are no agreements that restrict our payment of dividends other than the Credit Facility and the Term Loan, which would restrict our payment of certain dividends, such as cash dividends on our common stock, if a default under the Credit Facility or the Term Loan exists at the

time of any such payment, or if any such payment would result in such a default (other than dividends paid within 60 days after declaration, if there was no default at the time of declaration).

Depending on available terms, we finance certain land acquisitions with purchase-money financing from land sellers or with other forms of financing from third parties. At November 30, 2022, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of \$4.8 million, secured primarily by the underlying property, which had an aggregate carrying value of \$31.3 million.

Senior Unsecured Term Loan. On August 25, 2022, we entered into the Term Loan with the lenders party thereto, and on October 3, 2022 obtained an additional lender commitment thereunder, pursuant to which the lenders committed up to \$360.0 million. The Term Loan will mature on August 25, 2026, or earlier if we secure borrowings under the Credit Facility without similarly securing the Term Loan (subject to certain exceptions). The Term Loan is further described in Note 15 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

On November 14, 2022, we borrowed \$360.0 million in aggregate principal amount under the Term Loan and, on November 15, 2022, we used a portion of the proceeds for the redemption at par of our \$350.0 million in aggregate principal amount of 7.625% senior notes due May 15, 2023 (“7.625% Senior Notes due 2023”).

Unconsolidated Joint Ventures. As discussed in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report, we have investments in unconsolidated joint ventures in various markets where our homebuilding operations are located. As of November 30, 2022, one of our unconsolidated joint ventures had borrowings outstanding under a revolving line of credit with a third-party lender and secured by the underlying property and related project assets. None of our other unconsolidated joint ventures had outstanding debt at November 30, 2022.

Credit Ratings. Our credit ratings are periodically reviewed by rating agencies. In January 2022, Standard and Poor’s Financial Services reaffirmed our BB credit rating and changed its rating outlook to positive from stable. In June 2022, Moody’s Investor Service reaffirmed our Ba2 credit rating and changed its rating outlook to positive from stable.

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

	Years Ended November 30,		
	2022	2021	2020
Net cash provided by (used in):			
Operating activities	\$ 183,418	\$ (37,296)	\$ 310,678
Investing activities	(71,773)	(38,084)	(26,563)
Financing activities	(73,583)	(315,013)	(56,444)
Net increase (decrease) in cash and cash equivalents	<u>\$ 38,062</u>	<u>\$ (390,393)</u>	<u>\$ 227,671</u>

Operating Activities. Generally, our net operating cash flows fluctuate primarily based on changes in our inventories and our profitability. Our net cash provided by operating activities in 2022 mainly reflected net income of \$816.7 million and a net increase in accounts payable, accrued expenses and other liabilities of \$53.1 million, partly offset by a net increase in inventories of \$785.6 million and a net increase in receivables of \$19.9 million. Net cash used in operating activities in 2021 primarily reflected a net increase in inventories of \$897.8 million and a net increase in receivables of \$32.0 million, partly offset by net income of \$564.7 million and a net increase in accounts payable, accrued expenses and other liabilities of \$181.6 million.

Investing Activities. In 2022, our net cash used in investing activities included \$45.2 million for net purchases of property and equipment and \$28.4 million for contributions to unconsolidated joint ventures. These uses of cash were partially offset by a \$1.9 million return of investments in unconsolidated joint ventures. In 2021, our uses of cash included \$39.4 million for net purchases of property and equipment and \$11.5 million for contributions to unconsolidated joint ventures. These uses of cash were partly offset by a \$12.8 million return of investments in unconsolidated joint ventures.

Financing Activities. In 2022, the year-over-year change in net cash used in financing activities was mainly due to financing transactions we completed during the year. In 2022, cash was used for the repayment of \$350.0 million in aggregate principal amount of our 7.50% Senior Notes due 2022, \$350.0 million in aggregate principal amount of our 7.625% Senior Notes due 2023, stock repurchases totaling \$150.0 million, dividend payments on our common stock of \$52.5 million, tax payments associated with stock-based compensation awards of \$15.9 million, payments of debt issuance costs of \$11.1 million and payments on mortgages and land contracts due to land sellers and other loans of \$.6 million. The cash used was partially offset by borrowings under the Term Loan of \$360.0 million, cash provided from our public offering of \$350.0 million in

aggregate principal amount of 7.25% Senior Notes due 2030, and net borrowings under the Credit Facility of \$150.0 million. In 2021, net cash was used for the repayment of \$450.0 million in aggregate principal amount of our 7.00% Senior Notes due 2021, stock repurchases totaling \$188.2 million, dividend payments on our common stock of \$54.1 million, tax payments associated with stock-based compensation awards of \$12.3 million, payments of debt issuance costs of \$4.8 million and payments on mortgages and land contracts due to land sellers and other loans of \$2.3 million. The cash used was partially offset by cash provided from our public offering of \$390.0 million in aggregate principal amount of 4.00% senior notes due June 15, 2031 (“4.00% Senior Notes due 2031”), and \$11.7 million of issuances of common stock under employee stock plans.

Dividends. Our board of directors declared, and we paid, four quarterly cash dividends of \$.15 per share of common stock in 2022 and 2021. Cash dividends declared and paid during the years ended November 30, 2022 and 2021 totaled \$.60 per share of common stock. The declaration and payment of future cash dividends on our common stock, whether at current levels or at all, are at the discretion of our board of directors, and depend upon, among other things, our expected future earnings, cash flows, capital requirements, access to external financing, debt structure and any adjustments thereto, operational and financial investment strategy and general financial condition, as well as general business conditions.

Shelf Registration Statement. We have an automatically effective universal shelf registration statement that was filed with the SEC on July 9, 2020 (“2020 Shelf Registration”). The 2020 Shelf Registration registers the offering of securities that we may issue from time to time in amounts to be determined. Our ability to issue securities is subject to market conditions.

Share Repurchase Program. On April 7, 2022, our board of directors authorized us to repurchase up to \$300.0 million of our outstanding common stock. This authorization replaced a prior board of directors authorization, which had 331,400 shares remaining for repurchase. In 2022, we repurchased 4,927,499 shares of our common stock on the open market pursuant to this authorization at a total cost of \$150.0 million. Repurchases under the new authorization may occur periodically through open market purchases, privately negotiated transactions or otherwise, with the timing and amount at management’s discretion and dependent on market, business and other conditions. This share repurchase authorization will continue in effect until fully used or earlier terminated or suspended by our board of directors, and does not obligate us to purchase any shares. As of November 30, 2022, we were authorized to repurchase up to \$150.0 million of our outstanding common stock.

On April 7, 2022, our board of directors also terminated a separate stock repurchase authorization it made in 2014 for the repurchase of not more than 680,000 shares of our outstanding common stock, solely as necessary for director elections in respect of outstanding stock appreciation rights awards granted under our Non-Employee Directors Compensation Plan (“Director Plan SARs”). As the remaining outstanding Director Plan SARs expired in April 2022, this stock repurchase authorization was no longer needed.

As of the date of this report, we believe we have adequate capital resources and sufficient access to external financing sources to satisfy our current and reasonably anticipated requirements for funds to conduct our operations and meet other needs in the ordinary course of our business. In 2023, we expect to use or redeploy our cash resources or cash borrowings under the Credit Facility to support our business within the context of prevailing market conditions. During this time, we may also engage in capital markets, bank loan, project debt or other financial transactions, including the repurchase of debt or equity securities or potential new issuances of debt or equity securities to support our business needs. The amounts involved in these transactions, if any, may be material. In addition, as necessary or desirable, we may adjust or amend the terms of and/or expand the capacity of the Credit Facility or the LOC Facility, or enter into additional letter of credit facilities, or other similar facility arrangements, in each case with the same or other financial institutions, or allow any such facilities to mature or expire. Our ability to engage in such transactions may be constrained by volatile or tight economic, capital, credit and/or financial market conditions or moderated investor and/or lender interest or capacity stemming from unfavorable industry trends described above under “Overview” or other factors and/or our liquidity, leverage and net worth, and we can provide no assurance as to successfully completing, the costs of, or the operational limitations arising from any one or series of such transactions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Homebuilding Revenue Recognition. We recognize homebuilding revenue by applying the following steps in determining the timing and amount of revenue to recognize: (1) identify the contract(s) with a customer; (2) identify the performance

obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, if applicable; and (5) recognize revenue when (or as) we satisfy a performance obligation.

Our home sale transactions are made pursuant to contracts under which we typically have a single performance obligation to deliver a completed home to the homebuyer when closing conditions are met. Revenues from home sales are recognized when we have satisfied the performance obligation within the sales contract, which is generally when title to and possession of the home and the risks and rewards of ownership are transferred to the homebuyer on the closing date. Little to no estimation is involved in recognizing such revenues.

Land sale transactions are made pursuant to contracts under which we typically have a performance obligation(s) to deliver specified land parcels to the buyer when closing conditions are met. We evaluate each land sale contract to determine our performance obligation(s) under the contract, including whether we have a distinct promise to perform post-closing land development work that is material within the context of the contract, and use objective criteria to determine our completion of the applicable performance obligation(s), whether at a point in time or over time. Revenues from land sales are recognized when we have satisfied the performance obligation(s) within the sales contract, which is generally when title to and possession of the land and the risks and rewards of ownership are transferred to the land buyer on the closing date. In instances where we have a distinct and material performance obligation(s) within the context of a land sale contract to perform land development work after the closing date, a portion of the transaction price under the contract is allocated to such performance obligation(s) and is recognized as revenue over time based upon our estimated progress toward the satisfaction of the performance obligation(s). We generally measure our progress based on our costs incurred relative to the total costs expected to satisfy the performance obligation(s). Certain land sale contracts may require management judgment in determining the appropriate revenue recognition, but the impact of such transactions is generally immaterial.

Inventories and Cost of Sales. Housing and land inventories are stated at cost, unless the carrying value is determined not to be recoverable, in which case the affected inventories are written down to fair value or fair value less associated costs to sell. Fair value is determined based on estimated future net cash flows discounted for inherent risks associated with the real estate assets, or other valuation techniques. Due to uncertainties in the estimation process and other factors beyond our control, it is possible that actual results could differ from those estimated. Other than model homes, our inventories typically do not consist of completed unsold homes. However, as discussed above under Item 1 – Business in this report, we may have unsold completed or partially completed homes in our inventory.

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

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

Inventory Impairments and Land Option Contract Abandonments. Each community or land parcel in our owned inventory is assessed to determine if indicators of potential impairment exist. Impairment indicators are assessed separately for each community or land parcel on a quarterly basis and include, but are not limited to, the following: significant decreases in net orders, average selling prices, volume of homes delivered, gross profit margins on homes delivered or projected gross profit

margins on homes in backlog or future deliveries; significant increases in budgeted land development and home construction costs or cancellation rates; or projected losses on expected future land sales. If indicators of potential impairment exist for a community or land parcel, the identified asset is evaluated for recoverability.

We evaluated five, one and 11 communities or land parcels for recoverability as of November 30, 2022, 2021 and 2020, respectively. The carrying values of those communities or land parcels evaluated as of November 30, 2022, 2021 and 2020 were \$118.7 million, \$29.9 million and \$123.4 million, respectively. The number and corresponding carrying value of communities or land parcels evaluated as of November 30, 2022 reflected the then-current conditions and trends in the markets where the communities are located. In addition, we evaluated land held for future development for recoverability as of November 30, 2022, 2021 and 2020.

When an indicator of potential impairment is identified for a community or land parcel, we test the asset for recoverability by comparing the carrying value of the asset to the undiscounted future net cash flows expected to be generated by the asset. The undiscounted future net cash flows are impacted by then-current conditions and trends in the market in which the asset is located as well as factors known to us at the time the cash flows are calculated. These factors may include recent trends in our orders, backlog, cancellation rates and volume of homes delivered, as well as our expectations related to the following: product offerings; market supply and demand, including estimated average selling prices and related price appreciation; and land development, home construction and overhead costs to be incurred and related cost inflation. With respect to the year ended November 30, 2022, these expectations considered the weakening in U.S. housing market demand in the year's second half, elevated inflation levels, and rising interest rates, the significant year-over-year decreases in our net orders per community in the 2022 third and fourth quarters driven in part by a substantial increase in cancellations, our lower year-end backlog, both in number of homes and value, estimated average selling prices and housing gross profit margins based on the current and anticipated conditions in the markets where assessed assets are located, and the impacts of supply-chain disruptions as well as delays with respect to state and municipal permitting, inspection and utility processes on our construction cycle times. Based on these recoverability considerations, we recognized inventory impairment charges for certain inventory assets in 2022, as described below.

Generally, a community must have a projected gross margin percentage below 5% to potentially not meet the recoverability test and proceed to the fair value evaluation described below. Our overall gross margin in the 2022 fourth quarter was 22.4%, and as of November 30, 2022, only a few communities had gross margins below 5%. However, if there is a sustained economic slowdown or other factor(s) that lead to moderate or significant decreases in new home prices in certain submarkets, more communities could begin to approach gross margin levels where we would conduct a fair value analysis. Any resulting impairment(s) from such an analysis(es) could be material. Additionally, we have \$85.0 million of deposits and pre-acquisition costs at November 30, 2022 related to land option contracts and other similar contracts. If there are events that lead to moderate or significant decreases in new home prices, we could elect to cancel several such contracts, resulting in the write-off of the related deposits and pre-acquisition costs.

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

	Years Ended November 30,		
	2022	2021	2020
Inventory impairments:			
Number of communities or land parcels written down to fair value	4	2	10
Pre-impairment carrying value of communities or land parcels written down to fair value	\$ 65,372	\$ 27,923	\$ 69,211
Inventory impairment charges	(24,077)	(9,903)	(22,723)
Post-impairment fair value	<u>\$ 41,295</u>	<u>\$ 18,020</u>	<u>\$ 46,488</u>
Land option contract abandonments charges	<u>\$ 13,224</u>	<u>\$ 2,050</u>	<u>\$ 5,946</u>

The inventory impairment charges in 2022, 2021 and 2020 reflected our decisions to make changes in our operational strategies aimed at more quickly monetizing our investment in certain communities, mainly by accelerating the overall pace for selling, building and delivering homes therein, including communities on land previously held for future development.

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

meaning whether it is open for sales and/or undergoing development, or whether it is being held for future development or held for sale.

We record an inventory impairment charge on a community or land parcel that is active or held for future development when indicators of potential impairment exist and the carrying value of the real estate asset is greater than the undiscounted future net cash flows the asset is expected to generate. These real estate assets are written down to fair value, which is primarily determined based on the estimated future net cash flows discounted for inherent risk associated with each such asset, or other valuation techniques. Inputs used in our calculation of estimated discounted future net cash flows are specific to each affected real estate asset and are based on our expectations for each such asset as of the applicable measurement date, including, among others, expectations related to average selling prices and volume of homes delivered. The discount rates used in our estimated discounted cash flows ranged from 17% - 21% in 2022, 18% - 19% in 2021, and 17% - 18% during 2020. The discount rates we used were impacted by one or more of the following at the time the calculation was made: the risk-free rate of return; expected risk premium based on estimated land development, home construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to land development or home construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located.

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

As of November 30, 2022, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$102.9 million, representing eight communities and various other land parcels. As of November 30, 2021, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$87.7 million, representing 11 communities and various other land parcels.

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

The estimated remaining life of each community or land parcel in our inventory depends on various factors, such as the total number of lots remaining; the expected timeline to acquire and entitle land and develop lots to build homes; the anticipated future net order and cancellation rates; and the expected timeline to build and deliver homes sold. While it is difficult to determine a precise timeframe for any particular inventory asset, based on current market conditions and expected delivery timelines, we estimate our inventory assets' remaining operating lives to range generally from one year to in excess of 10 years and expect to realize, on an overall basis, the majority of our inventory balance as of November 30, 2022 within five years. The following table presents as of November 30, 2022 and 2021, respectively, the estimated timeframe of delivery for the last home in an applicable community or land parcel and the corresponding percentage of total inventories such categories represent within our inventory balance (dollars in millions):

	0-2 years		3-5 years		6-10 years		Greater than 10 years		Total
	\$	%	\$	%	\$	%	\$	%	
2022	\$ 2,173.8	39 %	\$ 2,982.2	54 %	\$ 367.4	7 %	\$ 19.8	— %	\$ 5,543.2
2021	2,646.3	55	1,961.3	41	176.5	4	18.7	—	4,802.8

The inventory balances in the 0-2 years and 3-5 years categories were located throughout all of our homebuilding reporting segments, though mostly in our West Coast, Southwest and Central segments. These categories collectively represented 93% and 96% of our total inventories as of November 30, 2022 and 2021, respectively. The inventory balances in the 6-10 years and greater than 10 years categories were primarily located in our Central and Southeast segments, and together totaled \$387.2 million at November 30, 2022, compared to \$195.2 million at November 30, 2021. The inventories in the 6-10 years and greater than 10 years categories as of November 30, 2022 and 2021 were mostly comprised of active, multi-phase communities with large remaining land positions.

Due to the judgment and assumptions applied in our inventory impairment and land option contract abandonment assessment processes, and in our estimations of the remaining operating lives of our inventory assets and the realization of our inventory balances, particularly as to land held for future development, it is possible that actual results could differ substantially from those estimated, especially in periods of volatile housing market or economic conditions, such as occurred during the 2022 second half.

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

We believe the carrying value of our inventory balance as of November 30, 2022 is recoverable. Our considerations in making this determination include the factors and trends incorporated into our impairment analyses, and as applicable, the prevailing regulatory environment, competition from other homebuilders, inventory levels and sales activity of resale homes, and the local economic conditions where an asset is located. In addition, we consider the financial and operational status and expectations of our inventories as well as unique attributes of each community or land parcel that could be viewed as indicators for potential future impairments. However, if conditions in the overall housing market or in a specific market or submarket worsen in the future beyond our current expectations, including, among other things, from increases in mortgage interest rates, higher inflation, worsening supply chain and/or other production-related challenges, or negative effects from any ongoing or reinstated COVID-19 control responses, if future changes in our business strategy significantly affect any key assumptions used in our projections of future cash flows, or if there are material changes in any of the other items we consider in assessing recoverability, we may recognize charges in future periods for inventory impairments or land option contract abandonments, or both, related to our current inventory assets. Any such charges could be material to our consolidated financial statements.

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

Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our accrued warranty liability, which is included in accrued expenses and other liabilities in our consolidated balance sheets, and adjust the amount as necessary based on our assessment. Our assessment includes the review of our actual warranty costs incurred to identify trends and changes in our warranty claims experience, and considers our home construction quality and customer service initiatives and outside events. Based on this assessment, we may from time to time adjust our warranty accrual rates, which would be applied on a prospective basis to homes delivered. Although adjustments to the accrual rates are generally infrequent, they may be necessary when actual warranty expenditures have increased or decreased on a sustained basis, as was the case in recent years when we reduced our warranty accrual rates to reflect favorable trends in our warranty expenditures. Based on our assessment, we may also make adjustments to our previously recorded accrued warranty liability. Such adjustments are recorded in the period in which the change in estimate occurs. During 2021 and 2020, we made adjustments to reduce our accrued warranty liability by \$4.0 million and \$3.6 million, respectively. There were no such adjustments during 2022. While we believe we may face increased future home warranty and construction defect claims associated with replacing or servicing substitute products or materials used in some instances to address supply shortages in certain served markets or communities, as discussed above under Item 1A - Risk Factors in this report, as of the date of this report, we have not made any adjustments to our accrued liabilities associated with this potential risk. We have not made any material changes in the methodology used to establish our accrued warranty liability during 2022, 2021 and 2020. Our accrued warranty liability is presented on a gross basis for all years without consideration of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable.

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

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

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

The amount of our self-insurance liability is based on an analysis performed by a third-party actuary that uses our historical claim and expense data, as well as industry data to estimate these overall costs. These estimates are subject to uncertainty due to a variety of factors, the most significant being the long period of time between the delivery of a home to a homebuyer and when a structural warranty or construction defect claim may be made, and the ultimate resolution of any such construction defect claim. Though state regulations vary, construction defect claims are reported and resolved over a long period of time, which can extend for 10 years or more. As a result, the majority of the estimated self-insurance liability based on the actuarial analysis relates to claims incurred but not yet reported. Therefore, adjustments related to individual existing claims generally do not significantly impact the overall estimated liability. Adjustments to our liabilities related to homes delivered in prior years are recorded in the period in which a change in our estimate occurs. During 2022 and 2021, we recorded adjustments to increase our previously recorded liabilities by \$7.0 million and \$6.8 million, respectively. In 2020, we recorded adjustments to reduce our previously recorded liabilities by \$4.0 million. The adjustments in 2022, 2021 and 2020 resulted from changes in estimates due to actual claims experience differing from previous actuarial projections and, in turn, impacting actuarial estimates for existing and potential future claims. We have not made any material changes in our methodology used to establish our self-insurance liabilities during 2022, 2021 or 2020.

The projection of losses related to these liabilities requires the use of actuarial assumptions. Key assumptions used in developing these estimates include claim frequencies, severities and resolution patterns, which can occur over an extended period of time. These estimates are subject to variability due to the length of time between the delivery of a home to a homebuyer and when a construction defect claim is made, and the ultimate resolution of such claim; uncertainties regarding such claims relative to our markets and the types of product we build; and legal or regulatory actions and/or interpretations, among other factors. Due to the degree of judgment involved and the potential for variability in these underlying assumptions, our actual future costs could differ from those estimated. In addition, changes in the frequency and severity of reported claims and the estimates to resolve claims can impact the trends and assumptions used in the actuarial analysis, which could be material to our consolidated financial statements. A 10% increase in the claim frequency and the average cost per claim used to estimate the self-insurance liability would result in increases of approximately \$28.3 million in our liability and approximately \$11.5 million in our receivable as of November 30, 2022, and additional expense of approximately \$16.9 million for 2022. A 10% decrease in the claim frequency and the average cost per claim used to estimate the self-insurance liability would result in decreases of approximately \$25.7 million in our liability and approximately \$7.8 million in our receivable as of November 30, 2022, and a reduction to expense of approximately \$18.0 million for 2022.

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

Legal Matters Accruals. We record contingent liabilities resulting from claims against us when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing the probability of losses and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants, regulatory agencies, mediators, arbitrators, responsible third parties and/or courts, as the case may be. Recorded contingent liabilities are based on the most recent information available and actual losses in any future period are inherently uncertain. If future adjustments to estimated probable future losses or actual losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred. In addition to contingent liabilities recorded for probable losses, we disclose contingent liabilities when there is a reasonable possibility the ultimate loss

will materially exceed the recorded liability. While we cannot predict the outcome of pending legal matters with certainty, we do not believe any currently identified claim or proceeding, either individually or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

Income Taxes. As discussed in Note 14 – Income Taxes in the Notes to the Consolidated Financial Statements in this report, we evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. This evaluation considers, among other factors, our historical operating results, our expectation of future profitability, the duration of the applicable statutory carryforward periods, and conditions in the housing market and the broader economy. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related deferred tax assets become deductible. The value of our deferred tax assets in our consolidated balance sheets depends on applicable income tax rates. We base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base this estimate on business plan forecasts and other expectations about future outcomes. Changes in positive and negative evidence, including differences between our future operating results and estimates, could result in the establishment of an additional valuation allowance against our deferred tax assets. Accounting for deferred taxes is based upon estimates of future results. Judgment is required in determining the future tax consequences of events that have been recognized in our consolidated financial statements and/or tax returns. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated financial statements. Also, changes in existing federal and state tax laws and corporate income tax rates could affect future tax results and the realization of deferred tax assets over time.

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

INFLATION

We, along with the homebuilding industry, have been adversely affected by rising inflation in the U.S. economy throughout 2022, which, among other things, increased our land and construction costs, particularly the costs of building materials and construction service providers’ rates, warranty repair costs, and compensation and benefit expenses to attract and retain talent, and is expected to continue to do so in 2023. We generally enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes a significant period of time before development and/or sales efforts commence. Accordingly, to the extent land acquisition costs are fixed, subsequent increases or decreases in our home selling prices will affect our profits. As the selling price of each of our homes is fixed at the time a buyer enters into a home purchase contract, and because we generally commence construction of a home only after we have a signed purchase contract with a homebuyer, any interim construction-related cost inflation can result in lower housing gross profit margins. In order to help, but not entirely moderate that effect, we typically enter into fixed-price contracts with our larger trade partners and building material suppliers for specified periods of time.

Inflation is often accompanied by higher interest rates, which have a negative impact on housing affordability. In the 2022 second half, we saw a weakening in housing demand as inflationary pressures and mortgage interest rates increased, which contributed to the significant year-over-year decline in our net orders and ending backlog for the year as described above under “Overview.” Inflation may also increase our financing costs, as borrowings under our Credit Facility and Term Loan typically accrue interest at a variable rate based on SOFR, which can float higher with inflation.

We expect the inflationary pressures on our business to continue in 2023. While we attempt to pass on increases in our costs through increased home selling prices, market forces, such as the housing market slowdown as we experienced in the 2022 second half, can limit our ability to do so. If we are unable to raise selling prices enough to compensate for higher costs, or if mortgage loan interest rates continue to increase significantly, our revenues, housing gross profit margin and net income could be adversely affected.

RECENT ACCOUNTING PRONOUNCEMENTS

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

OUTLOOK

We believe several long-term housing market fundamental factors remain positive, including favorable demographics, a decade-plus underproduction of new homes in relation to population growth and low resale home inventory. However, the combination of sharply higher mortgage interest rates since early 2022, several years of rising housing prices, elevated inflation and various other macroeconomic and geopolitical concerns, weakened housing demand in the 2022 second half. We anticipate these affordability pressures and consumer uncertainty will continue to impact housing demand into 2023, with lower net orders and higher cancellation rates anticipated for the first half of the year as compared to the corresponding prior-year period. Through the first six weeks of our 2023 first quarter, our net orders were down 68% relative to the comparable year-earlier period.

Given current conditions, and depending on the market dynamics and the size and construction stage of the backlog within each community, we are being more aggressive with pricing reductions and other concessions ahead of the Spring selling season to generate new orders. Based on the actions we are taking and planning to take during the quarter to stimulate gross orders, we anticipate net orders in the 2023 first quarter to be down between 50% and 60% year over year against a strong comparison in the prior-year period. At the same time, with the deceleration in housing starts compared to a year ago, we are pursuing reductions in our direct construction costs and cycle times to help offset any such pricing adjustments and other concessions we may implement. We are committed to reducing our cycle times to achieve deliveries within a more traditional timeframe of between six and seven months from home sale to delivery.

We believe we are in a strong position to navigate the current environment, with a solid balance sheet and anticipated healthy cash flow in 2023. We remain committed to continuing to moderate our land investments until market conditions improve, as well as maintaining a balanced approach to capital allocation to maximize long-term stockholder value. In addition, we believe our differentiating, highly customer-centric Built to Order business model and operational capabilities will help us to effectively meet evolving consumer preferences and budgets. With our substantial backlog value of \$3.69 billion at November 30, 2022, we believe we can achieve our projected results for 2023, subject to the factors and risks described in this report.

Our present outlook for the 2023 first quarter and full year are as follows:

2023 First Quarter –

- We expect to generate housing revenues in the range of \$1.25 billion to \$1.40 billion, compared to \$1.39 billion for the corresponding 2022 period, and anticipate our average selling price to be in the range of \$490,000 to \$500,000, compared to \$486,100 in the year-earlier period.
- We expect our homebuilding operating income margin as a percentage of revenues to be in the range of 9.5% to 10.5%, assuming no inventory-related charges, compared to 12.2% for the year-earlier quarter.
 - We expect our housing gross profit margin to be in the range of 20.0% to 21.0%, assuming no inventory-related charges, compared to 22.4% for the corresponding 2022 quarter.
 - We expect our selling, general and administrative expenses as a percentage of housing revenues to be in the range of 10.3% to 10.8%, compared to 10.2% for the 2022 first quarter.
- We expect our effective tax rate will be approximately 23%. The effective tax rate for the year-earlier quarter was approximately 25%.
- We expect our average community count to increase in the range of 15% to 20% from the 2022 first quarter.

2023 Full Year –

Due to significant uncertainty and limited forward visibility regarding 2023 housing market, macroeconomic and geopolitical conditions, which are anticipated to be challenging compared to prior periods, the Company is providing guidance as to the full fiscal year only for the following:

- We expect our housing revenues to be in the range of \$5.00 billion to \$6.00 billion, a decrease from \$6.88 billion in 2022.

Our future performance and the strategies we implement (and adjust or refine as necessary or appropriate) will depend significantly on prevailing economic, employment, homebuilding industry and capital, credit and financial market conditions and on a fairly stable and constructive political and regulatory environment (particularly in regard to housing and mortgage loan

financing policies). The Federal Reserve's aggressive raising of the federal funds interest rate and other measures during 2022 to moderate persistent U.S. inflation, and the further actions it may take, are expected to be an ongoing headwind for the housing market in 2023, as they have elevated mortgage loan interest rates and created macroeconomic uncertainty and financial market turbulence that, among other things, has tempered consumer demand for homes. In addition, we believe the supply chain disruptions and construction cost pressures described in this Management's Discussion and Analysis of Financial Condition and Results of Operations will generally persist in 2023. The potential extent and effect of these factors on our business is highly uncertain, unpredictable and outside our control, and our past performance, including in 2022, should not be considered indicative of our future results on any metric or set of metrics, including, but not limited to, our net orders, backlog, revenues and returns.

FORWARD-LOOKING STATEMENTS

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

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

- general economic, employment and business conditions;
- population growth, household formations and demographic trends;
- conditions in the capital, credit and financial markets;
- our ability to access external financing sources and raise capital through the issuance of common stock, debt or other securities, and/or project financing, on favorable terms;
- the execution of any securities repurchases pursuant to our board of directors authorization;
- material and trade costs and availability, including building materials and appliances, and delays related to state and municipal construction, permitting, inspection and utility processes, which have been disrupted by key equipment shortages;
- consumer and producer price inflation;
- changes in interest rates, including those set by the Federal Reserve, which the Federal Reserve has increased sharply in the past few quarters and signaled an intention to aggressively further increase to moderate inflation, available in the capital markets or from financial institutions and other lenders, and applicable to mortgage loans;

- our debt level, including our ratio of debt to capital, and our ability to adjust our debt level and maturity schedule;
- our compliance with the terms of the Credit Facility and the Term Loan;
- volatility in the market price of our common stock;
- home selling prices, including our homes' selling prices being unaffordable relative to consumer incomes;
- weak or declining consumer confidence, either generally or specifically with respect to purchasing homes;
- competition from other sellers of new and resale homes;
- weather events, significant natural disasters and other climate and environmental factors;
- any failure of lawmakers to agree on a budget or appropriation legislation to fund the federal government's operations, and financial markets' and businesses' reactions to any such failure;
- government actions, policies, programs and regulations directed at or affecting the housing market (including the tax benefits associated with purchasing and owning a home, and the standards, fees and size limits applicable to the purchase or insuring of mortgage loans by government-sponsored enterprises and government agencies), the homebuilding industry, or construction activities;
- changes in existing tax laws or enacted corporate income tax rates, including those resulting from regulatory guidance and interpretations issued with respect thereto;
- changes in U.S. trade policies, including the imposition of tariffs and duties on homebuilding materials and products, and related trade disputes with and retaliatory measures taken by other countries;
- disruptions in world and regional trade flows, economic activity and supply chains due to the military conflict in Ukraine, including those stemming from wide-ranging sanctions the U.S. and other countries have imposed or may further impose on Russian business sectors, financial organizations, individuals and raw materials, the impact of which may, among other things, increase our operational costs, exacerbate building materials and appliance shortages and/or reduce our revenues and earnings;
- the adoption of new or amended financial accounting standards and the guidance and/or interpretations with respect thereto;
- the availability and cost of land in desirable areas and our ability to timely and efficiently develop acquired land parcels and open new communities;
- impairment, land option contract abandonment or other inventory-related charges, including any stemming from decreases in the value of our land assets;
- our warranty claims experience with respect to homes previously delivered and actual warranty costs incurred;
- costs and/or charges arising from regulatory compliance requirements or from legal, arbitral or regulatory proceedings, investigations, claims or settlements, including unfavorable outcomes in any such matters resulting in actual or potential monetary damage awards, penalties, fines or other direct or indirect payments, or injunctions, consent decrees or other voluntary or involuntary restrictions or adjustments to our business operations or practices that are beyond our current expectations and/or accruals;
- our ability to use/realize the net deferred tax assets we have generated;
- our ability to successfully implement our current and planned strategies and initiatives related to our product, geographic and market positioning, gaining share and scale in our served markets and in entering into new markets;
- our operational and investment concentration in markets in California;
- consumer interest in our new home communities and products, particularly from first-time homebuyers and higher-income consumers;
- our ability to generate orders and convert our backlog of orders to home deliveries and revenues, particularly in key markets in California;

- our ability to successfully implement our business strategies and achieve any associated financial and operational targets and objectives, including those discussed in this report or in any of our other public filings, presentations or disclosures;
- income tax expense volatility associated with stock-based compensation;
- the ability of our homebuyers to obtain residential mortgage loans and mortgage banking services;
- the performance of mortgage lenders to our homebuyers;
- the performance of KBHS;
- information technology failures and data security breaches;
- an epidemic or pandemic (such as the outbreak and worldwide spread of COVID-19), and the control response measures that international (including China), federal, state and local governments, agencies, law enforcement and/or health authorities implement to address it, which may (as with COVID-19) precipitate or exacerbate one or more of the above-mentioned and/or other risks, and significantly disrupt or prevent us from operating our business in the ordinary course for an extended period; and
- other events outside of our control.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The following tables present principal cash flows by scheduled maturity, weighted average effective interest rates and the estimated fair value of our debt obligations as of November 30, 2022 and 2021 (dollars in thousands):

	As of November 30, 2022 and for the Years Ending November 30,							Fair Value at November 30, 2022
	2023	2024	2025	2026	2027	Thereafter	Total	
Fixed Rate	\$ —	\$ —	\$ —	\$ —	\$ 300,000	\$ 1,040,000	\$ 1,340,000	\$ 1,205,875
Weighted Average Effective Interest Rate	—%	—%	—%	—%	7.1%	5.5%	5.9%	
Variable Rate (a)	\$ —	\$ —	\$ —	\$ 360,000	\$ 150,000	\$ —	\$ —	\$ 510,000
Weighted Average Effective Interest Rate	—%	—%	—%	5.6%	5.1%	—%	5.4%	

- (a) The interest rates for our variable rate debt, which is comprised of borrowings outstanding under the Credit Facility and the Term Loan, represents the weighted average interest rates in effect at November 30, 2022. Based upon the amount of variable rate debt outstanding at November 30, 2022, and holding the variable rate debt balance constant, each 100 basis-point increase in interest rates would increase the interest we incur by approximately \$5.1 million per year.

	As of November 30, 2021 and for the Years Ending November 30,							Fair Value at November 30, 2021
	2022	2023	2024	2025	2026	Thereafter	Total	
Fixed Rate	\$ 350,000	\$ 350,000	\$ —	\$ —	\$ —	\$ 990,000	\$ 1,690,000	\$ 1,796,500
Weighted Average Effective Interest Rate	7.7%	7.5%	—%	—%	—%	5.3%	6.2%	

Unconsolidated Joint Ventures. The tables above do not include debt of our unconsolidated joint ventures. For a discussion pertaining to the debt of our homebuilding and financial services unconsolidated joint ventures, see Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

Our financial services unconsolidated joint venture, KBHS, is exposed to interest rate risk as it relates to its lending activities, including originating mortgage loans and providing IRLCs to customers. KBHS enters into best efforts forward sale commitments with secondary market investors to manage the risk of adverse interest rate movements that could impact the fair value of IRLCs. Best efforts forward sale commitments allow KBHS to agree on the sales price of the underlying loans that will be realized upon their sale into the secondary market. KBHS does not engage in speculative or trading derivative activities. KBHS' entire loan portfolio is held for sale and subject to best efforts forward sale commitments. Further information is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**KB HOME
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page Number</u>
Consolidated Statements of Operations for the Years Ended November 30, 2022, 2021 and 2020	57
Consolidated Statements of Comprehensive Income for the Years Ended November 30, 2022, 2021 and 2020	58
Consolidated Balance Sheets as of November 30, 2022 and 2021	59
Consolidated Statements of Stockholders' Equity for the Years Ended November 30, 2022, 2021 and 2020	60
Consolidated Statements of Cash Flows for the Years Ended November 30, 2022, 2021 and 2020	61
Notes to Consolidated Financial Statements	62
Report of Independent Registered Public Accounting Firm (Ernst & Young LLP, Los Angeles, CA, <i>PCAOB ID</i> : 42)	96

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

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

	Years Ended November 30,		
	2022	2021	2020
Total revenues	\$ 6,903,776	\$ 5,724,930	\$ 4,183,174
Homebuilding:			
Revenues	\$ 6,880,362	\$ 5,705,029	\$ 4,167,702
Construction and land costs	(5,213,343)	(4,469,311)	(3,380,451)
Selling, general and administrative expenses	(629,645)	(574,376)	(470,779)
Operating income	1,037,374	661,342	316,472
Interest income	704	1,049	2,554
Equity in income (loss) of unconsolidated joint ventures	(865)	(405)	12,474
Loss on early extinguishment of debt	(3,598)	(5,075)	—
Homebuilding pretax income	1,033,615	656,911	331,500
Financial services:			
Revenues	23,414	19,901	15,472
Expenses	(5,762)	(5,055)	(4,083)
Equity in income of unconsolidated joint ventures	20,799	23,589	21,154
Financial services pretax income	38,451	38,435	32,543
Total pretax income	1,072,066	695,346	364,043
Income tax expense	(255,400)	(130,600)	(67,800)
Net income	\$ 816,666	\$ 564,746	\$ 296,243
Earnings per share:			
Basic	\$ 9.35	\$ 6.22	\$ 3.26
Diluted	\$ 9.09	\$ 6.01	\$ 3.13
Weighted average shares outstanding:			
Basic	86,861	90,401	90,464
Diluted	89,348	93,587	94,086

See accompanying notes.

KB HOME
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Years Ended November 30,		
	2022	2021	2020
Net income	\$ 816,666	\$ 564,746	\$ 296,243
Other comprehensive income (loss):			
Postretirement benefit plan adjustments:			
Net actuarial gain (loss) arising during the period	17,463	2,664	(8,412)
Amortization of net actuarial loss	1,090	1,575	963
Amortization of prior service cost	—	86	425
Other comprehensive income (loss) before tax	18,553	4,325	(7,024)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(5,009)	(1,168)	1,897
Other comprehensive income (loss), net of tax	13,544	3,157	(5,127)
Comprehensive income	<u>\$ 830,210</u>	<u>\$ 567,903</u>	<u>\$ 291,116</u>

See accompanying notes.

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

	November 30,	
	2022	2021
Assets		
Homebuilding:		
Cash and cash equivalents	\$ 328,517	\$ 290,764
Receivables	322,767	304,191
Inventories	5,543,176	4,802,829
Investments in unconsolidated joint ventures	46,785	36,088
Property and equipment, net	89,234	76,313
Deferred tax assets, net	160,868	177,378
Other assets	101,051	104,153
	<u>6,592,398</u>	<u>5,791,716</u>
Financial services	59,532	44,202
Total assets	<u>\$ 6,651,930</u>	<u>\$ 5,835,918</u>
Liabilities and stockholders' equity		
Homebuilding:		
Accounts payable	\$ 412,525	\$ 371,826
Accrued expenses and other liabilities	736,971	756,905
Notes payable	1,838,511	1,685,027
	<u>2,988,007</u>	<u>2,813,758</u>
Financial services	3,128	2,685
Stockholders' equity:		
Preferred stock — \$1.00 par value; 10,000,000 shares authorized; none issued	—	—
Common stock — \$1.00 par value; 290,000,000 shares authorized at November 30, 2022 and 2021; 100,711,153 shares issued at November 30, 2022 and 2021	100,711	100,711
Paid-in capital	836,260	848,620
Retained earnings	3,143,578	2,379,364
Accumulated other comprehensive loss	(5,575)	(19,119)
Grantor stock ownership trust, at cost: 6,705,247 shares at November 30, 2022 and 2021	(72,718)	(72,718)
Treasury stock, at cost: 10,015,507 and 5,785,058 shares at November 30, 2022 and 2021, respectively	(341,461)	(217,383)
Total stockholders' equity	<u>3,660,795</u>	<u>3,019,475</u>
Total liabilities and stockholders' equity	<u>\$ 6,651,930</u>	<u>\$ 5,835,918</u>

See accompanying notes.

KB HOME
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

Years Ended November 30, 2022, 2021 and 2020

	Number of Shares			Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Grantor Stock Ownership Trust	Treasury Stock	Total Stockholders' Equity
	Common Stock	Grantor Stock Ownership Trust	Treasury Stock							
Balance at November 30, 2019	121,593	(7,631)	(24,356)	\$ 121,593	\$ 793,954	\$ 2,157,183	\$ (15,506)	\$ (82,758)	\$ (591,344)	\$ 2,383,122
Cumulative effect of adoption of ASC 842	—	—	—	—	—	1,510	—	—	—	1,510
Reclassification of stranded tax effects	—	—	—	—	—	1,643	(1,643)	—	—	—
Net income	—	—	—	—	—	296,243	—	—	—	296,243
Other comprehensive loss, net of tax	—	—	—	—	—	—	(5,127)	—	—	(5,127)
Dividends on common stock	—	—	—	—	—	(38,065)	—	—	—	(38,065)
Employee stock options/other	1,696	—	17	1,696	13,941	—	—	—	421	16,058
Stock awards	68	507	(15)	68	(5,120)	—	—	5,493	(441)	—
Stock-based compensation	—	—	—	—	21,531	—	—	—	—	21,531
Tax payments associated with stock-based compensation awards	—	—	(241)	—	—	—	—	—	(9,503)	(9,503)
Retirement of treasury stock	(23,488)	—	23,488	(23,488)	—	(549,618)	—	—	573,106	—
Balance at November 30, 2020	99,869	(7,124)	(1,107)	99,869	824,306	1,868,896	(22,276)	(77,265)	(27,761)	2,665,769
Cumulative effect of adoption of ASU 2016-13	—	—	—	—	—	(226)	—	—	—	(226)
Net income	—	—	—	—	—	564,746	—	—	—	564,746
Other comprehensive income, net of tax	—	—	—	—	—	—	3,157	—	—	3,157
Dividends on common stock	—	—	—	—	—	(54,052)	—	—	—	(54,052)
Employee stock options/other	798	—	—	798	10,891	—	—	—	—	11,689
Stock awards	44	419	199	44	(15,481)	—	—	4,547	10,890	—
Stock-based compensation	—	—	—	—	28,904	—	—	—	—	28,904
Stock repurchases	—	—	(4,669)	—	—	—	—	—	(188,175)	(188,175)
Tax payments associated with stock-based compensation awards	—	—	(208)	—	—	—	—	—	(12,337)	(12,337)
Balance at November 30, 2021	100,711	(6,705)	(5,785)	100,711	848,620	2,379,364	(19,119)	(72,718)	(217,383)	3,019,475
Net income	—	—	—	—	—	816,666	—	—	—	816,666
Other comprehensive income, net of tax	—	—	—	—	—	—	13,544	—	—	13,544
Dividends on common stock	—	—	—	—	—	(52,452)	—	—	—	(52,452)
Stock awards	—	—	1,088	—	(41,824)	—	—	—	41,824	—
Stock-based compensation	—	—	—	—	29,464	—	—	—	—	29,464
Stock repurchases	—	—	(4,928)	—	—	—	—	—	(150,000)	(150,000)
Tax payments associated with stock-based compensation awards	—	—	(391)	—	—	—	—	—	(15,902)	(15,902)
Balance at November 30, 2022	100,711	(6,705)	(10,016)	\$ 100,711	\$ 836,260	\$ 3,143,578	\$ (5,575)	\$ (72,718)	\$ (341,461)	\$ 3,660,795

See accompanying notes.

KB HOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended November 30,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 816,666	\$ 564,746	\$ 296,243
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in income of unconsolidated joint ventures	(19,934)	(23,184)	(33,628)
Distributions of earnings from unconsolidated joint ventures	11,038	18,511	35,649
Amortization of debt issuance costs and premiums	2,322	2,852	2,498
Depreciation and amortization	32,319	28,640	28,396
Deferred income taxes	16,510	53,767	50,304
Loss on early extinguishment of debt	3,598	5,075	—
Stock-based compensation	29,464	28,904	21,531
Inventory impairments and land option contract abandonments	37,301	11,953	28,669
Changes in assets and liabilities:			
Receivables	(19,885)	(32,014)	59,257
Inventories	(785,557)	(897,750)	(183,233)
Accounts payable, accrued expenses and other liabilities	53,097	181,625	4,091
Other, net	6,479	19,579	901
Net cash provided by (used in) operating activities	<u>183,418</u>	<u>(37,296)</u>	<u>310,678</u>
Cash flows from investing activities:			
Contributions to unconsolidated joint ventures	(28,439)	(11,523)	(10,373)
Return of investments in unconsolidated joint ventures	1,900	12,838	12,651
Purchases of property and equipment, net	(45,234)	(39,399)	(28,841)
Net cash used in investing activities	<u>(71,773)</u>	<u>(38,084)</u>	<u>(26,563)</u>
Cash flows from financing activities:			
Proceeds from issuance of debt	350,000	390,000	—
Repayment of senior notes	(703,598)	(455,075)	—
Payment of issuance costs	(11,064)	(4,813)	—
Borrowings under revolving credit facility	1,685,000	340,000	—
Repayments under revolving credit facility	(1,535,000)	(340,000)	—
Borrowings under senior unsecured term loan	360,000	—	—
Payments on mortgages and land contracts due to land sellers and other loans	(567)	(2,250)	(24,934)
Issuance of common stock under employee stock plans	—	11,689	16,058
Stock repurchases	(150,000)	(188,175)	—
Tax payments associated with stock-based compensation awards	(15,902)	(12,337)	(9,503)
Payments of cash dividends	(52,452)	(54,052)	(38,065)
Net cash used in financing activities	<u>(73,583)</u>	<u>(315,013)</u>	<u>(56,444)</u>
Net increase (decrease) in cash and cash equivalents	38,062	(390,393)	227,671
Cash and cash equivalents at beginning of year	<u>292,136</u>	<u>682,529</u>	<u>454,858</u>
Cash and cash equivalents at end of year	<u>\$ 330,198</u>	<u>\$ 292,136</u>	<u>\$ 682,529</u>

See accompanying notes.

KB HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Operations. KB Home is a builder of attached and detached single-family residential homes, townhomes and condominiums. As of November 30, 2022, we conducted ongoing operations in Arizona, California, Colorado, Florida, Idaho, Nevada, North Carolina, Texas and Washington. We also offer various insurance products to our homebuyers in the same markets as our homebuilding reporting segments, and provide title services in the majority of our markets located within our Southwest, Central and Southeast homebuilding reporting segments. We offer mortgage banking services, including mortgage loan originations, to our homebuyers indirectly through KBHS, which is an unconsolidated joint venture between us and a third party.

Basis of Presentation. Our consolidated financial statements have been prepared in accordance with GAAP and include our accounts and those of the consolidated subsidiaries in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated in consolidation. Investments in unconsolidated joint ventures in which we have less than a controlling financial interest are accounted for using the equity method.

Impact of COVID-19 Pandemic on Consolidated Financial Statements. Since mid-March 2020, the COVID-19 pandemic and related control responses have adversely affected many economic sectors, significantly disrupted the global supply chain and fueled producer price and consumer inflation. Our business was impacted by these issues in 2020, 2021 and 2022. We experienced, among other things, ongoing construction services availability constraints, supply chain bottlenecks and rising and volatile raw and other building material prices amid uneven availability. In addition, we encountered delays related to state and municipal construction permitting, inspection and utility processes, which have been disrupted by key equipment shortages. All these factors to varying degrees, extended our construction cycle times, delayed home deliveries and community openings and raised our costs. These factors could also negatively affect our growth, margins and financial results in future periods and result in our recognizing charges for inventory impairments or land option contract abandonments, or both, related to our inventory assets. The impact of any or all of these, among other factors, could be material to our consolidated financial statements.

In the 2020 second quarter, with the uncertainty surrounding the COVID-19 pandemic, and in prioritizing cash preservation and liquidity, we limited our land investments and curtailed our overhead expenditures, partly through workforce realignment and reductions. As a result, our selling, general and administrative expenses for 2020 included severance charges of \$6.7 million.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents. We consider all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. Our cash equivalents totaled \$15.8 million at November 30, 2022 and \$15.4 million at November 30, 2021. At November 30, 2022 and 2021, the majority of our cash equivalents was invested in interest-bearing bank deposit accounts.

Receivables. We record receivables net of an allowance for doubtful accounts. This allowance for potential losses is established or maintained for expected uncollectible receivables. The allowance is estimated based on our evaluation of the receivables, taking into account historical collection experience, general economic conditions, specific credit risk of the counterparties and other relevant information.

Property and Equipment and Depreciation. Property and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives as follows: computer software and equipment – two to 15 years; model furnishings and sales office improvements – two to three years; office furniture and equipment – three to 10 years; and leasehold improvements – life of the lease. Repair and maintenance costs are expensed as incurred. Depreciation expense totaled \$32.3 million in 2022, \$28.6 million in 2021 and \$28.4 million in 2020.

Homebuilding Operations. We recognize homebuilding revenue by applying the following steps in determining the timing and amount of revenue to recognize: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, if applicable; and (5) recognize revenue when (or as) we satisfy a performance obligation.

Our home sale transactions are made pursuant to contracts under which we typically have a single performance obligation to deliver a completed home to the homebuyer when closing conditions are met. Revenues from home sales are recognized

when we have satisfied the performance obligation within the sales contract, which is generally when title to and possession of the home and the risks and rewards of ownership are transferred to the homebuyer on the closing date. Under our home sale contracts, we typically receive an initial cash deposit from the homebuyer at the time the sales contract is executed and receive the remaining consideration to which we are entitled, through a third-party escrow agent, at closing. Customer deposits related to sold but undelivered homes are included in accrued expenses and other liabilities.

Concurrent with the recognition of revenues in our consolidated statements of operations, sales incentives in the form of price concessions on the selling price of a home are recorded as a reduction of revenues. The costs of sales incentives in the form of free or discounted products or services provided to homebuyers, including option upgrades and closing cost allowances, are reflected as construction and land costs because such incentives are identified in our home sale contracts with homebuyers as an intrinsic part of our single performance obligation to deliver and transfer title to their home for the transaction price stated in the contracts. Sales incentives that we may provide in the form of closing cost allowances are immaterial to the related revenues. Cash proceeds from home sale closings held by third-party escrow agents for our benefit, typically for less than five days, are considered deposits in-transit and classified as cash.

Land sale transactions are made pursuant to contracts under which we typically have a performance obligation(s) to deliver specified land parcels to the buyer when closing conditions are met. We evaluate each land sale contract to determine our performance obligation(s) under the contract, including whether we have a distinct promise to perform post-closing land development work that is material within the context of the contract, and use objective criteria to determine our completion of the applicable performance obligation(s), whether at a point in time or over time. Revenues from land sales are recognized when we have satisfied the performance obligation(s) within the sales contract, which is generally when title to and possession of the land and the risks and rewards of ownership are transferred to the land buyer on the closing date. Under our land sale contracts, we typically receive an initial cash deposit from the buyer at the time the contract is executed and receive the remaining consideration to which we are entitled, through a third-party escrow agent, at closing. In the limited circumstances where we provide financing to the land buyer, we determine that collectability of the receivable is reasonably assured before we recognize revenue.

In instances where we have a distinct and material performance obligation(s) within the context of a land sale contract to perform land development work after the closing date, a portion of the transaction price under the contract is allocated to such performance obligation(s) and is recognized as revenue over time based upon our estimated progress toward the satisfaction of the performance obligation(s). We generally measure our progress based on our costs incurred relative to the total costs expected to satisfy the performance obligation(s). While the payment terms for such a performance obligation(s) vary, we generally receive the final payment when we have completed our land development work to the specifications detailed in the applicable land sale contract and it has been accepted by the land buyer.

Homebuilding revenues include forfeited deposits, which occur when home sale or land sale contracts that include a nonrefundable deposit are cancelled. Revenues from forfeited deposits are immaterial.

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

Construction and land costs are comprised of direct and allocated costs, including estimated future costs for the limited warranty we provide on our homes, and certain amenities within a community. Land acquisition, land development and other common costs are generally allocated on a relative fair value basis to the homes or lots within the applicable community or land parcel. Land acquisition and land development costs include related interest and real estate taxes.

Disaggregation of Revenues. Our homebuilding operations accounted for 99.7% of our total revenues for each of the years ended November 30, 2022 and 2021, with most of those revenues generated from home sale contracts with customers. Due to the nature of our revenue-generating activities, we believe the disaggregation of revenues as reported in our consolidated statements of operations, and as disclosed by homebuilding reporting segment in Note 2 – Segment Information and for our financial services reporting segment in Note 3 – Financial Services, fairly depicts how the nature, amount, timing and uncertainty of cash flows are affected by economic factors.

Inventories. Housing and land inventories are stated at cost, unless the carrying value is determined not to be recoverable, in which case the affected inventories are written down to fair value or fair value less associated costs to sell. Real estate assets, such as our housing and land inventories, are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by comparing the carrying value of an asset to the undiscounted future net cash flows expected to be generated by the asset. These impairment evaluations are significantly impacted by estimates for the amounts and timing of future revenues, costs and expenses, and other factors. If the carrying value of a real estate asset is determined not to be recoverable, the impairment charge to be recognized is measured by the

amount by which the carrying value of the affected asset exceeds its estimated fair value. For land held for sale, if the fair value less associated costs to sell exceeds the asset's carrying value, no impairment charge is recognized.

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

Fair Value Measurements. Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate that their carrying value is not recoverable. For these real estate assets, fair value is determined based on the estimated future net cash flows discounted for inherent risk associated with each such asset, or other valuation techniques.

Our financial instruments consist of cash and cash equivalents, corporate-owned life insurance, outstanding borrowings under the Credit Facility and the Term Loan, senior notes, and mortgages and land contracts due to land sellers and other loans. Fair value measurements of financial instruments are determined by various market data and other valuation techniques as appropriate. When available, we use quoted market prices in active markets to determine fair value.

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

Warranty Costs. We provide a limited warranty on all of our homes. We estimate the costs that may be incurred under each limited warranty and record a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Our primary assumption in estimating the amounts we accrue for warranty costs is that historical claims experience is a strong indicator of future claims experience. Factors that affect our warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our accrued warranty liability and adjust the amount as necessary based on our assessment. Our warranty liability is presented on a gross basis for all years without consideration of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable.

Self-Insurance. We self-insure a portion of our overall risk through the use of a captive insurance subsidiary. We record liabilities based on the estimated costs required to cover reported claims, claims incurred but not yet reported, and claim adjustment expenses. These estimated costs are based on an actuarial analysis of our historical claims and expense data, as well as industry data. Our self-insurance liability is presented on a gross basis for all years without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable.

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

community, removing the on-site community sales facility and readying a completed (model) home for sale are expensed to selling, general and administrative expenses as incurred.

Advertising Costs. We expense advertising costs as incurred. We incurred advertising costs of \$37.1 million in 2022, \$28.0 million in 2021 and \$29.3 million in 2020.

Legal Fees. Legal fees associated with litigation and similar proceedings that are not expected to provide a benefit in future periods are generally expensed as incurred. Legal fees associated with land acquisition and development and other activities that are expected to provide a benefit in future periods are capitalized to inventories in our consolidated balance sheets as incurred. We expensed legal fees of \$10.6 million in 2022, \$11.5 million in 2021 and \$11.6 million in 2020.

Stock-Based Compensation. We measure and recognize compensation expense associated with our grant of equity-based awards at an amount equal to the fair value of share-based payments granted under compensation arrangements over the vesting period. We estimate the fair value of stock options granted using the Black-Scholes option-pricing model with assumptions based primarily on historical data. We estimate the fair value of other equity-based awards using the closing price of our common stock on the grant date. For PSUs, we recognize compensation expense ratably over the vesting period when it is probable that stated performance targets will be achieved and record cumulative adjustments in the period in which estimates change. We account for forfeitures of equity-based awards as they occur.

Income Taxes. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. This evaluation is based on the consideration of all available positive and negative evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related deferred tax assets become deductible. The value of deferred tax assets in our consolidated balance sheets depends on applicable income tax rates.

Accumulated Other Comprehensive Loss. The accumulated balances of other comprehensive loss in the consolidated balance sheets as of November 30, 2022 and 2021 were comprised solely of adjustments recorded directly to accumulated other comprehensive loss related to our benefit plan obligations. Such adjustments are made annually as of November 30, when our benefit plan obligations are remeasured.

Earnings Per Share. We compute earnings per share using the two-class method, which is an allocation of earnings between the holders of common stock and a company’s participating security holders. Our outstanding nonvested shares of restricted stock contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. We had no other participating securities at November 30, 2022, 2021 or 2020.

Adoption of New Accounting Pronouncements. In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires leases with original lease terms of more than 12 months to be recorded on the balance sheet. On December 1, 2019, we adopted ASU 2016-02 and its related amendments (collectively, “ASC 842”) using the modified retrospective method. The adoption of ASC 842 resulted in our recording lease right-of-use assets and lease liabilities of \$31.2 million on our consolidated balance sheet as of December 1, 2019. Lease right-of-use assets are classified within other assets on our consolidated balance sheet, and lease liabilities are classified within accrued expenses and other liabilities. At the December 1, 2019 adoption date, we also recorded a cumulative effect adjustment to increase beginning retained earnings by \$1.5 million, net of tax, to recognize a previously deferred gain on our sale and leaseback of an office building in 2019. The adoption of ASC 842 did not materially impact our consolidated statements of operations or consolidated cash flows. Further information regarding our leases is provided in Note 13 – Leases.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (“ASU 2018-02”), which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the 2019 Tax Cuts and Jobs Act (“TCJA”), and requires certain disclosures about stranded tax effects. We adopted ASU 2018-02 effective December 1, 2019 and elected to reclassify the income tax effects of the TCJA from accumulated other comprehensive loss to retained earnings, which resulted in an increase of \$1.6 million to both retained earnings and accumulated other comprehensive loss, with no impact on total stockholders’ equity.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which changes the impairment model for most financial assets and certain other instruments from an incurred loss approach to a new expected credit loss methodology.

On December 1, 2020, we adopted ASU 2016-13 using the modified retrospective method and recorded a cumulative effect adjustment to decrease beginning retained earnings by \$.2 million, net of tax, to establish an allowance for credit losses for certain receivables on our consolidated balance sheet. The adoption of ASU 2016-13 did not materially impact our consolidated statements of operations or cash flows.

Recent Accounting Pronouncements Not Yet Adopted. In March 2020, the FASB issued Accounting Standards Update No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”) or by another reference rate expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued Accounting Standards Update 2021-01, “Reference Rate Reform (Topic 848): Scope” (“ASU 2021-01”), which clarified the scope and application of the original guidance. We are currently evaluating the potential impact of adopting ASU 2020-04 and ASU 2021-01, but do not expect it to have a material impact on our consolidated financial statements.

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

Note 2. Segment Information

An operating segment is defined as a component of an enterprise for which separate financial information is available and for which segment results are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. We have identified each of our homebuilding divisions as an operating segment. Our homebuilding operating segments have been aggregated into four homebuilding reporting segments based primarily on similarities in economic and geographic characteristics, product types, regulatory environments, methods used to sell and construct homes and land acquisition characteristics. We also have one financial services reporting segment. Management evaluates segment performance primarily based on segment pretax results.

As of November 30, 2022, our homebuilding reporting segments conducted ongoing operations in the following states:

West Coast:	California, Idaho and Washington
Southwest:	Arizona and Nevada
Central:	Colorado and Texas
Southeast:	Florida and North Carolina

Our homebuilding reporting segments are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to first-time, first move-up and active adult homebuyers. Our homebuilding operations generate most of their revenues from the delivery of completed homes to homebuyers. They also earn revenues from the sale of land.

Our financial services reporting segment offers property and casualty insurance and, in certain instances, earthquake, flood and personal property insurance to our homebuyers in the same markets as our homebuilding reporting segments, and provides title services in the majority of our markets located within our Southwest, Central and Southeast homebuilding reporting segments. Our financial services segment earns revenues primarily from insurance commissions and from the provision of title services.

We offer mortgage banking services, including mortgage loan originations, to our homebuyers indirectly through KBHS, our unconsolidated joint venture with GR Alliance. We and GR Alliance each have a 50.0% ownership interest, with GR Alliance providing management oversight of KBHS’ operations. The financial services reporting segment is separately reported in our consolidated financial statements.

Corporate and other is a non-operating segment that develops and oversees the implementation of company-wide strategic initiatives and provides support to our reporting segments by centralizing certain administrative functions. Corporate management is responsible for, among other things, evaluating and selecting the geographic markets in which we operate, consistent with our overall business strategy; allocating capital resources to markets for land acquisition and development activities; making major personnel decisions related to employee compensation and benefits; and monitoring the financial and operational performance of our divisions. Corporate and other includes general and administrative expenses related to operating our corporate headquarters. A portion of the expenses incurred by Corporate and other is allocated to our homebuilding reporting segments.

Our reporting segments follow the same accounting policies used for our consolidated financial statements as described in Note 1 – Summary of Significant Accounting Policies. The results of each reporting segment are not necessarily indicative of the results that would have occurred had the segment been an independent, stand-alone entity during the periods presented, nor are they indicative of the results to be expected in future periods.

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

	Years Ended November 30,		
	2022	2021	2020
Revenues:			
West Coast	\$ 3,050,506	\$ 2,552,382	\$ 1,748,582
Southwest	1,110,045	965,139	796,810
Central	1,749,231	1,503,857	1,192,869
Southeast	970,580	683,651	429,441
Total	<u>\$ 6,880,362</u>	<u>\$ 5,705,029</u>	<u>\$ 4,167,702</u>
Pretax income (loss):			
West Coast	\$ 519,524	\$ 345,714	\$ 151,039
Southwest	238,143	186,351	133,386
Central	272,002	200,159	128,802
Southeast	152,178	77,663	22,950
Corporate and other	(148,232)	(152,976)	(104,677)
Total	<u>\$ 1,033,615</u>	<u>\$ 656,911</u>	<u>\$ 331,500</u>
Equity in income (loss) of unconsolidated joint ventures:			
West Coast	\$ (612)	\$ 62	\$ 12,972
Southwest	(249)	(466)	(497)
Central	—	—	—
Southeast	(4)	(1)	(1)
Total	<u>\$ (865)</u>	<u>\$ (405)</u>	<u>\$ 12,474</u>
Inventory impairment and land option contract abandonment charges:			
West Coast	\$ 27,354	\$ 11,046	\$ 21,941
Southwest	900	536	570
Central	3,318	131	5,520
Southeast	5,729	240	638
Total	<u>\$ 37,301</u>	<u>\$ 11,953</u>	<u>\$ 28,669</u>
Inventories:			
		November 30,	
		2022	2021
West Coast		\$ 2,425,141	\$ 2,300,096
Southwest		993,059	875,438
Central		1,278,420	995,811
Southeast		846,556	631,484
Total		<u>\$ 5,543,176</u>	<u>\$ 4,802,829</u>

	November 30,	
	2022	2021
Investments in unconsolidated joint ventures:		
West Coast	\$ 41,597	\$ 33,576
Southwest	2,680	—
Central	—	—
Southeast	2,508	2,512
Total	<u>\$ 46,785</u>	<u>\$ 36,088</u>
Assets:		
West Coast	\$ 2,631,598	\$ 2,520,374
Southwest	1,074,912	938,300
Central	1,493,486	1,168,242
Southeast	929,208	684,752
Corporate and other	463,194	480,048
Total	<u>\$ 6,592,398</u>	<u>\$ 5,791,716</u>

Note 3. Financial Services

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

	Years Ended November 30,		
	2022	2021	2020
Revenues			
Insurance commissions	\$ 12,823	\$ 10,486	\$ 8,589
Title services	10,572	9,415	6,883
Other	19	—	—
Total	<u>23,414</u>	<u>19,901</u>	<u>15,472</u>
Expenses			
General and administrative	(5,762)	(5,055)	(4,083)
Operating income	17,652	14,846	11,389
Equity in income of unconsolidated joint ventures	20,799	23,589	21,154
Pretax income	<u>\$ 38,451</u>	<u>\$ 38,435</u>	<u>\$ 32,543</u>

	November 30,	
	2022	2021
Assets		
Cash and cash equivalents	\$ 1,681	\$ 1,372
Receivables	3,475	2,166
Investments in unconsolidated joint ventures	26,678	16,317
Other assets (a)	27,698	24,347
Total assets	<u>\$ 59,532</u>	<u>\$ 44,202</u>
Liabilities		
Accounts payable and accrued expenses	\$ 3,128	\$ 2,685
Total liabilities	<u>\$ 3,128</u>	<u>\$ 2,685</u>

(a) Other assets at November 30, 2022 and 2021 included \$27.6 million and \$24.1 million, respectively, of contract assets for estimated future renewal commissions.

Note 4. Earnings Per Share

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

	Years Ended November 30,		
	2022	2021	2020
Numerator:			
Net income	\$ 816,666	\$ 564,746	\$ 296,243
Less: Distributed earnings allocated to nonvested restricted stock	(268)	(253)	(197)
Less: Undistributed earnings allocated to nonvested restricted stock	(3,904)	(2,366)	(1,329)
Numerator for basic earnings per share	812,494	562,127	294,717
Effect of dilutive securities:			
Add: Undistributed earnings allocated to nonvested restricted stock	3,904	2,366	1,329
Less: Undistributed earnings reallocated to nonvested restricted stock	(3,796)	(2,286)	(1,278)
Numerator for diluted earnings per share	\$ 812,602	\$ 562,207	\$ 294,768
Denominator:			
Weighted average shares outstanding — basic	86,861	90,401	90,464
Effect of dilutive securities:			
Share-based payments	2,487	3,186	3,622
Weighted average shares outstanding — diluted	89,348	93,587	94,086
Basic earnings per share	\$ 9.35	\$ 6.22	\$ 3.26
Diluted earnings per share	\$ 9.09	\$ 6.01	\$ 3.13

In 2022, 2021 and 2020, no outstanding stock options were excluded from the diluted earnings per share calculation. Contingently issuable shares associated with outstanding PSUs were not included in the basic earnings per share calculations for the periods presented, as the applicable vesting conditions had not been satisfied.

Note 5. Receivables

Receivables consisted of the following (in thousands):

	November 30,	
	2022	2021
Due from utility companies, improvement districts and municipalities (a)	\$ 181,443	\$ 151,284
Recoveries related to self-insurance and other legal claims	76,581	95,063
Refundable deposits and bonds	17,610	13,681
Other	52,201	49,359
Subtotal	327,835	309,387
Allowance for doubtful accounts	(5,068)	(5,196)
Total	\$ 322,767	\$ 304,191

(a) These receivables typically relate to infrastructure improvements we make with respect to our communities. We are generally reimbursed for the cost of such improvements when they are accepted by the utility company, improvement district or municipality, or after certain events occur, depending on the terms of the applicable agreements. These events may include, but are not limited to, the connection of utilities or the issuance of bonds by the respective improvement districts or municipalities.

Note 6. Inventories

Inventories consisted of the following (in thousands):

	November 30,	
	2022	2021
Homes completed or under construction	\$ 2,414,675	\$ 2,103,038
Land under development	3,128,501	2,699,791
Total	\$ 5,543,176	\$ 4,802,829

Homes completed or under construction is comprised of costs associated with homes completed or in various stages of construction and includes direct construction and related land acquisition and land development costs. Land under development primarily consists of land acquisition and land development costs. Land development costs include capitalized interest and real estate taxes. When home construction begins, the associated land acquisition and land development costs are included in homes under construction.

Land under development at November 30, 2022 and 2021 included land held for future development of \$10.2 million and \$44.6 million, respectively. Land held for future development principally relates to land where development activity has been suspended or has not yet begun but is expected to occur in the future. These assets are generally located in submarkets where conditions do not presently support further investment or development, or are subject to a building permit moratorium or regulatory restrictions, or are portions of larger land parcels that we plan to build out over several years and/or that have not yet been entitled. At November 30, 2022 and 2021, land under development also included land held for sale of \$11.4 million and \$.6 million, respectively.

Our interest costs were as follows (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Capitalized interest at beginning of year	\$ 161,119	\$ 190,113	\$ 195,738
Interest incurred	120,859	120,514	124,147
Interest amortized to construction and land costs (a)	(136,484)	(149,508)	(129,772)
Capitalized interest at end of year	\$ 145,494	\$ 161,119	\$ 190,113

(a) Interest amortized to construction and land costs for the years ended November 30, 2021 and 2020 included nominal amounts related to land sales during the periods.

Note 7. Inventory Impairments and Land Option Contract Abandonments

Each community or land parcel in our owned inventory is assessed to determine if indicators of potential impairment exist. Impairment indicators are assessed separately for each community or land parcel on a quarterly basis and include, but are not limited to, the following: significant decreases in net orders, average selling prices, volume of homes delivered, gross profit margins on homes delivered or projected gross profit margins on homes in backlog or future deliveries; significant increases in budgeted land development and home construction costs or cancellation rates; or projected losses on expected future land sales. If indicators of potential impairment exist for a community or land parcel, the identified asset is evaluated for recoverability. We evaluated five, one and 11 communities or land parcels for recoverability as of November 30, 2022, 2021 and 2020, respectively. The carrying values of those communities or land parcels evaluated as of November 30, 2022, 2021 and 2020 were \$118.7 million, \$29.9 million and \$123.4 million, respectively. In addition, we evaluated land held for future development for recoverability as of November 30, 2022, 2021 and 2020. Inventory impairment charges are included in construction and land costs in our consolidated statements of operations.

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

November 30, 2022, these expectations considered the weakening in U.S. housing demand in the year's second half, rising interest rates, elevated inflation levels, and significant year-over-year decreases in our net orders per community in the 2022 third and fourth quarters, driven in part by a substantial increase in cancellations. We also considered our lower year-end backlog, both in number of homes and value; estimated average selling prices and housing gross profit margins based on the current and anticipated conditions in the markets where assessed assets are located; and ongoing supply-chain disruptions and delays with respect to state and municipal permitting, inspection and utility processes on our construction cycle times. Based on these recoverability considerations, we recognized inventory impairment charges for certain inventory assets in the 2022 fourth quarter, as described below. With respect to the year ended November 30, 2021, our expectations considered the year-over-year increases in our overall average net orders per community, backlog levels, homes delivered and housing gross profit margin during the period as well as our experience that conditions in the markets where assessed assets were located were relatively stable or improved, with no significant deterioration identified or projected, as to revenue or cost drivers that would prevent or otherwise impact recoverability. Our inventory is assessed for potential impairment on a quarterly basis, and the assumptions used are reviewed and adjusted, as necessary, to reflect the market conditions and trends and our expectations at the time each assessment is performed.

Given the inherent challenges and uncertainties in forecasting future results, our inventory assessments at the time they are made take into consideration whether a community or land parcel is active, meaning whether it is open for sales and/or undergoing development, or whether it is being held for future development or held for sale. Due to the short-term nature of active communities and land held for sale, as compared to land held for future development, our inventory assessments generally assume the continuation of then-current market conditions, subject to identifying information suggesting significant sustained changes in such conditions. Our assessments of active communities, at the time made, generally anticipate net orders, average selling prices, volume of homes delivered and costs for land development and home construction to continue at or near then-current levels through the particular asset's estimated remaining life. Inventory assessments for our land held for future development consider then-current market conditions as well as subjective forecasts regarding the timing and costs of land development and home construction and related cost inflation; the product(s) to be offered; and the net orders, volume of homes delivered, and selling prices and related price appreciation of the offered product(s) when an associated community is anticipated to open for sales. We evaluate various factors to develop these forecasts, including the availability of and demand for homes and finished lots within the relevant marketplace; historical, current and expected future sales trends for the marketplace; and third-party data, if available. The estimates, expectations and assumptions used in each of our inventory assessments are specific to each community or land parcel based on what we believe are reasonable forecasts for their particular performance, and may vary among communities or land parcels and may vary over time.

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

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

The following table summarizes ranges for significant quantitative unobservable inputs we utilized in our fair value measurements with respect to impaired communities, other than land held for sale, written down to fair value during the years presented:

Unobservable Input (a)	Years Ended November 30,		
	2022	2021	2020
Average selling price	\$475,500 - \$1,076,200	\$471,000 - \$949,400	\$301,600 - \$1,127,100
Deliveries per month	2 - 4	4 - 5	1 - 4
Discount rate	17% - 21%	18% - 19%	17% - 18%

- (a) Ranges of inputs presented primarily reflect differences between the housing markets where each impacted community is located, rather than fluctuations in prevailing market conditions.

Based on the results of our evaluations, we recognized inventory impairment charges of \$24.1 million in 2022 related to four communities with a post-impairment fair value of \$41.3 million. In 2021, we recognized inventory impairment charges of \$9.9 million related to two communities with a post-impairment fair value of \$18.0 million. In 2020, we recognized inventory impairment charges of \$22.7 million related to 10 communities with a post-impairment fair value of \$46.5 million. The impairment charges in 2022, 2021 and 2020 reflected our decisions to make changes in our operational strategies aimed at more quickly monetizing our investment in certain communities, mainly by accelerating the overall pace for selling, building and delivering homes therein, including communities on land previously held for future development. If we change our strategy or if there are changes in market conditions for any given asset, it is possible that we may recognize additional inventory impairment charges.

As of November 30, 2022, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$102.9 million, representing eight communities and various other land parcels. As of November 30, 2021, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$87.7 million, representing 11 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed to determine whether it continues to meet our investment return standards. Assessments are made separately for each optioned land parcel on a quarterly basis and are affected by the following factors relative to the market in which the asset is located, among others: current and/or anticipated net orders, average selling prices and volume of homes delivered; estimated land development and home construction costs; and projected profitability on expected future housing or land sales. When a decision is made not to exercise certain land option contracts and other similar contracts due to market conditions and/or changes in our marketing strategy, we write off the related inventory costs, including non-refundable deposits and unrecoverable pre-acquisition costs. Based on the results of our assessments, we recognized land option contract abandonment charges of \$13.2 million in 2022, \$2.1 million in 2021 and \$5.9 million in 2020. Land option contract abandonment charges are included in construction and land costs in our consolidated statements of operations.

The estimated remaining life of each community or land parcel in our inventory depends on various factors, such as the total number of lots remaining; the expected timeline to acquire and entitle land and develop lots to build homes; the anticipated future net order and cancellation rates; and the expected timeline to build and deliver homes sold. While it is difficult to determine a precise timeframe for any particular inventory asset, based on current market conditions and expected delivery timelines, we estimate our inventory assets' remaining operating lives to range generally from one year to in excess of 10 years, and expect to realize, on an overall basis, the majority of our inventory balance as of November 30, 2022 within five years.

Due to the judgment and assumptions applied in our inventory impairment and land option contract abandonment assessment processes, and in our estimations of the remaining operating lives of our inventory assets and the realization of our inventory balances, particularly as to land held for future development, it is possible that actual results could differ substantially from those estimated, especially in periods of volatile housing market or economic conditions, such as occurred during the 2022 second half.

Note 8. Variable Interest Entities

Unconsolidated Joint Ventures. We participate in joint ventures from time to time that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. Our investments in these joint ventures may create a variable interest in a variable interest entity ("VIE"), depending on the contractual terms of the arrangement. We analyze our joint ventures under the variable interest model to determine whether they are VIEs and, if so, whether we are the primary beneficiary. Based on our analyses, we determined that one of our joint ventures at November 30, 2022 and 2021 was a VIE, but we were not the primary beneficiary of the VIE. Therefore, all of our joint ventures at November 30, 2022 and 2021 were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

Land Option Contracts and Other Similar Contracts. In the ordinary course of our business, we enter into land option contracts and other similar contracts with third parties and unconsolidated entities to acquire rights to land for the construction of homes. The use of these contracts generally allows us to reduce the market risks associated with direct land ownership and development, and reduce our capital and financial commitments, including interest and other carrying costs. Under these contracts, which generally do not contain provisions requiring our specific performance, we typically make a specified option payment or earnest money deposit in consideration for the right to purchase land in the future, usually at a predetermined price.

We analyze each of our land option contracts and other similar contracts under the variable interest model to determine whether the land seller is a VIE and, if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, we are required to consolidate a VIE if we are the primary beneficiary. In determining whether we are the primary beneficiary, we consider, among other things, whether we have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. As a result of our analyses, we determined that as of November 30, 2022 and 2021, we were not the primary beneficiary of any VIEs from which we have acquired rights to land under land option contracts and other similar contracts. We perform ongoing reassessments of whether we are the primary beneficiary of a VIE.

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

	November 30, 2022		November 30, 2021	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	\$ 22,399	\$ 635,502	\$ 38,333	\$ 1,093,669
Other land option contracts and other similar contracts	29,451	529,430	36,176	766,182
Total	\$ 51,850	\$ 1,164,932	\$ 74,509	\$ 1,859,851

In addition to the cash deposits presented in the table above, our exposure to loss related to our land option contracts and other similar contracts with third parties and unconsolidated entities consisted of pre-acquisition costs of \$33.1 million at November 30, 2022 and \$38.1 million at November 30, 2021. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets.

For land option contracts and other similar contracts where the land seller entity is not required to be consolidated under the variable interest model, we consider whether such contracts should be accounted for as financing arrangements. Land option contracts and other similar contracts that may be considered financing arrangements include those we enter into with third-party land financiers or developers in conjunction with such third parties acquiring a specific land parcel(s) on our behalf, at our direction, and those with other landowners where we or our designee make improvements to the optioned land parcel(s) during the applicable option period. For these land option contracts and other similar contracts, we record the remaining purchase price of the associated land parcel(s) in inventories in our consolidated balance sheets with a corresponding financing obligation if we determine that we are effectively compelled to exercise the option to purchase the land parcel(s). In making this determination with respect to a land option contract, we consider the non-refundable deposit(s) we have made and any non-reimbursable expenditures we have incurred for land improvement activities or other items up to the assessment date; additional costs associated with abandoning the contract; and our commitments, if any, to incur non-reimbursable costs associated with the contract. As a result of our evaluations of land option contracts and other similar contracts for financing arrangements, we recorded inventories in our consolidated balance sheets, with a corresponding increase to accrued expenses and other liabilities, of \$5.1 million at November 30, 2022 and \$26.5 million at November 30, 2021.

Note 9. Investments in Unconsolidated Joint Ventures

Homebuilding. We have investments in unconsolidated joint ventures that conduct land acquisition, land development and/or other homebuilding activities in various markets where our homebuilding operations are located. We and our unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures, typically on a pro rata basis, according to our respective equity interests. The obligations to make capital contributions are governed by each such unconsolidated joint venture's respective operating agreement and related governing documents. Our partners in these unconsolidated joint ventures are unrelated homebuilders, and/or land developers and other real estate entities, or commercial enterprises. These investments are designed primarily to reduce market and development risks and to increase the number of lots we own or control. In some instances, participating in unconsolidated joint ventures has enabled us to acquire and develop land that we might not otherwise have had access to due to a project's size, financing needs, duration of development or other circumstances. While we consider our participation in unconsolidated joint ventures as potentially beneficial to our homebuilding activities, we do not view such participation as essential.

For distributions we receive from these unconsolidated joint ventures, we have elected to use the cumulative earnings approach for our consolidated statements of cash flows. Under the cumulative earnings approach, distributions up to the amount of cumulative equity in earnings recognized are treated as returns on investment within operating cash flows and those in excess of that amount are treated as returns of investment within investing cash flows.

We typically have obtained rights to acquire portions of the land held by the unconsolidated joint ventures in which we currently participate. When an unconsolidated joint venture sells land to our homebuilding operations, we defer recognition of our share of such unconsolidated joint venture's earnings (losses) until we recognize revenues on the corresponding home sale, which is generally when title to and possession of the home and the risks and rewards of ownership are transferred to the homebuyer on the closing date. At that time, we account for the earnings (losses) as a reduction (increase) to the cost of purchasing the land from the unconsolidated joint venture. We defer recognition of our share of such unconsolidated joint venture losses only to the extent profits are to be generated from the sale of the home to a homebuyer.

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

We had investments in six unconsolidated joint ventures as of November 30, 2022 and 2021 and five unconsolidated joint ventures as of November 30, 2020. The following table presents combined condensed information from the statements of operations for our homebuilding unconsolidated joint ventures (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Revenues	\$ 5,251	\$ 14,818	\$ 127,270
Construction and land costs	(3,875)	(12,398)	(93,162)
Other expenses, net	(2,935)	(2,640)	(8,850)
Income (loss)	\$ (1,559)	\$ (220)	\$ 25,258

The combined revenues and construction and land costs for 2021 and 2020 included the results of an unconsolidated joint venture in California, which delivered its last home in the 2021 second quarter. For the year ended November 30, 2022, combined revenues and construction and land costs were generated from land sales.

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

	November 30,	
	2022	2021
Assets		
Cash	\$ 14,066	\$ 15,731
Receivables	3,394	795
Inventories	114,465	64,034
Other assets	633	50
Total assets	\$ 132,558	\$ 80,610
Liabilities and equity		
Accounts payable and other liabilities	\$ 8,369	\$ 12,285
Notes payable (a)	34,396	—
Equity	89,793	68,325
Total liabilities and equity	\$ 132,558	\$ 80,610

(a) As of November 30, 2022, one of our unconsolidated joint ventures had borrowings outstanding under a revolving line of credit it entered into with a third-party lender in April 2022 to finance its land acquisition, development and construction activities. Borrowings under this line of credit, which has a maximum commitment of \$62.0 million, are secured by the underlying property and related project assets. The line of credit is scheduled to mature on April 19, 2026, unless extended or terminated pursuant to its applicable terms. None of our other unconsolidated joint ventures had outstanding debt at November 30, 2022 or 2021.

We provide certain guarantees and indemnities to the lender in connection with the above-described revolving line of credit, including a guaranty of interest and carry costs; a guaranty to complete the construction of phases of the improvements

for the project as such phases are commenced; a guaranty against losses suffered due to certain bad acts or failures to act by the unconsolidated joint venture or its partners; and an indemnity from environmental issues. Except to the extent related to the foregoing guarantees and indemnities, we do not have a guaranty or any other obligation to repay borrowings under the line of credit or to support the value of the underlying collateral. However, various financial and non-financial covenants apply under the line of credit and with respect to the related guaranty and indemnity obligations, and a failure to comply with such covenants could result in a default and cause the lender to seek to enforce such guaranty and indemnity obligations. As of the date of this report, we were in compliance with the relevant covenants. We do not believe that our existing exposure under our guaranty and indemnity obligations related to outstanding borrowings under the line of credit is material to our consolidated financial statements.

Financial Services. The following table presents combined condensed information from the statements of operations for our financial services unconsolidated joint ventures, primarily comprised of KBHS (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Revenues	\$ 115,173	\$ 126,398	\$ 108,417
Expenses	(73,573)	(79,221)	(66,109)
Income	\$ 41,600	\$ 47,177	\$ 42,308

Revenues are primarily generated from fees earned on mortgage loan originations, interest earned for the period loans are held by KBHS, and gains on the sales of mortgage loans held for sale. Gains on the sales of mortgage loans held for sale include the realized and unrealized gains and losses associated with changes in the fair value of such loans and any related derivative financial instruments.

The following table presents combined condensed balance sheet information for our financial services unconsolidated joint ventures, primarily comprised of KBHS (in thousands):

	November 30,	
	2022	2021
Assets		
Cash and cash equivalents	\$ 28,120	\$ 23,916
Mortgage loans held for sale	250,572	234,669
Other assets	33,176	14,060
Total assets	\$ 311,868	\$ 272,645
Liabilities and equity		
Accounts payable and other liabilities	\$ 15,590	\$ 18,375
Funding facilities	242,944	221,633
Equity	53,334	32,637
Total liabilities and equity	\$ 311,868	\$ 272,645

Mortgage loans held for sale. Originated mortgage loans expected to be sold into the secondary market in the foreseeable future are reported as mortgage loans held for sale and carried in KBHS' balance sheets at fair value, with changes in fair value recognized within revenues in KBHS' statements of operations.

Interest rate lock commitments. KBHS enters into IRLCs in connection with originating certain mortgage loans held for sale, at specified interest rates and within a specified period of time, with customers who have applied for a mortgage loan and meet certain credit and underwriting criteria. KBHS accounts for IRLCs as free-standing derivatives and does not designate any for hedge accounting. As a result, IRLCs are recognized in KBHS' balance sheets at fair value, and gains or losses resulting from changes in fair value are recognized within revenues in KBHS' statements of operations. The fair value of IRLCs is based on market prices, which includes an estimate of the fair value of the associated mortgage servicing rights, adjusted for estimated costs to originate the underlying mortgage loans as well as the probability that the mortgage loans will fund within the terms of the IRLCs. The fair value of IRLCs included in other assets in KBHS' balance sheets was \$29.8 million at November 30, 2022 and \$9.5 million at November 30, 2021. The changes in the fair value of IRLCs, which

were reported in revenues for the applicable periods, were gains of \$20.3 million, \$2.8 million and \$4.0 million for 2022, 2021 and 2020, respectively.

KBHS manages the interest rate and price risk associated with its outstanding IRLCs by entering into best efforts forward sale commitments under which mortgage loans locked with a borrower are simultaneously committed to a secondary market investor at a fixed price, subject to the underlying mortgage loans being funded. These best efforts forward sale commitments do not meet the definition of derivative financial instruments and are therefore not recorded in KBHS' balance sheets. If the mortgage loans underlying the IRLCs do not fund, KBHS has no obligation to fulfill the secondary market investor commitments.

Funding facilities. KBHS maintains warehouse line of credit and master repurchase agreements with various financial institutions to fund its originated mortgage loans, with its mortgage loans held for sale pledged as collateral under these agreements. The agreements contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets, maximum debt to net worth ratio and positive net income, as defined in the agreements. KBHS was in compliance with these covenants as of November 30, 2022. KBHS intends to renew these agreements when they expire at various dates in 2023. The warehouse line of credit and master repurchase agreements are not guaranteed by us or any of our Guarantor Subsidiaries.

Note 10. Property and Equipment, Net

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

	November 30,	
	2022	2021
Computer software and equipment	\$ 47,628	\$ 39,938
Model furnishings and sales office improvements	100,276	87,702
Leasehold improvements, office furniture and equipment	18,910	17,922
Subtotal	166,814	145,562
Accumulated depreciation	(77,580)	(69,249)
Total	<u>\$ 89,234</u>	<u>\$ 76,313</u>

Note 11. Other Assets

Other assets consisted of the following (in thousands):

	November 30,	
	2022	2021
Cash surrender value of corporate-owned life insurance contracts	\$ 55,591	\$ 68,748
Lease right-of-use assets	25,469	27,508
Prepaid expenses	15,645	6,344
Debt issuance costs associated with unsecured revolving credit facility, net	4,346	1,553
Total	<u>\$ 101,051</u>	<u>\$ 104,153</u>

Note 12. Accrued Expenses and Other Liabilities

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

	November 30,	
	2022	2021
Self-insurance and other legal liabilities	\$ 234,128	\$ 239,129
Employee compensation and related benefits	182,443	192,549
Warranty liability	101,890	96,153
Customer deposits	76,738	71,032
Accrued interest payable	29,989	24,554
Lease liabilities	27,494	29,279
Inventory-related obligations (a)	19,136	36,146
Real estate and business taxes	17,557	17,563
Federal and state taxes payable	3,671	8,290
Other	43,925	42,210
Total	\$ 736,971	\$ 756,905

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

Note 13. Leases

We lease certain property and equipment for use in our operations. We recognize lease expense for these leases generally on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Lease right-of-use assets and lease liabilities are recorded in our consolidated balance sheets for leases with an expected term at the commencement date of more than 12 months. Some of our leases include one or more renewal options, the exercise of which is generally at our discretion. Such options are excluded from the expected term of the lease unless we determine it is reasonably certain the option will be exercised. Lease liabilities are equal to the present value of the remaining lease payments while the amount of lease right-of-use assets is based on the lease liabilities, subject to adjustment, such as for lease incentives. Our leases do not provide a readily determinable implicit interest rate; therefore, we estimate our incremental borrowing rate to calculate the present value of remaining lease payments. In determining our incremental borrowing rate, we considered the lease term, market interest rates, current interest rates on our senior notes and the effects of collateralization. Our lease population at November 30, 2022 was comprised of operating leases where we are the lessee, primarily real estate leases for our corporate offices, division offices and design studios, as well as certain equipment leases. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

Lease expense is included in selling, general and administrative expenses in our consolidated statements of operations and includes costs for leases with terms of more than 12 months as well as short-term leases with terms of 12 months or less. For the years ended November 30, 2022, 2021 and 2020, our total lease expense was \$20.7 million, \$17.3 million and \$17.7 million, respectively, and included short-term lease costs of \$7.7 million, \$4.7 million and \$6.0 million, respectively. Variable lease costs and external sublease income for the years ended November 30, 2022, 2021 and 2020 were immaterial.

The following table presents our lease right-of-use assets, lease liabilities and the weighted-average remaining lease term and weighted-average discount rate (incremental borrowing rate) used in calculating the lease liabilities (dollars in thousands):

	November 30,	
	2022	2021
Lease right-of-use assets (a)	\$ 25,545	\$ 27,693
Lease liabilities (b)	27,580	29,481
Weighted-average remaining lease term	3.5 years	3.8 years
Weighted-average discount rate (incremental borrowing rate)	5.0 %	5.1 %

- (a) Represents lease right-of-use assets within our homebuilding operations and financial services operations of \$25.5 million and \$.1 million, respectively, at November 30, 2022, and \$27.5 million and \$.2 million, respectively, at November 30, 2021.
- (b) Represents lease liabilities within our homebuilding operations and financial services operations of \$27.5 million and \$.1 million, respectively, at November 30, 2022, and \$29.3 million and \$.2 million, respectively, at November 30, 2021.

The following table presents additional information about our leases (in thousands):

	Years Ended November 30,	
	2022	2021
Lease right-of-use assets obtained in exchange for new lease liabilities	\$ 3,941	\$ 1,526
Cash payments on lease liabilities	11,169	11,613

As of November 30, 2022, the future minimum lease payments required under our leases are as follows (in thousands):

Years Ending November 30,	
2023	\$ 10,589
2024	8,235
2025	6,159
2026	2,296
2027	1,761
Thereafter	1,122
Total lease payments	30,162
Less: Interest	(2,582)
Present value of lease liabilities	\$ 27,580

Note 14. Income Taxes

Income Tax Expense. The components of the income tax expense in our consolidated statements of operations are as follows (in thousands):

	Federal	State	Total
2022			
Current	\$ (194,400)	\$ (49,500)	\$ (243,900)
Deferred	(2,900)	(8,600)	(11,500)
Income tax expense	\$ (197,300)	\$ (58,100)	\$ (255,400)
2021			
Current	\$ (44,300)	\$ (33,700)	\$ (78,000)
Deferred	(47,200)	(5,400)	(52,600)
Income tax expense	\$ (91,500)	\$ (39,100)	\$ (130,600)
2020			
Current	\$ (12,100)	\$ (3,500)	\$ (15,600)
Deferred	(36,200)	(16,000)	(52,200)
Income tax expense	\$ (48,300)	\$ (19,500)	\$ (67,800)

Our effective tax rates were 23.8% for 2022, 18.8% for 2021 and 18.6% for 2020.

In 2022, our income tax expense and effective tax rate reflected the favorable impacts of \$22.6 million of federal tax credits we recognized primarily from building energy-efficient homes and \$1.8 million of excess tax benefits related to stock-based compensation, partly offset by \$9.7 million of non-deductible executive compensation expense under Internal Revenue Code

Section 162(m). In 2021, our income tax expense and effective tax rate reflected the favorable impacts of \$49.5 million of federal tax credits we recognized primarily from building energy-efficient homes and \$7.1 million of excess tax benefits related to stock-based compensation, partly offset by \$11.3 million of non-deductible executive compensation expense. In 2020, our income tax expense and effective tax rate reflected the favorable impacts of \$18.7 million of federal tax credits we recognized primarily from building energy-efficient homes and \$12.0 million of excess tax benefits related to stock-based compensation, partly offset by \$5.7 million of non-deductible executive compensation expense.

On August 16, 2022, the IRA was enacted into law. The IRA contains significant tax law changes, including a CAMT of 15% on adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases after December 31, 2022. If applicable, the CAMT will not be effective for us until our fiscal year ending November 30, 2024. The IRA also extends the federal tax credit for building new energy-efficient homes for homes delivered from January 1, 2022 (retroactively) through December 31, 2032, as well as modifies and increases it starting in 2023. Previously, the federal tax credit expired for homes delivered after December 31, 2021. The federal tax credits we recognized in 2022 reflected the impact of the extension under the IRA. We are currently evaluating the other potential effects of the IRA on our consolidated financial statements.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), enacted on March 27, 2020, provided economic and other relief as a result of the COVID-19 pandemic. Among other things, the CARES Act accelerated the timetable for alternative minimum tax (“AMT”) credit refunds. As a result, in the 2020 second quarter, we filed a superseding 2019 federal income tax return claiming an additional refund of \$39.3 million of AMT credits and reclassified this amount from deferred tax assets to receivables. We received this AMT credit refund in the 2021 first quarter. In the 2020 fourth quarter, an amended 2019 federal income tax return was filed to expedite our additional refund and to recognize federal tax credits we earned from building energy-efficient homes in 2019. These credits were in addition to the \$43.3 million of AMT tax credits that we reclassified from deferred tax assets to receivables in the 2020 first quarter when we filed a preliminary 2019 federal income tax return. We received the \$43.3 million AMT credit refund in the 2020 third quarter. Our accounting policy regarding the balance sheet presentation of AMT credits is to maintain the balance in deferred tax assets until a tax return is filed claiming a refund of a portion of the credit, at which time such amount will be presented in receivables.

The CARES Act also provided an ERC, which is a refundable payroll tax credit that encouraged businesses to keep employees on the payroll during the COVID-19 pandemic. Eligible employers could qualify for up to \$5,000 of credit for each employee based on certain wages paid after March 12, 2020 and before January 1, 2021. Based on our evaluation of this provision and the significant pandemic-related impacts on our operations in 2020, we recognized an ERC of \$4.3 million as an offset to payroll tax expenses within selling general and administrative expenses in our consolidated statements of operations upon filing for the refund in the 2021 first quarter. We received the ERC refund in the 2021 fourth quarter.

In June 2020, California enacted tax legislation that approved the suspension of California NOL deductions for tax years 2020, 2021 and 2022. On February 9, 2022, California enacted legislation restoring the NOL deduction for tax years beginning on or after January 1, 2022, which would be effective for our 2023 fiscal year. Although the suspension of California NOL deductions did not have an impact on our income tax expense for the years ended November 30, 2022, 2021 or 2020, it contributed to the year-over-year increase in the amount of taxes we paid in 2022 and 2021.

Deferred Tax Assets, Net. Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities. Significant components of our deferred tax liabilities and assets are as follows (in thousands):

	November 30,	
	2022	2021
Deferred tax liabilities:		
Capitalized expenses	\$ 32,646	\$ 36,660
State taxes	18,698	20,558
Depreciation and amortization	8,628	3,926
Other	416	1,555
Total	<u>60,388</u>	<u>62,699</u>

	November 30,	
	2022	2021
Deferred tax assets:		
Warranty, legal and other accruals	\$ 63,424	\$ 54,826
NOLs from 2006 through 2022	60,680	73,662
Employee benefits	55,382	56,384
Inventory impairment and land option contract abandonment charges	24,871	30,767
Capitalized expenses	24,665	26,849
Partnerships and joint ventures	7,386	8,265
Tax credits	—	4,634
Other	1,948	2,090
Total	<u>238,356</u>	<u>257,477</u>
Valuation allowance	<u>(17,100)</u>	<u>(17,400)</u>
Total	<u>221,256</u>	<u>240,077</u>
Deferred tax assets, net	<u>\$ 160,868</u>	<u>\$ 177,378</u>

Reconciliation of Expected Income Tax Expense. The income tax expense computed at the statutory U.S. federal income tax rate and the income tax expense provided in our consolidated statements of operations differ as follows (dollars in thousands):

	Years Ended November 30,					
	2022		2021		2020	
	\$	%	\$	%	\$	%
Income tax expense computed at statutory rate	\$ (225,121)	(21.0)%	\$ (146,023)	(21.0)%	\$ (76,449)	(21.0)%
Tax credits	22,565	2.1	49,522	7.1	18,734	5.1
Depreciation and amortization	1,444	.2	5,872	.8	9,910	2.7
Valuation allowance for deferred tax assets	300	—	600	.1	1,200	.3
Non-deductible compensation	(7,905)	(0.7)	(9,241)	(1.3)	(4,812)	(1.3)
State taxes, net of federal income tax benefit	(46,139)	(4.3)	(31,378)	(4.5)	(16,395)	(4.4)
Other, net	(544)	(.1)	48	—	12	—
Income tax expense	<u>\$ (255,400)</u>	<u>(23.8)%</u>	<u>\$ (130,600)</u>	<u>(18.8)%</u>	<u>\$ (67,800)</u>	<u>(18.6)%</u>

Deferred Tax Asset Valuation Allowance. We evaluate our deferred tax assets quarterly to determine if adjustments to our valuation allowance are required based on the consideration of all available positive and negative evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results, our expectation of future profitability, the duration of the applicable statutory carryforward periods, and conditions in the housing market and the broader economy. In our evaluation, we give more significant weight to evidence that is objective in nature as compared to subjective evidence. Also, more significant weight is given to evidence that directly relates to our then-current financial performance as compared to indirect or less current evidence. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related deferred tax assets become deductible. The value of our deferred tax assets depends on applicable income tax rates.

Our deferred tax assets of \$178.0 million at November 30, 2022 and \$194.8 million at November 30, 2021 were partially offset in each year by valuation allowances of \$17.1 million and \$17.4 million, respectively. The deferred tax asset valuation allowances at November 30, 2022 and 2021 were primarily related to certain state NOLs that had not met the “more likely than not” realization standard at those dates. As a result of our utilization of certain state NOLs, we reduced the valuation allowance by \$.3 million in 2022. As of November 30, 2022, we would need to generate approximately \$670 million of pretax income in future periods before 2042 to realize our deferred tax assets. Based on the evaluation of our deferred tax assets as of November 30, 2022 and 2021, we determined that most of our deferred tax assets would be realized.

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

The majority of the tax benefits associated with our NOLs can be carried forward for 20 years and applied to offset future taxable income. Depending on their applicable statutory period, the state NOL carryforwards of \$60.7 million, if not utilized, will begin to expire between 2023 and 2042. State NOL carryforwards of \$.1 million, \$.2 million and \$.4 million expired in 2022, 2021 and 2020, respectively.

Unrecognized Tax Benefits. Gross unrecognized tax benefits are the differences between a tax position taken or expected to be taken in a tax return, and the benefit recognized for accounting purposes. A reconciliation of the beginning and ending balances of gross unrecognized tax benefits, including interest and penalties, is as follows (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Balance at beginning of year	\$ 930	\$ —	\$ —
Increase as a result of tax position taken in prior years	45	930	—
Balance at end of year	<u>\$ 975</u>	<u>\$ 930</u>	<u>\$ —</u>

We had unrecognized tax benefits of \$1.0 million as of November 30, 2022 and \$.9 million as of November 30, 2021. Our unrecognized tax benefits are included in accrued expenses and other liabilities in our consolidated balance sheets. We recognize accrued interest and penalties related to unrecognized tax benefits in our consolidated financial statements as a component of the provision for income taxes. As of November 30, 2020, we had no gross unrecognized tax benefits.

If these unrecognized tax benefits reverse in the future, they would have a beneficial impact on our effective tax rate at that time. During the next 12 months, it is possible that the amount of unrecognized tax benefits will change, but we are not able to provide a range of such change. The potential change will be related to increases due to new tax positions taken and the accrual of interest and penalties. Our total accrued interest and penalties related to unrecognized income tax benefits was less than \$.1 million at November 30, 2022 and zero at 2021. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect our annual effective tax rate but would accelerate the payment of cash to a tax authority to an earlier period. The fiscal years ending 2019 and later remain open to federal examinations, while 2018 and later remain open to state examinations.

The benefits of our deferred tax assets, including our NOLs, built-in losses and tax credits would be reduced or potentially eliminated if we experienced an “ownership change” under Section 382. Based on our analysis performed as of November 30, 2022, we do not believe that we have experienced an ownership change as defined by Section 382, and, therefore, the NOLs, built-in losses and tax credits we have generated should not be subject to a Section 382 limitation as of this reporting date.

Note 15. Notes Payable

Notes payable consisted of the following (in thousands):

	November 30,	
	2022	2021
Unsecured revolving credit facility	\$ 150,000	\$ —
Senior unsecured term loan	357,485	—
Mortgages and land contracts due to land sellers and other loans (at an interest rate of 4.5% at November 30, 2022 and 2021)	4,760	5,327
7.50% Senior notes due September 15, 2022	—	349,471
7.625% Senior notes due May 15, 2023	—	350,788
6.875% Senior notes due June 15, 2027	297,595	297,161
4.80% Senior notes due November 15, 2029	297,230	296,905
7.25% Senior notes due July 15, 2030	345,663	—
4.00% Senior notes due June 15, 2031	385,778	385,375
Total	<u>\$ 1,838,511</u>	<u>\$ 1,685,027</u>

The carrying amounts of the Term Loan and senior notes listed above are net of debt issuance costs and premiums, if applicable, which totaled \$16.2 million at November 30, 2022 and \$10.3 million at November 30, 2021.

Unsecured Revolving Credit Facility. On February 18, 2022, we entered into an amendment to our Credit Facility that increased its borrowing capacity from \$800.0 million to \$1.09 billion and extended its maturity from October 7, 2023 to February 18, 2027. The Credit Facility contains an uncommitted accordion feature under which its aggregate principal amount of available loans can be increased to a maximum of \$1.29 billion under certain conditions, including obtaining additional bank commitments. The Credit Facility also contains a sublimit of \$250.0 million for the issuance of letters of credit. Interest on amounts borrowed under the Credit Facility accrues at an adjusted term SOFR rate or a base rate, plus a spread that depends on our Leverage Ratio, as defined under the Credit Facility. Interest is payable quarterly (base rate) or each month or three months (adjusted term SOFR). The Credit Facility also requires the payment of a commitment fee at a per annum rate ranging from .15% to .35% of the unused commitment, based on our Leverage Ratio. Under the terms of the Credit Facility, we are required, among other things, to maintain compliance with various covenants, including financial covenants relating to our consolidated tangible net worth, Leverage Ratio, and either an Interest Coverage Ratio or a minimum level of liquidity, each as defined therein. Our obligations to pay borrowings under the Credit Facility are guaranteed on a joint and several basis by our Guarantor Subsidiaries. The amount of the Credit Facility available for cash borrowings and the issuance of letters of credit depends on the total cash borrowings and letters of credit outstanding under the Credit Facility and the maximum available amount under the terms of the Credit Facility. As of November 30, 2022, we had \$150.0 million cash borrowings and \$6.7 million of letters of credit outstanding under the Credit Facility. Therefore, as of November 30, 2022, we had \$933.3 million available for cash borrowings under the Credit Facility, with up to \$243.3 million of that amount available for the issuance of letters of credit. As of November 30, 2022, the weighted average annual interest rate on our outstanding borrowings under the Credit Facility was 5.1%.

Senior Unsecured Term Loan. On August 25, 2022, we entered into the Term Loan with the lenders party thereto, and on October 3, 2022 obtained an additional lender commitment thereunder, pursuant to which the lenders committed up to \$360.0 million. The Term Loan will mature on August 25, 2026, or earlier if we secure borrowings under the Credit Facility without similarly securing the Term Loan (subject to certain exceptions). Interest under the Term Loan generally will be based on either an adjusted term SOFR or a base rate, plus a spread that depends on our Leverage Ratio. The Term Loan contains various covenants that are substantially the same as those under the Credit Facility. Proceeds drawn under the Term Loan are guaranteed on a joint and several basis by our Guarantor Subsidiaries. As of November 30, 2022, the weighted average annual interest rate on our outstanding borrowings under the Term Loan was 5.6%.

On November 14, 2022, we borrowed \$360.0 million under the Term Loan and, on November 15, 2022, we used the proceeds toward the redemption of our \$350.0 million in aggregate principal amount of 7.625% Senior Notes due 2023 at par.

LOC Facility. We maintain an LOC Facility to obtain letters of credit from time to time in the ordinary course of operating our business. Under the LOC Facility, which expires on February 13, 2025, we may issue up to \$75.0 million of letters of credit. As of November 30, 2022 and 2021, we had letters of credit outstanding under the LOC Facility of \$36.4 million and \$34.6 million, respectively.

Mortgages and Land Contracts Due to Land Sellers and Other Loans. As of November 30, 2022, inventories having a carrying value of \$31.3 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

Shelf Registration. Our 2020 Shelf Registration is filed with the SEC. The 2020 Shelf Registration registers the offering of securities that we may issue from time to time in amounts to be determined. Our ability to issue securities is subject to market conditions.

Senior Notes. All the senior notes outstanding at November 30, 2022 and 2021 represent senior unsecured obligations that are guaranteed by certain of our subsidiaries and rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. All of our senior notes were issued in underwritten public offerings. Interest on each of these senior notes is payable semi-annually.

The key terms of each of our senior notes outstanding as of November 30, 2022 were as follows (dollars in thousands):

Notes Payable	Principal	Issuance Date	Maturity Date	Redeemable Prior to Maturity	Effective Interest Rate
6.875% Senior notes	\$ 300,000	February 20, 2019	June 15, 2027	Yes (a)	7.1 %
4.80% Senior notes	300,000	November 4, 2019	November 15, 2029	Yes (a)	5.0
7.25% Senior notes	350,000	June 22, 2022	July 15, 2030	Yes (b)	7.5
4.00% Senior notes	390,000	June 9, 2021	June 15, 2031	Yes (a)	4.2

(a) At our option, these notes may be redeemed, in whole at any time or from time to time in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (exclusive of interest accrued to the applicable redemption date), discounted to the redemption date at a defined rate, plus, in each case, accrued and unpaid interest on the notes being redeemed to, but excluding, the applicable redemption date, except that six months prior to the stated maturity date for these notes, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest on the notes being redeemed to, but excluding, the applicable redemption date.

(b) At our option, these notes may be redeemed, in whole at any time or in part from time to time prior to July 15, 2025, at a redemption price equal to 100% of the principal amount of the notes being redeemed plus a “make whole” premium, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time or from time to time prior to July 15, 2025, an amount not to exceed the net proceeds of qualified equity offerings may be used at our option to redeem up to 40% of the aggregate principal amount of these notes, at a redemption price equal to 107.250% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date. We may also elect to redeem the notes in whole at any time or in part from time to time, on or after July 15, 2025, at the applicable specified redemption price, including accrued and unpaid interest, if any, to the redemption date.

If a change in control occurs as defined in the instruments governing our senior notes, we would be required to offer to purchase all of our outstanding senior notes at 101% of their principal amount, together with all accrued and unpaid interest, if any.

On June 22, 2022, we completed the underwritten public offering of \$350.0 million in aggregate principal amount of 7.25% Senior Notes due 2030 at 100% of their aggregate principal amount. Net proceeds from this offering totaled \$345.5 million, after deducting the underwriting discount and our expenses relating to the offering. Interest on the 7.25% Senior Notes due 2030 is payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2023. These notes will mature on July 15, 2030.

On July 7, 2022, we used the net proceeds from the issuance of the 7.25% Senior Notes due 2030, together with cash on hand, to retire our then-outstanding \$350.0 million in aggregate principal amount of 7.50% Senior Notes due 2022 before their September 15, 2022 maturity date, by redemption pursuant to the optional redemption terms specified for such notes. We paid \$353.6 million to redeem the notes and recorded a charge of \$3.6 million for the early extinguishment of debt in the 2022 third quarter, primarily due to a make-whole premium paid to redeem these senior notes.

On June 9, 2021, we completed the underwritten public offering of \$390.0 million in aggregate principal amount of 4.00% Senior Notes due 2031 at 100% of their aggregate principal amount. Net proceeds from this offering totaled \$385.2 million, after deducting the underwriting discount and our expenses relating to the offering. Interest on the 4.00% Senior Notes due 2031 is payable semi-annually in arrears on June 15 and December 15, commencing on December 15, 2021. These notes will mature on June 15, 2031.

On June 9, 2021, we used a portion of the net proceeds from the issuance of the 4.00% Senior Notes due 2031 to purchase, pursuant to a tender offer that expired the previous day, \$269.8 million in aggregate principal amount of our then-outstanding \$450.0 million of 7.00% Senior Notes due 2021. We paid \$274.9 million to purchase the notes and recorded a charge of \$5.1 million for the early extinguishment of debt in the 2021 third quarter due to a premium paid under the tender offer and the unamortized original issue discount associated with the notes.

On September 15, 2021, we redeemed the then-remaining \$180.2 million in aggregate principal amount of the 7.00% Senior Notes due 2021 at par value pursuant to their terms.

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

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

Principal payments on our notes payable are due during each year ending November 30 as follows: 2023 — \$3.2 million; 2024 — \$1.0 million; 2025 — \$5.5 million; 2026 — \$360.0 million; 2027 — \$450.0 million; and thereafter — \$1.04 billion. Borrowings under the Credit Facility are reflected as principal payments due in 2027, corresponding to the Credit Facility's maturity date.

Note 16. Fair Value Disclosures

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

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

Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate that their carrying value is not recoverable. The following table presents the fair value hierarchy and our assets measured at fair value on a nonrecurring basis (in thousands):

Description	Fair Value Hierarchy	November 30, 2022			November 30, 2021		
		Pre-Impairment Value	Inventory Impairment Charges	Fair Value (a)	Pre-Impairment Value	Inventory Impairment Charges	Fair Value (a)
Inventories	Level 3	\$ 65,372	\$ (24,077)	\$ 41,295	\$ 27,923	\$ (9,903)	\$ 18,020

(a) Amounts represent the aggregate fair value for real estate assets impacted by inventory impairment charges during the applicable period, as of the date that the fair value measurements were made. The carrying value for these real estate assets

may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

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

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

Description	Fair Value Hierarchy	November 30,			
		2022		2021	
		Carrying Value (a)	Estimated Fair Value	Carrying Value (a)	Estimated Fair Value
Financial Liabilities:					
Senior notes	Level 2	\$ 1,326,266	\$ 1,205,875	\$ 1,679,700	\$ 1,796,500

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

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

Note 17. Commitments and Contingencies

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

Warranty. We provide a limited warranty on all of our homes. The specific terms and conditions of our limited warranty program vary depending upon the markets in which we do business. We generally provide a structural warranty of 10 years, a warranty on electrical, heating, cooling, plumbing and certain other building systems each varying from two to five years based on geographic market and state law, and a warranty of one year for other components of the home. Our limited warranty program is ordinarily how we respond to and account for homeowners' requests to local division offices seeking repairs of certain conditions or defects, including claims where we could have liability under applicable state statutes or tort law for a defective condition in or damages to a home. Our warranty liability covers our costs of repairs associated with homeowner claims made under our limited warranty program. These claims are generally made directly by a homeowner and involve their individual home.

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

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

	Years Ended November 30,		
	2022	2021	2020
Balance at beginning of year	\$ 96,153	\$ 91,646	\$ 88,839
Warranties issued	39,476	34,627	29,505
Payments	(33,739)	(26,120)	(23,098)
Adjustments	—	(4,000)	(3,600)
Balance at end of year	<u>\$ 101,890</u>	<u>\$ 96,153</u>	<u>\$ 91,646</u>

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

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

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

- Construction defect: Construction defect claims, which represent the largest component of our self-insurance liability, typically originate through a legal or regulatory process rather than directly by a homeowner and involve the alleged occurrence of a condition affecting two or more homes within the same community, or they involve a common area or homeowners' association property within a community. These claims typically involve higher costs to resolve than individual homeowner warranty claims, and the rate of claims is highly variable.
- Bodily injury: Bodily injury claims typically involve individuals (other than our employees) who claim they were injured while on our property or as a result of our operations.
- Property damage: Property damage claims generally involve claims by third parties for alleged damage to real or personal property as a result of our operations. Such claims may occasionally include those made against us by owners of property located near our communities.

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

Our self-insurance liability is presented on a gross basis for all years without consideration of insurance recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimated probable insurance and other recoveries of \$32.7 million and \$57.8 million are included in receivables in our consolidated balance sheets at November 30, 2022 and 2021, respectively. These self-insurance recoveries are principally based on actuarially determined amounts and depend on various factors, including, among other things, the above-described claim cost estimates, our insurance policy coverage limits for the applicable policy year(s), historical third-party recovery rates, insurance industry practices, the regulatory environment and legal precedent, and are subject to a high degree of variability from year to year. Because of the inherent uncertainty and variability in these assumptions, our actual insurance recoveries could differ significantly from amounts currently estimated.

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

	Years Ended November 30,		
	2022	2021	2020
Balance at beginning of year	\$ 189,131	\$ 194,180	\$ 177,765
Self-insurance provided	21,926	19,665	15,399
Payments	(21,984)	(29,369)	(4,375)
Adjustments (a)	(13,096)	4,655	5,391
Balance at end of year	<u>\$ 175,977</u>	<u>\$ 189,131</u>	<u>\$ 194,180</u>

(a) Represents net changes in estimated probable recoveries related to self-insurance, which are recorded in receivables, to present our self-insurance liability on a gross basis; an adjustment to increase our previously recorded liability by \$7.0 million in 2022 and \$6.8 million in 2021; and an adjustment to reduce our previously recorded liability by \$4.0 million in 2020. The 2022 amount primarily reflected a change in the actuarially determined estimate of probable recoveries largely associated with higher self-insured retention levels in our more recent coverage years, and an insurance carrier's payment of a portion of a townhome claim settlement reached in the 2022 first quarter.

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

The payments we make in connection with claims and related repair work, whether covered within our warranty liability and/or our self-insurance liability, may be recovered from our insurers to the extent such payments exceed the self-insured retentions or deductibles under our general liability insurance policies. Also, in certain instances, in the course of resolving a claim, we pay amounts in advance of and/or on behalf of an independent contractor(s) or their insurer(s) and believe we will be reimbursed for such payments. Estimates of all such amounts, if any, are recorded as receivables in our consolidated balance sheets when any such recovery is considered probable.

Florida Chapter 558 Actions. We and certain of our trade partners continue to receive claims from attorneys on behalf of individual owners of our homes and/or homeowners' associations that allege, pursuant to Chapter 558 of the Florida Statutes, various construction defects, with most relating to stucco and water-intrusion issues. The claims primarily involve homes in our Jacksonville, Orlando, and Tampa operations. Under Chapter 558, homeowners must serve written notice of a construction defect(s) and provide the served construction and/or design contractor(s) with an opportunity to respond to the noticed issue(s) before they can file a lawsuit. Although we have resolved many of these claims without litigation, and a number of others have been resolved with applicable trade partners or their insurers covering the related costs, as of November 30, 2022, we had approximately 531 outstanding noticed claims, and some are scheduled for trial over the next few quarters and beyond. In addition, some of our trade partners' insurers in some of these cases have informed us of their inability to continue to pay claims-related costs. At November 30, 2022, we had an accrual for our estimated probable loss for these matters and a receivable for estimated probable insurance recoveries. While it is reasonably possible that our loss could exceed the amount accrued and our recoveries could be less than the amount recorded, at this time, we are unable to estimate the total amount of the loss in excess of the accrued amount and/or associated with a shortfall in the recoveries that is reasonably possible. In addition, although we believe it is probable we will receive additional claims in future periods, we are unable to reasonably estimate the number of such claims or the amount or range of any potential losses associated with such claims as each of these

is dependent on several factors, including the actions of third parties over which we have no control; the nature of any specific claims; and our evaluation of the particular facts surrounding each such claim.

Performance Bonds and Letters of Credit. We are often required to provide to various municipalities and other government agencies performance bonds and/or letters of credit to secure the completion of our projects and/or in support of obligations to build community improvements such as roads, sewers, water systems and other utilities, and to support similar development activities by certain of our unconsolidated joint ventures. At November 30, 2022, we had \$1.27 billion of performance bonds and \$43.0 million of letters of credit outstanding. At November 30, 2021, we had \$1.11 billion of performance bonds and \$43.2 million of letters of credit outstanding. If any such performance bonds or letters of credit are called, we would be obligated to reimburse the issuer of the performance bond or letter of credit. We do not believe that a material amount of any currently outstanding performance bonds or letters of credit will be called. Performance bonds do not have stated expiration dates. Rather, we are released from the performance bonds as the underlying performance is completed. The expiration dates of some letters of credit issued in connection with community improvements coincide with the expected completion dates of the related projects or obligations. Most letters of credit, however, are issued with an initial term of one year and are typically extended on a year-to-year basis until the related performance obligations are completed.

Land Option Contracts and Other Similar Contracts. In the ordinary course of business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. At November 30, 2022, we had total cash deposits of \$51.9 million to purchase land having an aggregate purchase price of \$1.16 billion. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

Note 18. Legal Matters

We are involved in litigation and regulatory proceedings incidental to our business that are in various procedural stages. We believe the accruals we have recorded for probable and reasonably estimable losses with respect to these proceedings are adequate and that, as of November 30, 2022, it was not reasonably possible that an additional material loss had been incurred in an amount in excess of the estimated amounts already recognized or disclosed in our consolidated financial statements. We evaluate our accruals for litigation and regulatory proceedings at least quarterly and, as appropriate, adjust them to reflect (a) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings and other relevant events and developments; (b) the advice and analyses of counsel; and (c) the assumptions and judgment of management. Similar factors and considerations are used in establishing new accruals for proceedings as to which losses have become probable and reasonably estimable at the time an evaluation is made. Our accruals for litigation and regulatory proceedings are presented on a gross basis without consideration of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any. Estimates of recoveries and amounts we have paid on behalf of and expect to recover from other parties, if any, are recorded as receivables when such recoveries are considered probable. Based on our experience, we believe the amounts that may be claimed or alleged against us in these proceedings are not a meaningful indicator of our potential liability. The outcome of any of these proceedings, including the defense and other litigation-related costs and expenses we may incur, however, is inherently uncertain and could differ significantly from the estimate reflected in a related accrual, if made. Therefore, it is possible that the ultimate outcome of any proceeding, if in excess of a related accrual or if an accrual had not been made, could be material to our consolidated financial statements. Pursuant to SEC rules, we will disclose any proceeding in which a governmental authority is a party and that arises under any federal, state or local provisions enacted or adopted regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment only where we believe that such proceeding will result in monetary sanctions on us, exclusive of interest and costs, above \$1.0 million or is otherwise material to our consolidated financial statements.

Note 19. Stockholders' Equity

Preferred Stock. To help protect the benefits of our NOLs and other deferred tax assets from an ownership change under Section 382, on January 22, 2009, we adopted a rights agreement and declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock.

Subject to the terms, provisions and conditions of the rights agreement, if the rights become exercisable, each right would initially represent the right to purchase from us 1/100th of a share of our Series A Participating Cumulative Preferred Stock for a purchase price of \$85.00 ("Purchase Price"). If issued, each fractional share of preferred stock would generally give a stockholder approximately the same dividend, voting and liquidation rights as does one share of our common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder, including without limitation any dividend, voting or liquidation rights. The rights will not be exercisable until the earlier of (a) 10 calendar days after a public announcement by us that a person or group has become an Acquiring Person (as defined under the rights agreement) and (b) 10 business days after the commencement of a tender or exchange offer by a person or group if upon consummation of the offer the person or group would beneficially own 4.9% or more of our outstanding common stock.

Until these rights become exercisable (“Distribution Date”), common stock certificates and/or book-entry shares will evidence the rights and may contain a notation to that effect. Any transfer of shares of our common stock prior to the Distribution Date will constitute a transfer of the associated rights. After the Distribution Date, the rights may be transferred other than in connection with the transfer of the underlying shares of our common stock. If there is an Acquiring Person on the Distribution Date or a person or group becomes an Acquiring Person after the Distribution Date, each holder of a right, other than rights that are or were beneficially owned by an Acquiring Person, which will be void, will thereafter have the right to receive upon exercise of a right and payment of the Purchase Price, that number of shares of our common stock having a market value of two times the Purchase Price. After the later of the Distribution Date and the time we publicly announce that an Acquiring Person has become such, our board of directors may exchange the rights, other than rights that are or were beneficially owned by an Acquiring Person, which will be void, in whole or in part, at an exchange ratio of one share of common stock per right, subject to adjustment.

At any time prior to the later of the Distribution Date and the time we publicly announce that an Acquiring Person becomes such, our board of directors may redeem all the then-outstanding rights in whole, but not in part, at a price of \$.001 per right, subject to adjustment (“Redemption Price”). The redemption will be effective immediately upon the board of directors’ action, unless the action provides that such redemption will be effective at a subsequent time or upon the occurrence or nonoccurrence of one or more specified events, in which case the redemption will be effective in accordance with the provisions of the action. Immediately upon the effectiveness of the redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the Redemption Price, with interest thereon. Per the rights agreement, as amended, the rights issued thereunder will expire on the earliest of (a) the close of business on April 30, 2024, (b) the time at which the rights are redeemed, (c) the time at which the rights are exchanged, (d) the time at which our board of directors determines that a related provision in our Restated Certificate of Incorporation is no longer necessary, and (e) the close of business on the first day of a taxable year of ours to which our board of directors determines that no tax benefits may be carried forward.

Common Stock. On July 8, 2021, our board of directors authorized us to repurchase up to 5,000,000 shares of our outstanding common stock. This authorization reaffirmed and incorporated the then-current balance of 2,193,947 shares that remained under a prior board-approved share repurchase program. In 2021, we repurchased 4,668,600 shares of our common stock on the open market pursuant to this authorization at a total cost of \$188.2 million.

On April 7, 2022, our board of directors authorized us to repurchase up to \$300.0 million of our outstanding common stock. This authorization replaced the prior board of directors authorization, which had 331,400 shares remaining for repurchase. In 2022, we repurchased 4,927,499 shares of our common stock on the open market pursuant to this authorization at a total cost of \$150.0 million. Repurchases under the new authorization may occur periodically through open market purchases, privately negotiated transactions or otherwise, with the timing and amount at management’s discretion and dependent on market, business and other conditions. This share repurchase authorization will continue in effect until fully used or earlier terminated or suspended by our board of directors, and does not obligate us to purchase any shares. As of November 30, 2022, we were authorized to repurchase up to \$150.0 million of our outstanding common stock.

On April 7, 2022, our board of directors also terminated a separate stock repurchase authorization it made in 2014 for the repurchase of not more than 680,000 shares of our outstanding common stock, solely as necessary for director elections in respect of Director Plan SARs. As the remaining outstanding Director Plan SARs expired in April 2022, this stock repurchase authorization was no longer needed.

Our board of directors declared four quarterly cash dividends of \$.15 per share of common stock in 2022 and 2021. In 2020, our board of directors declared quarterly cash dividends of \$.09 per share of common stock in the first, second and third quarters. In the 2020 fourth quarter, our board of directors approved an increase in the quarterly cash dividend on our common stock to \$.15 per share and declared a quarterly cash dividend at the new higher rate. All dividends declared during 2022, 2021 and 2020 were also paid during those years.

Treasury Stock. In addition to the shares purchased in 2022 and 2021 pursuant to our share repurchase program, we acquired \$15.9 million, \$12.3 million and \$9.5 million of our common stock in 2022, 2021 and 2020, respectively. A portion of the common stock acquired in 2022 and 2021 and all the common stock acquired in 2020 consisted of previously issued shares delivered to us by employees to satisfy their withholding tax obligations on the vesting of PSUs and restricted stock awards or of forfeitures of previous restricted stock awards. Treasury stock is recorded at cost. Differences between the cost of treasury stock and the reissuance proceeds are recorded to paid-in capital. These transactions are not considered repurchases under the share repurchase program described above. During 2020, we retired 23,487,966 shares of our treasury stock. Upon the retirement of the treasury stock, we deducted the par value from common stock and reflected the excess of cost over par value as a reduction to retained earnings.

Note 20. Accumulated Other Comprehensive Loss

The following table presents the changes in the balances of each component of accumulated other comprehensive loss (in thousands):

	Total Accumulated Other Comprehensive Loss
Postretirement Benefit Plan Adjustments	
Balance at November 30, 2020	\$ (22,276)
Other comprehensive income before reclassifications	2,664
Amounts reclassified from accumulated other comprehensive loss	1,661
Income tax expense related to items of other comprehensive income	(1,168)
Other comprehensive income, net of tax	<u>3,157</u>
Balance at November 30, 2021	(19,119)
Other comprehensive income before reclassifications	17,463
Amounts reclassified from accumulated other comprehensive loss	1,090
Income tax expense related to items of other comprehensive income	(5,009)
Other comprehensive income, net of tax	<u>13,544</u>
Balance at November 30, 2022	<u>\$ (5,575)</u>

The amounts reclassified from accumulated other comprehensive loss consisted of the following (in thousands):

Details About Accumulated Other Comprehensive Loss Components	Years Ended November 30,		
	2022	2021	2020
Postretirement benefit plan adjustments			
Amortization of net actuarial loss	\$ 1,090	\$ 1,575	\$ 963
Amortization of prior service cost	—	86	425
Total reclassifications (a)	<u>\$ 1,090</u>	<u>\$ 1,661</u>	<u>\$ 1,388</u>

- (a) The accumulated other comprehensive loss components are included in the computation of net periodic benefit costs as further discussed in Note 22 – Postretirement Benefits.

There is no estimated prior service cost expected to be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2023.

Note 21. Employee Benefit and Stock Plans

Most of our employees are eligible to participate in the KB Home 401(k) Savings Plan (“401(k) Plan”) under which we partially match employee contributions. The aggregate cost of the 401(k) Plan to us was \$8.2 million in 2022, \$7.2 million in 2021 and \$6.5 million in 2020. The assets of the 401(k) Plan are held by a third-party trustee. The 401(k) Plan participants may direct the investment of their funds among one or more of the several fund options offered by the 401(k) Plan. As of November 30, 2022, 2021 and 2020, approximately 3%, 4% and 4%, respectively, of the 401(k) Plan’s net assets at each period were invested in our common stock.

Equity Incentive Plan. We maintain one active equity incentive plan with an authorized aggregate issuance of 12,300,000 shares, plus shares available for grant under a prior equity incentive plan, and shares subject to outstanding awards under the prior equity incentive plan that subsequently expire or are canceled, forfeited, tendered or withheld to satisfy tax withholding obligations with respect to full value awards, or settled for cash. In addition, if an award made under our active equity incentive plan subsequently expires or is canceled, forfeited or settled for cash, then any shares associated with such award may, to the extent of such expiration, cancellation, forfeiture or cash settlement, be used again for new grants under the plan, and shares tendered or withheld to satisfy tax withholding obligations with respect to a full value award may be used again for new grants under the plan. Under our active equity incentive plan, grants of stock options and other similar awards reduce the plan’s share

capacity on a 1-for-1 basis, and grants of restricted stock and other similar “full value” awards reduce the share capacity on a 1.78-for-1 basis. Any shares that again become available for grant will be added back to the equity incentive plan’s available grant capacity in the same manner in which they were initially deducted (*i.e.*, 1-for-1 or 1.78-for-1). The plan provides that stock options and stock appreciation rights may be awarded for periods of up to 10 years. It also enables us to grant cash bonuses and other stock-based awards.

Stock-Based Compensation. With the approval of the management development and compensation committee, consisting entirely of independent members of our board of directors, we have provided compensation benefits to certain of our employees in the form of stock options, restricted stock and PSUs. Certain stock-based compensation benefits are also provided to our non-employee directors pursuant to the Director Plan. Compensation expense related to equity-based awards is included in selling, general and administrative expenses in our consolidated statements of operations.

The following table presents our stock-based compensation expense (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Restricted stock	\$ 8,743	\$ 7,139	\$ 6,993
PSUs	18,757	19,512	13,069
Director awards	1,964	2,253	1,469
Total	\$ 29,464	\$ 28,904	\$ 21,531

Stock Options. Stock option transactions are summarized as follows:

	Years Ended November 30,					
	2022		2021		2020	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	1,674,393	\$ 15.56	2,462,714	\$ 15.32	4,163,481	\$ 13.00
Granted	—	—	—	—	—	—
Exercised	—	—	(788,321)	14.83	(1,694,767)	9.52
Cancelled	—	—	—	—	(6,000)	45.16
Options outstanding at end of year	1,674,393	\$ 15.56	1,674,393	\$ 15.56	2,462,714	\$ 15.32
Options exercisable at end of year	1,674,393	\$ 15.56	1,674,393	\$ 15.56	2,462,714	\$ 15.32
Options available for grant at end of year	3,260,585		4,096,427		4,888,526	

There were no stock options granted in 2022, 2021 or 2020. We have not granted any stock option awards since 2016. There were no stock options exercised in 2022. The total intrinsic value of stock options exercised was \$22.1 million in 2021 and \$48.2 million in 2020. The aggregate intrinsic value of stock options outstanding was \$26.5 million, \$40.9 million and \$48.9 million at November 30, 2022, 2021 and 2020, respectively. The aggregate intrinsic value of stock options exercisable was \$26.5 million at November 30, 2022, \$40.9 million at November 30, 2021, and \$48.9 million at November 30, 2020. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the price of the option.

Stock options outstanding and stock options exercisable at November 30, 2022 are summarized as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$6.32 to \$14.62	201,517	\$ 14.62	1.9	201,517	\$ 14.62	
\$14.63 to \$14.92	663,000	14.92	2.9	663,000	14.92	
\$14.93 to \$16.21	611,876	16.21	3.8	611,876	16.21	
\$16.22 to \$16.63	198,000	16.63	0.9	198,000	16.63	
\$6.32 to \$16.63	1,674,393	\$ 15.56	2.9	1,674,393	\$ 15.56	2.9

At November 30, 2022, there was no unrecognized stock-based compensation expense related to stock option awards as all these awards were fully vested.

Restricted Stock. From time to time, we grant restricted stock to various employees as a compensation benefit. During the restriction periods, these employees are entitled to vote and to receive cash dividends on such shares. The restrictions imposed with respect to the shares granted lapse in installments within, or in full at the end of, three years after their grant date if certain conditions are met.

Restricted stock transactions are summarized as follows:

	Years Ended November 30,					
	2022		2021		2020	
	Shares	Weighted Average per Share Grant Date Fair Value	Shares	Weighted Average per Share Grant Date Fair Value	Shares	Weighted Average per Share Grant Date Fair Value
Outstanding at beginning of year	431,191	\$ 19.22	423,215	\$ 19.56	500,066	\$ 20.66
Granted	347,131	27.49	286,709	40.55	265,187	35.57
Vested	(192,840)	29.09	(265,131)	42.04	(304,095)	34.25
Cancelled	(41,596)	38.58	(13,602)	34.43	(37,943)	28.18
Outstanding at end of year	543,886	\$ 19.50	431,191	\$ 19.22	423,215	\$ 19.56

As of November 30, 2022, we had \$15.8 million of total unrecognized compensation cost related to restricted stock awards that will be recognized over a weighted average period of approximately three years.

Performance-Based Restricted Stock Units. On November 14, 2022, we granted PSUs to certain employees. Each PSU grant corresponds to a target amount of our common stock (“Award Shares”). Each PSU entitles the recipient to receive a grant of between 0% and 200% of the recipient’s Award Shares, and will vest based on our achieving, over a three-year period commencing on December 1, 2022 and ending on November 30, 2025, specified levels of (a) cumulative adjusted earnings per share; (b) average adjusted return on invested capital; and (c) revenue growth performance relative to a peer group of high-production public homebuilding companies. The grant date fair value of each such PSU was \$30.12. On October 7, 2021, we granted PSUs to certain employees with similar terms as the 2022 PSU grants, except that the applicable performance period commenced on December 1, 2021 and ends on November 30, 2024. The grant date fair value of each such PSU was \$39.31. On October 8, 2020, we granted PSUs to certain employees with similar terms as the 2022 PSU grants, except that the applicable performance period commenced on December 1, 2020 and ends on November 30, 2023. The grant date fair value of each such PSU was \$40.06.

PSU transactions are summarized as follows:

	Years Ended November 30,					
	2022		2021		2020	
	Shares	Weighted Average per Share Grant Date Fair Value	Shares	Weighted Average per Share Grant Date Fair Value	Shares	Weighted Average per Share Grant Date Fair Value
Outstanding at beginning of year	1,392,864	\$ 23.48	1,346,870	\$ 23.25	1,262,664	\$ 22.13
Granted	650,077	33.34	465,064	39.67	397,452	40.05
Vested	(674,677)	38.00	(419,070)	40.70	(313,246)	40.04
Cancelled	(95,107)	38.55	—	—	—	—
Outstanding at end of year	1,273,157	\$ 19.70	1,392,864	\$ 23.48	1,346,870	\$ 23.25

The number of shares of our common stock actually granted to a recipient, if any, when a PSU vests will depend on the degree of achievement of the applicable performance measures during the applicable three-year period. The shares of our common stock that were granted under the terms of PSUs that vested in 2022 included an aggregate of 265,782 additional shares above the target amount awarded to the eligible recipients based on our achievement of certain levels of the three above-described metrics over the three-year period from December 1, 2018 through November 30, 2021. The shares of our common stock that were granted under the terms of PSUs that vested in 2021 included an aggregate of 119,733 additional shares above the target amount awarded to the eligible recipients based on our achievement of certain levels of the three above-described metrics over the three-year period from December 1, 2017 through November 30, 2020. The shares of our common stock that were granted under the terms of PSUs that vested in 2020 included an aggregate of 108,511 additional shares above the target amount awarded to the eligible recipients based on our achievement of certain levels of the three above-described metrics over the three-year period from December 1, 2016 through November 30, 2019. The PSUs do not have dividend or voting rights during the performance period. Compensation cost for PSUs is initially estimated based on target performance achievement and adjusted as appropriate throughout the performance period. Accordingly, future compensation costs associated with outstanding PSUs may increase or decrease based on the probability and extent of achievement with respect to the applicable performance measures. At November 30, 2022, we had \$37.7 million of total unrecognized compensation cost related to unvested PSUs, which is expected to be recognized over a weighted-average period of approximately three years.

Director Awards. We have granted Director Plan SARs and deferred common stock awards to our non-employee directors pursuant to the terms of the Director Plan and elections made by each director. All these awards were fully vested as of November 30, 2016. Director Plan SARs, which have not been granted since April 2014 as they ceased being a component of non-employee director compensation after that date, were stock settled, had terms of up to 15 years and were granted at an exercise price equal to the closing price of our common stock on the date of grant. There were no remaining Director Plan SARs outstanding at November 30, 2022. At November 30, 2021 and 2020, the aggregate outstanding Director Plan SARs were 70,849 and 155,569, respectively. At November 30, 2022, 2021 and 2020, the aggregate outstanding deferred common stock awards granted under the Director Plan were 409,648, 469,171 and 548,952, respectively. In addition, we have granted common stock on an unrestricted basis to our non-employee directors on the grant date pursuant to the Director Plan and elections made by each director.

Grantor Stock Ownership Trust. We have a grantor stock ownership trust (“Trust”), administered by a third-party trustee, that holds and distributes the shares of common stock acquired to support certain employee compensation and employee benefit obligations under our existing stock option plan, the 401(k) Plan and other employee benefit plans. The existence of the Trust does not impact the amount of benefits or compensation that is paid under these plans.

For financial reporting purposes, the Trust is consolidated with us, and therefore any dividend transactions between us and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price on the date of purchase and are shown as a reduction to stockholders’ equity in the consolidated balance sheets. The difference between the Trust share value and the market value on the date shares are released from the Trust is included in paid-in capital. Common stock held in the Trust is not considered outstanding in the computations of earnings per share. The Trust held 6,705,247 shares of common stock at both November 30, 2022 and 2021. 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 22. Postretirement Benefits

We have a supplemental non-qualified, unfunded retirement plan, the KB Home Retirement Plan (“Retirement Plan”), effective as of July 11, 2002, pursuant to which we have offered to pay supplemental pension benefits to certain designated individuals (consisting of current and former employees) in connection with their retirement. The Retirement Plan was closed to new participants in 2004. We also have an unfunded death benefit plan, the KB Home Death Benefit Only Plan (“DBO Plan”), implemented on November 1, 2001, for certain designated individuals (consisting of current and former employees). The DBO Plan was closed to new participants in 2006.

In connection with these plans and two other minor benefit programs, we have purchased cost recovery life insurance contracts on the lives of the designated individuals. The insurance contracts associated with the Retirement Plan and DBO Plan are held by a trust. The trust is the owner and beneficiary of such insurance contracts. The amount of the insurance coverage under the contracts is designed to provide sufficient funds to cover all costs of the plans if assumptions made as to employment term, mortality experience, policy earnings and other factors, as applicable, are realized. The cash surrender value of the Retirement Plan life insurance contracts was \$35.3 million at November 30, 2022 and \$40.5 million at November 30, 2021. We recognized investment losses on the cash surrender value of the Retirement Plan life insurance contracts of \$3.1 million and \$1.1 million in 2022 and 2021, and an investment gain of \$.7 million in 2020. In 2022, 2021 and 2020, we paid \$2.0 million, \$1.9 million and \$1.9 million, respectively, in benefits under the Retirement Plan to eligible former employees. The cash surrender value of the DBO Plan life insurance contracts was \$16.8 million at November 30, 2022 and \$18.5 million at November 30, 2021. We recognized investment losses on the cash surrender value of the DBO Plan life insurance contracts of \$1.5 million in 2022 and \$.3 million in 2021, and an investment gain of \$.3 million in 2020. In 2022, we paid \$.7 million in benefits under the DBO Plan. We did not pay out any benefits under the DBO Plan in 2021 or 2020.

The net periodic benefit cost of our Retirement Plan and DBO Plan is included in selling, general and administrative expenses in our consolidated statements of operations and consisted of the following (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Interest cost	\$ 1,853	\$ 1,593	\$ 1,950
Amortization of prior service cost	—	85	425
Service cost	1,132	1,152	1,077
Amortization of net actuarial loss	998	1,443	912
Total	\$ 3,983	\$ 4,273	\$ 4,364

The liabilities related to these plans were \$61.4 million at November 30, 2022 and \$76.3 million at November 30, 2021, and are included in accrued expenses and other liabilities in the consolidated balance sheets. For the years ended November 30, 2022 and 2021, the discount rates we used for the plans were 4.8% and 2.3%, respectively.

Benefit payments under our Retirement Plan and DBO Plan are expected to be paid during each year ending November 30 as follows: 2023 — \$3.0 million; 2024 — \$3.1 million; 2025 — \$3.5 million; 2026 — \$4.6 million; 2027 — \$4.6 million; and for the five years ended November 30, 2032 — \$24.4 million in the aggregate.

Note 23. Supplemental Disclosure to Consolidated Statements of Cash Flows

The following are supplemental disclosures to the consolidated statements of cash flows (in thousands):

	Years Ended November 30,		
	2022	2021	2020
Summary of cash and cash equivalents at the end of the year:			
Homebuilding	\$ 328,517	\$ 290,764	\$ 681,190
Financial services	1,681	1,372	1,339
Total	\$ 330,198	\$ 292,136	\$ 682,529

	Years Ended November 30,		
	2022	2021	2020
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	\$ (5,435)	\$ 7,087	\$ 866
Income taxes paid	248,976	68,274	17,253
Income taxes refunded	452	39,450	44,336
Supplemental disclosure of non-cash activities:			
Increase in inventories due to distributions of land and land development from an unconsolidated joint venture	13,524	9,766	9,350
Increase (decrease) in consolidated inventories not owned	(21,433)	7,071	7,254
Inventories acquired through seller financing	—	2,910	21,712
Reclassification of federal tax refund from deferred tax assets to receivables	—	—	82,617
Increase in operating lease right-of-use assets and lease liabilities due to adoption of ASC 842	—	—	31,199

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of KB Home:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of KB Home (the Company) as of November 30, 2022 and 2021, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at November 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of November 30, 2022, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 20, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Self-insurance Liabilities and Recoveries

Description of the Matter

At November 30, 2022, the Company's self-insurance liability was \$176.0 million, and receivables for estimated probable insurance and other recoveries related to self-insurance claims totaled \$32.7 million. As disclosed in Note 17 to the consolidated financial statements, the Company's self-insurance liability for construction defects is based on an analysis prepared by a third-party actuary that uses historical claim and expense data as well as industry data to estimate the cost of all unpaid losses, including estimates related to claims incurred but not yet reported. Key assumptions used in developing these estimates include claim frequencies, severities and resolution patterns, which can occur over an extended period of time. Self-insurance recoveries are principally based on actuarially determined amounts and consider the claim cost estimates described above, applicable insurance policy coverage limits, historical recovery rates, and other factors.

Auditing the Company's self-insurance liability and related recoveries is complex and highly judgmental due to the complexity of the actuarial methods used to estimate the losses and related recoveries and degree of subjective judgment required to assess the underlying assumptions, which required us to involve our actuarial specialists. These estimates are subject to variability due to the length of time between the delivery of a home to a homebuyer and when a construction defect claim is made and ultimately resolved; uncertainties regarding such claims relative to the markets and types of products built; and legal or regulatory actions and interpretations, among other factors.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's self-insurance liability and recoveries estimation process including controls over the data and assumptions used in the analysis.

To test the Company's self-insurance liability and related recoveries, our audit procedures included, among others, testing the completeness and accuracy of the underlying claims and recovery data utilized by the Company's third-party actuary, testing the existence and terms of third-party insurance policies, and involving our actuarial specialist to assist in our evaluation of the methodologies and assumptions applied by management's third-party actuary. Additionally, we compared the Company's recorded self-insurance liability and related recoveries to estimated ranges which our actuarial specialist developed based on independently selected assumptions.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1991.

Los Angeles, California
January 20, 2023

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (“Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and accumulated and communicated to management, including our Chief Executive Officer (“Principal Executive Officer”) and Chief Financial Officer (“Principal Financial Officer”), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of November 30, 2022.

Internal Control Over Financial Reporting

(a) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Our management recognizes that there are inherent limitations in the effectiveness of any internal control and that effective internal control over financial reporting may not prevent or detect misstatements. In addition, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the *Internal Control — Integrated Framework (2013)* established by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of November 30, 2022.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report, has issued its report on the effectiveness of our internal control over financial reporting as of November 30, 2022, which is presented below.

(b) Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of KB Home:

Opinion on Internal Control Over Financial Reporting

We have audited KB Home’s internal control over financial reporting as of November 30, 2022, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, KB Home (the Company) maintained, in all material respects, effective internal control over financial reporting as of November 30, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2022 consolidated financial statements of the Company and our report dated January 20, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Los Angeles, California
January 20, 2023

(c) Changes in Internal Control Over Financial Reporting

As discussed above under Item 1A. Risk Factors in this report, we have invested significant resources over the past few years to develop and implement a new custom ERP system designed to improve the efficiency of our internal operational and administrative activities. While the new ERP system has become an increasing component of our business as more of our operating divisions transition to it, the related internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Accordingly, we continue to rely upon a combination of our existing and new ERP systems for financial statement reporting purposes. Other than the new ERP system implementation, there have been no changes in our internal control over financial reporting during the quarter ended November 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

On January 19, 2023, our board of directors approved an amendment and restatement of the By-Laws ("Amended and Restated By-Laws"), effective as of such date. The amendments set forth in the Amended and Restated By-Laws (i) made certain changes and clarifications to the requirements for nominating directors and soliciting proxies, including, without limitation, related to compliance with recently adopted Rule 14a-19 under the Exchange Act, (ii) made certain conforming changes to reflect recent amendments to the Delaware General Corporation Law ("DGCL") relating to stockholder meeting adjournment procedures and the availability of stockholder lists, and (iii) updated the existing forum selection bylaw to provide that a federal district court of the United States of America shall be the exclusive forum for the resolution of claims under the Securities Act of 1933, as amended, and made applicable conforming changes. The foregoing summary of the amendments effected by the Amended and Restated By-Laws does not purport to be complete and is qualified in its entirety by reference to the complete text of the Amended and Restated By-Laws, which are filed as Exhibit 3.2 hereto and are incorporated herein by reference.

In addition on January 19, 2023, our board of directors ratified the prior approval of the 2016 amendment to our equity incentive plan and the extensions of our rights agreement in 2018 and 2021. Following the original approval by our board of directors, the amendment and extensions were submitted to a vote of stockholders at annual meetings for which the record date was set 62 days before the annual meeting, which may not have been fixed in accordance with the DGCL and the Company's

By-Laws, raising a question about the validity of the votes taken at such meetings. A copy of the resolutions adopted by our board of directors approving the ratification is set forth in Exhibit 99.1 to this annual report. Any claim that defective corporate acts or putative stock ratified by the resolutions is void or voidable due to the failure of authorization or that the Delaware Court of Chancery should declare in its discretion that the ratification in accordance with Section 204 of the DGCL not be effective or be effective only on certain conditions must be brought within 120 days from the giving of this notice (which is deemed to be given on the date that this annual report is filed with the SEC).

Also on January 19, 2023, our board of directors approved and confirmed Dr. Stuart Gabriel's election and appointment to the board and the audit and compliance committee as of such date, because Dr. Gabriel first stood for election to our board of directors at the 2016 annual meeting. Dr. Gabriel participates in the same compensation program as our other independent directors.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information for this item for executive officers is provided above in the Executive Officers of the Registrant section in this report. Except as stated below, the other information for this item will be provided to the extent applicable in the "Corporate Governance and Board Matters," "Election of Directors," "Ownership of KB Home Securities" and "Annual Meeting, Voting and Other Information" sections in our 2023 Proxy Statement and is incorporated herein by this reference.

Ethics Policy

We have adopted an ethics policy for our directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees. The ethics policy is available on our investor relations website at investor.kbhome.com. Stockholders may request a free copy of the ethics policy from:

KB Home
Attention: Investor Relations
10990 Wilshire Boulevard
Los Angeles, California 90024
(310) 231-4000
investorrelations@kbhome.com

Within the time period required by the SEC and the New York Stock Exchange, we will post on our investor relations website any amendment to our ethics policy and any waiver applicable to our principal executive officer, principal financial officer or principal accounting officer, or persons performing similar functions, and our other executive officers or directors.

Corporate Governance Principles

We have adopted corporate governance principles, which are available on our investor relations website. Stockholders may request a free copy of the corporate governance principles from the address, phone number and e-mail address stated above under "Ethics Policy."

Item 11. EXECUTIVE COMPENSATION

The information for this item will be provided in the "Corporate Governance and Board Matters" and "Compensation Discussion and Analysis" sections in our 2023 Proxy Statement and is incorporated herein by this reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information for this item will be provided in the "Ownership of KB Home Securities" and "Approve the Amended and Restated KB Home 2014 Equity Incentive Plan" sections in our 2023 Proxy Statement and is incorporated herein by this reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information for this item will be provided in the "Corporate Governance and Board Matters" section in our 2023 Proxy Statement and is incorporated herein by this reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information for this item will be provided in the “Independent Auditor Fees and Services” section in our 2023 Proxy Statement and is incorporated herein by this reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

Reference is made to the index set forth on page 56 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are not applicable or the required information is provided in the consolidated financial statements or notes thereto.

3. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	<u>Restated Certificate of Incorporation, as amended, filed as an exhibit to our Current Report on Form 8-K dated April 7, 2009 (File No. 001-09195), is incorporated by reference herein.</u>
3.2†	<u>Amended and Restated By-Laws of KB Home, as amended.</u>
4.1	<u>Indenture relating to our Senior Notes among us, the Guarantors party thereto and Sun Trust Bank, Atlanta, dated January 28, 2004, filed as an exhibit to our Registration Statement No. 333-114761 on Form S-4, is incorporated by reference herein.</u>
4.2	<u>Fifth Supplemental Indenture, dated August 17, 2007, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated August 22, 2007 (File No. 001-09195), is incorporated by reference herein.</u>
4.3	<u>Sixth Supplemental Indenture, dated as of January 30, 2012, relating to our Senior Notes by and between us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated February 2, 2012 (File No. 001-09195), is incorporated by reference herein.</u>
4.4	<u>Seventh Supplemental Indenture, dated as of January 11, 2013, relating to our Senior Notes by and among us, the Guarantors named therein, and the Trustee, filed as an exhibit to our Current Report on Form 8-K dated January 11, 2013 (File No. 001-09195), is incorporated by reference herein.</u>
4.5	<u>Eighth Supplemental Indenture, dated as of March 12, 2013, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2013 (File No. 001-09195), is incorporated by reference herein.</u>
4.6	<u>Ninth Supplemental Indenture, dated as of February 28, 2014, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our Post-Effective Amendment No. 4 to Form S-3 Registration Statement (No. 333-176930), is incorporated by reference herein.</u>
4.7	<u>Tenth Supplemental Indenture, dated as of January 22, 2019, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to our 2018 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.</u>
4.8	<u>Form of 6.875% Senior Notes due 2027, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein.</u>
4.9	<u>Form of officers’ certificates and guarantors’ certificates establishing the form and terms of the 6.875% Senior Notes due 2027, filed as an exhibit to our Current Report on Form 8-K dated February 20, 2019 (File No. 001-09195), is incorporated by reference herein.</u>
4.10	<u>Form of 4.800% Senior Notes due 2029, filed as an exhibit to our Current Report on Form 8-K dated November 4, 2019 (File No. 001-09195), is incorporated by reference herein.</u>

<u>Exhibit Number</u>	<u>Description</u>
4.11	Form of officers' certificates and guarantors' certificates establishing the form and terms of the 4.800% Senior Notes due 2029, filed as an exhibit to our Current Report on Form 8-K dated November 4, 2019 (File No. 001-09195), is incorporated by reference herein.
4.12	Form of 4.00% Senior Notes due 2031, filed as an exhibit to our Current Report on Form 8-K dated June 9, 2021 (File No. 001-09195), is incorporated by reference herein.
4.13	Form of officers' certificate and guarantors' certificates establishing the form and terms of the 4.00% Senior Notes due 2031, filed as an exhibit to our Current Report on Form 8-K dated June 9, 2021 (File No. 001-09195), is incorporated by reference herein.
4.14	Description of KB Home Common Stock Registered Under Section 12 of the Securities Exchange Act of 1934, filed as an exhibit to our 2019 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
4.15	Amended Rights Agreement, effective as of April 8, 2021, made by and between KB Home and Computershare Inc., as Rights Agent, filed as Exhibit 4.1 to our Amended Registration Statement on Form 8-A/A dated April 13, 2021 (File No. 001-9195), is incorporated by reference herein.
4.16	Eleventh Supplemental Indenture, dated as of January 20, 2022, by and among us, the Guarantors party thereto, the Additional Guarantors named therein and U.S. Bank National Association, as Trustee, filed as an exhibit to Post-Effective Amendment No. 1 to the Registration Statement on Form S-3 (Registration Statement No. 333-239778) (File No. 001-09195), dated February 4, 2022, is incorporated by reference herein.
4.17	Form of 7.250% Senior Notes due 2030, filed as an exhibit to our Current Report on Form 8-K dated June 22, 2022 (File No. 001-09195), is incorporated by reference herein.
4.18	Form of officers' certificate and guarantors' certificates establishing the form and terms of the 7.250% Senior Notes due 2030, filed as an exhibit to our Current Report on Form 8-K dated June 22, 2022 (File No. 001-09195), is incorporated by reference herein.
4.19†	Twelfth Supplemental Indenture, dated as of January 19, 2023, by and among us, the Guarantors party thereto, the Additional Guarantor named therein and Regions Bank, as Trustee.
10.1	KB Home Directors' Legacy Program, as amended January 1, 1999, filed as an exhibit to our 1998 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.2	Trust Agreement between Kaufman and Broad Home Corporation and Wachovia Bank, N.A. as Trustee, dated as of August 27, 1999, filed as an exhibit to our 1999 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.3*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals prior to January 1, 2005, effective March 1, 2001, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.4*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals on and after January 1, 2005, effective January 1, 2009 (File No. 001-09195), filed as an exhibit to our 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.5*	KB Home Change in Control Severance Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.6*	KB Home Death Benefit Only Plan, filed as an exhibit to our 2001 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.7*	Amendment No. 1 to the KB Home Death Benefit Only Plan, effective as of January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.8*	KB Home Retirement Plan, as amended and restated effective January 1, 2009, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.9*	Employment Agreement of Jeffrey T. Mezger, dated February 28, 2007, filed as an exhibit to our Current Report on Form 8-K dated March 6, 2007 (File No. 001-09195), is incorporated by reference herein.
10.10*	Amendment to the Employment Agreement of Jeffrey T. Mezger, dated December 24, 2008, filed as an exhibit to our 2008 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.

Exhibit Number	Description
10.11*	<u>Policy Regarding Stockholder Approval of Certain Severance Payments, adopted July 10, 2008, filed as an exhibit to our Current Report on Form 8-K dated July 15, 2008 (File No. 001-09195), is incorporated by reference herein.</u>
10.12*	<u>KB Home Executive Severance Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2008 (File No. 001-09195), is incorporated by reference herein.</u>
10.13	<u>Amendment to Trust Agreement by and between KB Home and Wachovia Bank, N.A., dated August 24, 2009, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2009 (File No. 001-09195), is incorporated by reference herein.</u>
10.14	<u>Form of Indemnification Agreement, filed as an exhibit to our Current Report on Form 8-K dated April 2, 2010 (File No. 001-09195), is incorporated by reference herein.</u>
10.15*	<u>KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 (File No. 001-09195), is incorporated by reference herein.</u>
10.16*	<u>Form of Stock Option Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated July 20, 2010 (File No. 001-09195), is incorporated by reference herein.</u>
10.17*	<u>Amendment to the KB Home 2010 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.</u>
10.18*	<u>Executive Severance Benefit Decisions, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2011 (File No. 001-09195), is incorporated by reference herein.</u>
10.19*	<u>KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger, filed as an exhibit to our 2011 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.</u>
10.20*	<u>KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2014 (File No. 001-09195), is incorporated by reference herein.</u>
10.21*	<u>Form of Stock Option Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.</u>
10.22*	<u>Form of Performance Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.</u>
10.23*	<u>Form of Restricted Cash Award Agreement under the KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 14, 2014 (File No. 001-09195), is incorporated by reference herein.</u>
10.24*	<u>Amended KB Home 2014 Equity Incentive Plan, effective April 7, 2016, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2016 (File No. 001-09195), is incorporated by reference herein.</u>
10.25*	<u>Amended KB Home 2010 Equity Incentive Plan, as amended on April 13, 2017, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2017 (File No. 001-09195), is incorporated by reference herein.</u>
10.26*	<u>Form of Restricted Stock Agreement under the Amended KB Home 2014 Equity Incentive Plan, filed as an exhibit to our 2018 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.</u>
10.27	<u>Fifth Amended and Restated KB Home Non-Employee Directors Compensation Plan, effective as of July 11, 2019, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2019 (File No. 001-09195), is incorporated by reference herein.</u>
10.28	<u>Third Amended and Restated Revolving Loan Agreement, dated as of October 7, 2019, among us, the banks party thereto, and Citibank, N.A., as Administrative Agent, filed as an exhibit to our 2019 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.</u>

Exhibit Number	Description
10.29*	Form of Performance-Based Restricted Stock Unit Award Agreement under the Amended KB Home 2014 Equity Incentive Plan, filed as an exhibit to our Current Report on Form 8-K dated October 13, 2020 (File No. 001-09195), is incorporated by reference herein.
10.30	Second Amendment to the KB Home Nonqualified Deferred Compensation Plan, effective December 1, 2020, filed as an exhibit to our 2020 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.31	Third Amendment to Trust Agreement by and between KB Home and Wells Fargo Bank, N.A., as Trustee, dated January 1, 2021, filed as an exhibit to our 2020 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.32	Fourth Amendment to Trust Agreement by and between KB Home and Wells Fargo Bank, N.A., as Trustee, dated January 11, 2022, filed as an exhibit to our 2021 Annual Report on Form 10-K (File No. 001-09195), is incorporated by reference herein.
10.33	Fourth Amended and Restated Revolving Loan Agreement, dated February 18, 2022, among us, the banks party thereto and Citibank N.A., as Administrative Agent, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2022 (File No. 001-09195), is incorporated by reference herein.
10.34	Term Loan Agreement, dated as of August 25, 2022, among us, the banks party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2022 (File No. 001-09195), is incorporated by reference herein.
21†	Subsidiaries of the Registrant.
22†	List of Guarantor Subsidiaries.
23†	Consent of Independent Registered Public Accounting Firm.
31.1†	Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1†	Board of directors resolutions ratifying the Amended KB Home 2014 Equity Incentive Plan and Amended Rights Agreement.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104†	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).

* Management contract or compensatory plan or arrangement in which executive officers are eligible to participate.

† Document filed with this Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

**AMENDED AND RESTATED BY-LAWS
OF
KB HOME
(a Delaware corporation)**

**ARTICLE I
CORPORATE OFFICES**

Section 1.1 Registered Office. The registered office of KB Home (the “Corporation”) shall be as set forth in the Corporation’s Amended and Restated Certificate of Incorporation (as it may be amended from time to time, the “Certificate of Incorporation”).

Section 1.2 Other Offices. The Corporation may also have an office or offices, and keep the books and records of the Corporation, except as may otherwise be required by applicable law, at such other place or places, either within or outside of the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

**ARTICLE II
MEETINGS OF STOCKHOLDERS**

Section 2.1 Annual Meeting. Annual meetings of stockholders, for the election of persons to the Board of Directors and for the transaction of such other business as may properly be considered at any such meeting, shall be held at such place, if any, on such date and at such time as may be designated by the Board of Directors.

Section 2.2 Special Meeting. Subject to the rights of holders of any outstanding preferred stock or any other class or series of capital stock of the Corporation that may have a preference over the common stock of the Corporation as to dividends or upon liquidation (“Preferred Stock”), special meetings of stockholders may be called at any time only by the Board of Directors or the Chairman of the Board of Directors, and shall be held at such place, if any, on such date and at such time as may be designated by the Board of Directors. Business transacted at any special meeting of stockholders shall be confined to the purpose or purposes stated in the notice thereof.

Section 2.3 Notice of Meetings.

(a) For each meeting of stockholders, notice of the place, if any, date and time of the meeting, the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for determining the stockholders entitled to notice of the meeting), the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at the meeting as of the record date for determining the stockholders entitled to notice of the meeting, except as otherwise provided in these By-laws or required by applicable law. Any such notice shall be given not less than ten (10) nor more than sixty (60) days before the date on which the relevant meeting is to be held.

(b) Notice of any stockholders meeting may be given personally, by mail or by electronic transmission in accordance with the General Corporation Law of the State of Delaware (the “DGCL”). Notice delivered personally shall include notice by recognized overnight courier service and shall be deemed given when delivered. If mailed, such notice shall be deemed given when deposited in the United States mail, postage prepaid directed to each stockholder at such

stockholder's address appearing on the books of the Corporation or given by the stockholder for such purpose. Notice by electronic transmission shall be deemed given as provided in the DGCL. An affidavit of the Secretary, Assistant Secretary or any transfer agent or other agent of the Corporation that notice of any stockholders meeting has been given shall be prima facie evidence of the giving of such notice and of the facts stated in such affidavit. Notice shall be deemed to have been given to all stockholders of record who share an address if notice is given in accordance with Rule 14a-3(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as provided in the DGCL.

(c) When a meeting is adjourned to another time or place, if any, notice need not be given of the adjourned meeting (including an adjournment taken to address a technical failure to convene or continue a meeting using remote communication) if the place, if any, date and time thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are (i) announced at the meeting at which the adjournment is taken, (ii) displayed, during the time scheduled for the meeting, on the same electronic network used to enable stockholders and proxy holders to participate in the meeting by means of remote communication or (iii) set forth in the notice of meeting given in accordance with these By-laws; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally called, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 6.7(a) below, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

(d) Notice of any stockholders meeting may be waived in writing or by electronic transmission, either before or after the meeting, and to the extent permitted by applicable law, will be waived by any stockholder by attendance thereat, in person or by proxy, except when the person so attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business on the ground that the meeting is not lawfully called or convened and the person so objects.

Section 2.4 Organization.

(a) The Chairman of the Board of Directors, if any, or in his or her absence a person designated as Chair of the meeting by the Board of Directors, shall preside over meetings of stockholders. The Secretary of the Corporation, or in his or her absence, an Assistant Secretary, or in the absence of the Secretary and all Assistant Secretaries, a person whom the Chair of the meeting shall appoint, shall act as Secretary of the meeting and keep a record of the proceedings thereof.

(b) The Board of Directors shall be entitled to make or adopt such rules or regulations for or related to the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the Chair of the meeting shall have the right and authority to prescribe or adopt such rules, regulations and procedures and to do all such acts as, in the judgment of such Chair, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing (i) an agenda or order of business for the meeting, (ii) rules and procedures for maintaining order at the meeting and the safety of those present, (iii) limitations on participation in the meeting to stockholders of record of the Corporation, their validly authorized and constituted proxies and such other persons as the Chair shall permit, (iv) limitations on or procedures governing the admission of permitted participants to the meeting location, if any, (v) restrictions on entry to the meeting after the time fixed for the commencement thereof, (vi) limitations on the time allotted to and the subject of questions or comments by participants, (vii) regulations for the opening and closing of the polls for balloting and

matters which are to be voted on by ballot and (viii) policies and procedures with respect to the adjournment of the meeting.

Section 2.5 List of Stockholders. A complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder shall be open to the examination of any stockholder, for any purpose germane to the meeting, at least ten (10) days ending on the day before the date of the meeting, in each case in the manner provided by law. Except as otherwise provided by applicable law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the list of stockholders required by this Section 2.5 or to vote in person or by proxy at any meeting of stockholders.

Section 2.6 Quorum. The holders of a majority of the shares of the capital stock of the Corporation entitled to vote at a meeting of stockholders, present in person or represented by proxy, shall constitute a quorum for the consideration and transaction of business thereat, unless otherwise provided in the Certificate of Incorporation, these By-laws or the DGCL. If a quorum is not present or represented at any meeting of stockholders, then the Chair of the meeting or the holders of a majority of the shares of the capital stock of the Corporation entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time in accordance with Section 2.7 below, without notice other than an announcement at the meeting (subject to Section 2.3(c) above), until a quorum is present or represented. If a quorum initially is present at any meeting of stockholders, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, but if a quorum is not present at least initially, no business other than adjournment may be transacted.

Section 2.7 Adjourned Meeting. Any meeting of stockholders, whether or not a quorum is present, may be adjourned for any reason from time to time by either the Chair of the meeting or the holders of a majority of the shares of the capital stock of the Corporation entitled to vote thereat, present in person or represented by proxy. At any such adjourned meeting at which a quorum may be present, any business may be considered and transacted that might have been considered and transacted at the meeting as originally called.

Section 2.8 Voting.

(a) Except as otherwise provided by applicable law, the Certificate of Incorporation or resolutions of the Board of Directors in establishing a class or series of capital stock of the Corporation, each holder of shares of the capital stock of the Corporation entitled to vote at any meeting of stockholders shall be entitled to one (1) vote for each such share held of record by such holder on each matter submitted to a vote of the stockholders of the Corporation.

(b) Except as otherwise provided by applicable law, the listing standards of the New York Stock Exchange or any other exchange or quotation system on which the shares of any capital stock of the Corporation are traded or quoted, the Certificate of Incorporation or these By-laws, at each meeting of stockholders at which a quorum is established, for each item of business presented for consideration at a stockholder meeting, the affirmative vote of the majority of shares of the capital stock of the Corporation present in person or represented by proxy at the meeting and entitled to vote on the item shall be the act of the stockholders as to such item, and where a separate vote by class or series of the capital stock of the Corporation is required on an item of business, if a quorum of such class or series is established (in accordance with Section 2.6 above), the affirmative vote of the majority of shares of the applicable class or series present in person or represented by proxy at the meeting and entitled to vote on the item shall be the act of such class or series as to such item; provided, however, that if any item of business that is a matter or possible action for the Board of Directors to take under advisement receives the affirmative vote of the majority of shares of the capital stock of the Corporation (or of the applicable class or series, as the case may be) present in person or represented by proxy at the meeting and entitled to vote on the item, the Board of Directors

may take such matter or possible action under advisement, but shall not be obligated to undertake (or refrain from undertaking) any particular action in respect thereof and such a vote will not be deemed an act of the stockholders (or of the applicable class or series, as the case may be) as to such item.

(c) A nominee for director shall be elected to the Board of Directors if the votes cast for such nominee's election exceed the votes cast against such nominee's election; provided, however, that directors shall be elected by a plurality of the votes cast at any meeting of stockholders for which (i) the Secretary of the Corporation receives a notice that a stockholder has nominated a person for election to the Board of Directors in compliance with the procedures set forth in Section 2.10 below and (ii) such nomination has not been withdrawn by such nominating stockholder on or prior to the day next preceding the date the Corporation first delivers its notice of meeting for such meeting to stockholders (regardless of whether such nomination is subsequently disregarded). If directors are to be elected by a plurality of the votes cast, stockholders shall not be permitted to vote against any nominee for director.

Section 2.9 Proxies. Every stockholder entitled to vote on a matter shall have the right to do so in person or may be represented and vote by a proxy or proxies appointed by such stockholder for such purpose. A stockholder may make this appointment by any means specifically authorized by the DGCL, including, without limitation, by telegram, cablegram or other means of electronic transmission, and by any other means the Secretary of the Corporation may permit, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period not to exceed seven (7) years. A properly made proxy appointment shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. After its creation and prior to any vote at a stockholders meeting, a properly made proxy appointment that is not irrevocable may be revoked by a stockholder (a) by attending the meeting and voting in person, (b) by filing with the Secretary of the Corporation an instrument in writing revoking it, or (c) by making another proper proxy appointment bearing a later date. A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the Corporation. Any stockholder directly or indirectly soliciting proxies from other stockholders must use a proxy card color other than white, which shall be reserved for the exclusive use by the Corporation.

Section 2.10 Nomination of Directors. Subject to the rights of holders of any outstanding Preferred Stock, nominations of persons for election to the Board of Directors may be made at an annual meeting of stockholders or at a special meeting of stockholders at which directors are to be elected only (a) pursuant to the Corporation's notice of the meeting (or any supplement by the Corporation thereto), (b) by or at the direction of the Board of Directors (or a duly authorized committee thereof) or (c) by any stockholder of the Corporation (i) who is a stockholder of record both on the date the notice provided for in this Section 2.10 is given by the stockholder and on the record date for the determination of stockholders entitled to vote at such meeting, (ii) who is entitled to vote for the election of directors at such meeting and (iii) who complies with the procedures set forth in this Section 2.10.

(a) Stockholder Notice Requirements. In addition to any other applicable requirements for a stockholder to nominate any person or persons for election to the Board of Directors, the stockholder must give to the Secretary of the Corporation timely notice thereof that is in proper written form (as set forth in clauses (b) and (c) below of this Section 2.10). To be timely, a stockholder's notice to the Secretary of the Corporation must be delivered to or received at the principal executive offices of the Corporation (i) with respect to an election to be held at an annual meeting of stockholders, not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred and twentieth (120th) day prior to the first (1st) anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of an annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date or if no annual meeting was held in the previous year, for a stockholder's notice to be timely, it must be so delivered or received not earlier than the close of business on the one hundred and

twentieth (120th) day prior to such annual meeting date and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting date and the tenth (10th) day following the date on which the public announcement (as defined below) of the date of such annual meeting is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder's notice as described in this clause (i); and (ii) with respect to an election to be held at a special meeting of stockholders, not earlier than the close of business on the one hundred and twentieth (120th) day prior to the special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to the special meeting or the tenth (10th) day following the day on which the public announcement of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of a special meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder's notice as described in this clause (ii). A stockholder shall not be entitled to make additional or substitute nominations following the expiration of the time periods set forth in this Section 2.10(a).

(b) Proposed Nominee Information. To be in proper written form for purposes of this Section 2.10, a stockholder's notice to the Secretary of the Corporation must include as to each person whom the stockholder proposes to nominate for election to the Board of Directors (i) the person's name, age, business address and residence address, (ii) the person's principal occupation or employment, (iii) the class or series and number of shares of the capital stock of the Corporation owned beneficially or of record by the person, (iv) a description of all compensatory and other material monetary agreements, arrangements or understandings during the past three (3) years, and any other material relationships, between or among the person and the stockholder and any Stockholder Associated Person (as defined below), or others acting in concert with any of them, including, without limitation, a description of the terms of any compensatory arrangements relating to the person's nomination and, if successful, the person's election to the Board of Directors or service as a director and (v) all other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and the rules and regulations promulgated thereunder. Such stockholder's notice must also include each proposed nominee's written consent to being named in a proxy statement as a nominee and to serving as a director if elected, and each proposed nominee's agreement that, if elected, and in accordance with the Corporation's Corporate Governance Principles, such person will tender promptly following such person's election an irrevocable resignation in the form then set forth in the Corporation's Corporate Governance Principles effective upon such person's failure to receive the required vote for election at any subsequent meeting at which such person faces election and upon acceptance of such resignation by the Board of Directors. The Board of Directors or the Corporation may require any stockholder-proposed nominee to furnish such other information as may reasonably be required to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack of independence, of such nominee.

(c) Additional Stockholder Information. To be in proper written form for purposes of this Section 2.10, a stockholder's notice to the Secretary of the Corporation must also include as to the stockholder giving the notice, (i) the name and record address of the stockholder, as they appear in the books and records of the Corporation, and of the beneficial owner, if any, on whose behalf the nomination is being made and of any other Stockholder Associated Person, (ii) the class or series and number of shares of the capital stock of the Corporation owned beneficially or of record by the stockholder and any Stockholder Associated Person, (iii) a description of all agreements, arrangements or understandings between or among the stockholder, any Stockholder Associated

Person, each proposed nominee and any other person or persons (including their names) pursuant to which the proposed nomination(s) are being or are to be made by the stockholder, (iv) a description of any Derivative Instrument (as defined below) directly or indirectly owned beneficially by the stockholder or any Stockholder Associated Person and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of any class or series of shares of the capital stock of the Corporation, (v) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which the stockholder or any Stockholder Associated Person has a right to vote any class or series of shares of any security of the Corporation or the effect or intent of which is to increase or decrease the voting power of the stockholder or any Stockholder Associated Person with respect to any class or series of shares of any security of the Corporation, (vi) a description of any short interest (as defined below) of the stockholder or any Stockholder Associated Person in any class or series of any security of the Corporation, (vii) a description of any rights to dividends on any class or series of shares of the capital stock of the Corporation owned beneficially by the stockholder or any Stockholder Associated Person that are separated or separable from the underlying class or series of shares of the capital stock of the Corporation (and the identity of the person or entity having such rights), (viii) a description of any proportionate interest in any class or series of shares of the capital stock of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which the stockholder or any Stockholder Associated Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, (ix) a description of any performance-related fees (other than an asset-based fee) to which the stockholder or any Stockholder Associated Person is entitled based on any increase or decrease in the value of any class or series of shares of the capital stock of the Corporation or Derivative Instruments, if any, as of the date of such notice (which information shall be supplemented by the stockholder in writing to the Secretary of the Corporation not later than ten (10) days after the record date for the meeting to disclose such ownership as of the record date), (x) a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate each proposed nominee named in the stockholder's notice, (xi) a representation as to whether the stockholder or any Stockholder Associated Person intends to solicit proxies or votes in support of director nominees other than the Corporation's director nominees in accordance with Rule 14a-19 under the Exchange Act, (xii) a representation as to whether such stockholder or any Stockholder Associated Persons intends to solicit the holders of shares representing at least 67% of the voting power of shares entitled to vote on the election of directors and otherwise comply with the requirements of Rule 14a-19 under the Exchange Act, and (xiii) any other information relating to the stockholder or Stockholder Associated Person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and the rules and regulations promulgated thereunder. The stockholder shall deliver to the Secretary of the Corporation any update or supplement necessary to make the information provided or required to be provided in its notice true and correct (A) as of the date that is sixty (60) days prior to the meeting or any adjournment thereof, not later than three (3) business days after such date and (B) as of all dates thereafter, promptly (but in no event more than three (3) business days or, in the case of a change occurring in the week prior to the meeting or any adjournment thereof, the earlier of one (1) business day or the earliest time practicable on the date of the meeting or adjournment) after the occurrence of a change in such information. Without limiting the foregoing, if no such update or supplement is required as of the date that is sixty (60) days prior to the meeting or any adjournment thereof or as of the date that is ten (10) business days prior to the meeting or any adjournment thereof, the stockholder shall deliver to the Secretary of the Corporation a written certification that such information remains true and correct as of such applicable date, promptly (but in no event later than three (3) business days) after such applicable date. The stockholder shall further notify the Secretary of the Corporation in writing in the event that any of the information provided or required to be provided to the Corporation in its notice shall have been inaccurate and of the information necessary to correct such

inaccuracy, promptly (but in no event more than three (3) business days or, in the case of a discovery occurring in the week prior to the meeting or any adjournment thereof, the earlier of one (1) business day or the earliest time practicable on the date of the meeting or adjournment) after the stockholder's discovery of such inaccuracy. In no event shall any such update, supplement, certification or correction cure, or limit the Corporation's rights with respect to, any deficiency in any notice provided by a stockholder or extend any deadlines under these By-laws.

(d) Definitions. For purposes of these By-laws, the terms set forth below have the following respective meanings:

"public announcement" means, with respect to an annual or special meeting of stockholders, disclosure of the date of such meeting in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

"Stockholder Associated Person" means, with respect to any stockholder of the Corporation, (A) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder, (B) any affiliate or associate of such stockholder or any beneficial owner referred to in clause (A) above, (C) in the case of the stockholder or any other person referred to in clause (A) or (B) above that is natural person, any member of the immediate family of such stockholder or other person sharing the same household or (D) any person acting in concert with such stockholder or any other person referred to in clause (A), (B) or (C) above.

"Derivative Instrument" means any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation's capital stock or with a value derived in whole or in part from the value of any class or series of shares of the Corporation's capital stock, whether or not such instrument or right shall be subject to settlement in the underlying class or series of the Corporation's capital stock or otherwise.

"short interest" of any person in a security means that such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security.

(e) Defective Nominations. No person shall be eligible for election to the Board of Directors by the stockholders of the Corporation unless nominated in accordance with the provisions and procedures of this Section 2.10. The Chair of any meeting of stockholders shall have the power to determine whether any nomination was made in accordance with the provisions and procedures of this Section 2.10. If the Chair determines that a nomination was not so made, the Chair shall declare to the meeting that the nomination was defective and shall be disregarded, and the Corporation shall disregard any votes for such nominee.

Section 2.11 Consideration of Items of Business. Subject to the rights of holders of any outstanding Preferred Stock, no item of business may be brought for consideration at an annual meeting of stockholders or at a special meeting of stockholders other than business that is (a) specified in the Corporation's notice of the meeting (or any supplement by the Corporation thereto), (b) otherwise brought for consideration by or at the direction of the Board of Directors (or a duly authorized committee thereof) or (c) otherwise properly brought by any stockholder of the Corporation (i) who is a stockholder of record both on the date the notice provided for in this Section 2.11 is given by the stockholder and on the record date for the determination of stockholders entitled to vote at such meeting, (ii) who is entitled to vote on such business at such meeting and (iii) who complies with the procedures set forth in this Section 2.11.

(a)Stockholder Notice Requirements. In addition to any other applicable requirements for a stockholder to properly bring any item of business for consideration at a stockholder meeting, the stockholder must give to the Secretary of the Corporation timely notice thereof that is in proper written form (as set forth in clauses (b) and (c) below of this Section 2.11) and such business must be a proper subject for stockholder action. To be timely, a stockholder's notice to the Secretary of the Corporation must be delivered to or received at the principal executive offices of the Corporation within the time frames for stockholder nominations of persons for election to the Board of Directors as set forth in Section 2.10(a)(i) or (ii) above (depending on the applicable meeting type).

(b)Proposed Item of Business Information. To be in proper written form for purposes of this Section 2.11, a stockholder's notice to the Secretary of the Corporation must include as to each item of business proposed to be brought by the stockholder for consideration at the stockholder meeting to which the notice pertains, a brief description of the business and the reasons for proposing that such business be considered.

(c)Additional Stockholder Information. To be in proper written form for purposes of this Section 2.11, a stockholder's notice to the Secretary of the Corporation must also include as to the stockholder giving the notice, (i) each of the items set forth in clauses (i), (ii), (iv), (v), (vi), (vii), (viii) and (ix) of Section 2.10(c) above, (ii) a description of all agreements, arrangements or understandings between or among the stockholder or any Stockholder Associated Person (as defined in Section 2.10 above) relating to each item of business proposed to be brought by the stockholder for consideration at the stockholder meeting to which the notice pertains and any material interest of the stockholder or any Stockholder Associated Person in such business, and (iii) a representation that the stockholder intends to appear in person or by proxy at the meeting to which the stockholder's notice pertains to bring such business for consideration at such meeting.

(d)Stockholder Discussion of Proposed Business. No item of business shall be considered at a stockholder meeting except business that is brought in accordance with the provisions and procedures set forth in this Section 2.11; provided, however, that, once an item of business has been brought for consideration in accordance with such provisions and procedures, nothing in this Section 2.11 shall be deemed, subject to the provisions of Section 2.4(b) above, to preclude discussion by any stockholder of any such item of business. The Chair of any meeting of stockholders shall have the power to determine whether any item of business was properly brought for consideration at the meeting in accordance with the provisions and procedures set forth in this Section 2.11. If the Chair determines that an item of business was not properly brought, the Chair shall declare to the meeting that the item of business was not properly brought and shall be disregarded, and the Corporation shall disregard any votes for such item of business.

Section 2.12 Additional Requirements Relating to Nominations to the Board of Directors and Stockholder Proposals. Notwithstanding anything to the contrary in this Article II, a stockholder who wishes to nominate a person for election to the Board of Directors or to bring any other business for consideration at a meeting of stockholders shall, in addition to the requirements set forth in Sections 2.10 and 2.11 above, comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder (including, where applicable, Rule 14a-19 under the Exchange Act); provided, however, that any references in these By-laws to the Exchange Act and the rules and regulations thereunder shall not be construed to limit the application of such requirements to nominations or proposals that are made in accordance with any provision of the Exchange Act and the rules and regulations thereunder, including, but not limited to, Rule 14a-8 or Rule 14a-19 under the Exchange Act. Without limiting the generality of the foregoing, unless otherwise required by law, if a stockholder (i) provides notice pursuant to Rule 14a-19 and (ii) subsequently (A) notifies the Corporation that such stockholder no longer intends to solicit proxies in support of director nominees other than the Corporation's director nominees in accordance with Rule 14a-19 under the Exchange Act, (B) fails to

comply with the requirements of Rule 14a-19 under the Exchange Act, or (C) fails to provide reasonable evidence, no later than five (5) business days prior to the date of the applicable meeting, sufficient to satisfy the Corporation that such requirements have been met, then such stockholder's nominations shall be disregarded and the Corporation shall disregard any votes for such stockholder's nominees. Nothing contained in this Article II shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act and any inclusion in the Corporation's proxy statement thereby. The provisions of Sections 2.10 and 2.11 above govern what constitutes timely notice for purposes of Rule 14a-4(c) of the Exchange Act.

Section 2.13 Inspectors of Election. Before any meeting of stockholders, the Board of Directors shall appoint one or more inspectors of election to act at the meeting or its adjournment, and may designate one or more persons as alternate inspectors to replace any inspector who fails to appear or fails to act. If any person appointed as inspector or as an alternate inspector fails to appear or fails to act, then the Chair of the meeting may appoint a person to fill that vacancy. Inspectors need not be stockholders. Such inspectors shall perform their duties in accordance with the DGCL. Any report or certificate made by the inspectors of election shall be prima facie evidence of the facts stated therein.

Section 2.14 Meetings by Remote Communications. The Board of Directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication in accordance with the DGCL. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication (a) participate in a meeting of stockholders and (b) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided, that (i) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder; (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings; and (iii) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

ARTICLE III DIRECTORS

Section 3.1 Powers. The business and affairs of the Corporation shall be managed and exercised by or under the direction of the Board of Directors, except as may be otherwise provided in the DGCL or the Certificate of Incorporation. In addition, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by applicable law, the Certificate of Incorporation or these By-laws required to be exercised or done by the stockholders.

Section 3.2 Number, Eligibility and Term of Office. The Board of Directors shall consist of the number of directors as determined from time to time by resolution of the Board of Directors. Directors need not be stockholders unless so required by the Certificate of Incorporation or these By-laws. Except as provided in Section 3.3 below, directors shall be elected to the Board of Directors at each annual meeting of stockholders in accordance with the Certificate of Incorporation and these By-laws. Each director elected to the Board of Directors shall hold office until such director's successor is duly elected and qualified or until such director's earlier death, resignation, retirement, disqualification or removal.

Section 3.3 Vacancies. Subject to the rights of holders of any outstanding Preferred Stock, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall, unless otherwise provided by applicable law or by resolution of the Board of

Directors, be filled solely by the affirmative vote of a majority of the remaining directors then in office, though less than a quorum, or by the sole remaining director, and any directors so elected shall hold office until the expiration of the term of office of the director whom he or she has replaced or until his or her successor shall be duly elected and qualified. Unless otherwise provided in the Certificate of Incorporation, when one (1) or more directors resign from the Board of Directors effective at a future date, a majority of directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this Section 3.3. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

Section 3.4 Resignations. Any director may resign at any time upon notice given in writing or by electronic transmission to the Board of Directors, the Chairman of the Board of Directors or the Secretary of the Corporation. Such resignation shall take effect at the time specified in such notice or, if the time is not specified, upon receipt thereof by the Board of Directors, the Chairman of the Board of Directors or the Secretary of the Corporation, as the case may be. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.5 Regular Meetings. Except as otherwise set forth in these By-laws, regular meetings of the Board of Directors may be held within or outside of the State of Delaware and shall be held at such place or places, if any, on such date or dates and at such time or times, as shall have been established by the Board of Directors. A notice of each regular meeting shall not be required.

Section 3.6 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board of Directors or the Chief Executive Officer, and shall be called by the Chairman of the Board of Directors or the Chief Executive Officer on the written request of any three (3) directors. The person or persons authorized to call special meetings of the Board of Directors may fix the place, if any, date and time of such meetings. Notice of each such meeting shall be given to each director personally, in writing or by telecopy, telegraph, electronic transmission or other form of communication, in each case at least twenty-four (24) hours prior to the time set for such meeting. Notice of any meeting need not be given to director who shall, either before or after the meeting, submit a waiver of such notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to such director. A notice of special meeting need not state the purpose of such meeting, and any and all business may be transacted at a special meeting.

Section 3.7 Remote Participation in Meeting. Directors may participate in a meeting of the Board of Directors or any committee thereof by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 3.8 Quorum. Except as may be otherwise provided by applicable law, the Certificate of Incorporation or these By-laws, at all meetings of the Board of Directors or any committee thereof, a majority of the members of the Board of Directors then in office or then constituting the applicable committee, as the case may be, shall constitute a quorum for all purposes. The affirmative vote of a majority of the members of the Board of Directors or of the applicable committee present at any such meeting at which a quorum is present shall be regarded as the act of the Board of Directors or of the applicable committee, as the case may be. If a quorum shall not be present at any meeting of the Board of Directors or of an applicable committee, the members of the Board of Directors or of the applicable committee present thereat may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum shall be present. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally called. If a quorum initially is present at any meeting of the Board of Directors or any committee thereof, the directors or applicable committee members, as the case may be, may continue to transact business, notwithstanding the withdrawal of enough directors or committee members, as the case

may be, to leave less than a quorum, upon resolution of at least a majority of the required quorum for that meeting prior to the loss of such quorum.

Section 3.9 Action by Written Consent Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, provided that all members of the Board of Directors or of such committee consent in writing or by electronic transmission to such action, and the writing or writings or electronic transmission or transmissions setting forth the action so taken are filed with the minutes or proceedings of the Board of Directors or of such committee, and such consent shall have the same force and effect as a unanimous vote at a duly called and constituted meeting of the Board of Directors or such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 3.10 Chairman of the Board of Directors. The Chairman of the Board of Directors shall preside at meetings of the Board of Directors, and shall perform such other duties as the Board of Directors may from time to time determine and as set forth in Section 5.5 below. If the Chairman of the Board of Directors is not present at a meeting of the Board of Directors, another director chosen by the Board of Directors shall preside.

Section 3.11 Rules and Regulations. The Board of Directors shall adopt such rules and regulations not inconsistent with the provisions of applicable law, the Certificate of Incorporation or these By-laws for the conduct of its meetings and management of the affairs of the Corporation as the Board of Directors shall deem necessary, appropriate or convenient.

Section 3.12 Fees and Compensation of Directors. Directors and members of committees of the Board of Directors who are not also employees of the Corporation may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined from time to time by resolution of the Board of Directors.

Section 3.13 Emergency Bylaws. In the event of any emergency, disaster or catastrophe, as referred to in Section 110 of the DGCL, or other similar emergency condition, as a result of which a quorum of the Board of Directors or a committee of the Board of Directors cannot readily be convened for action, then the director or directors present at the meeting shall constitute a quorum. Such director or directors may further take action to appoint one or more of themselves or other directors to membership on any committees of the Board of Directors as they shall deem necessary and appropriate.

Section 3.14 Directors Emeritus. The Board may appoint one or more directors to the position of Director Emerita or Director Emeritus (hereafter, "Director Emeritus"). Director Emeritus appointments, if any, shall be at the Board's sole discretion, and there shall be no more than two Directors Emeritus at any one time unless the Board determines that it is necessary or appropriate to have three or more Director Emeritus for a particular period. Upon such appointment, any such director shall simultaneously resign from the Board and cease being considered a "director" or "officer" under the DGCL, the Corporation's Certificate of Incorporation and By-Laws, and for any federal or state legal or regulatory purpose. A Director Emeritus shall not be an employee of the Corporation. Further, a Director Emeritus shall have no power or authority to manage the Corporation's business or affairs. Accordingly, a Director Emeritus shall not have any of the responsibilities or liabilities of a "director" or "officer," nor any of a "director's" or "officer's" rights, powers or privileges. Only directors with a service tenure of at least five years, or having expertise or knowledge the Board deems to be especially important, are eligible to be appointed as a Director Emeritus. Each such appointment shall be for a one-year term, subject to re-appointment by the Board for one or more additional one-year terms (provided that the Board may set a shorter term for any Director Emeritus appointment or re-appointment if it deems it appropriate), or until such Director Emeritus' earlier death, resignation, retirement, removal (for any reason or no reason by the Board), or reaching the retirement age the Board establishes for directors. Directors Emeritus shall

provide such advisory services to the Board and its committees as deemed appropriate, including, without limitation, attending and participating in meetings and executive sessions, but they shall not be entitled to vote or be counted for quorum purposes at any such meetings or executive sessions. Directors Emeritus shall be entitled to receive fees for their service in such form and amount as the Board approves, and shall be reimbursed for expenses incurred in connection with their service as a Director Emeritus. Directors Emeritus shall remain subject to all of the Corporation's policies applicable to directors, including without limitation, any ethics and confidentiality obligations, and requirements applicable to transactions in the Corporation's securities. Directors Emeritus shall be entitled throughout their service to the same indemnification and insurance coverage benefits and protections accorded to directors under the DGCL, the Corporation's Certificate of Incorporation and By-Laws, and to the undiminished continuation of any contractual indemnification, defense, advancement of expenses and like personal liability protection terms they have with the Corporation at the time of their appointment as a Director Emeritus.

ARTICLE IV COMMITTEES

Section 4.1 Committees of the Board of Directors. The Board of Directors may, by resolution, designate one or more committees, with each such committee to consist of one or more members of the Board of Directors. The Board of Directors may designate one (1) or more directors as alternate members of any committee to replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management and exercise of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all instruments and documents that may require it; provided that, in accordance with DGCL Section 141(c)(2), no such committee shall have the power or authority in reference to the following matters: (a) approving or adopting, or recommending to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval or (b) adopting, amending or repealing any By-law of the Corporation. In addition, unless otherwise provided in the Certificate of Incorporation, these By-laws or the resolution of the Board of Directors designating the committee, a committee of the Board of Directors may create one (1) or more subcommittees, each subcommittee to consist of one (1) or more members of such committee, and delegate to such subcommittee any and all of the powers and authority of such committee. All committees of the Board of Directors shall keep minutes of their meetings and shall report their proceedings to the Board of Directors when requested or required by the Board of Directors.

Section 4.2 Meetings and Action of Committees. Any committee of the Board of Directors may adopt such rules and regulations not inconsistent with the provisions of applicable law, the Certificate of Incorporation or these By-laws for the conduct of its meetings as such committee may deem proper.

ARTICLE V OFFICERS

Section 5.1 Principal Officers. The principal officers of the Corporation shall consist of a Chairman of the Board of Directors (who need not be an employee of the Corporation), a Chief Executive Officer, a President, one or more Vice Presidents (one or more of whom may be designated Executive Vice President or Senior Vice President), a Secretary and a Treasurer, each of whom shall be elected by and serve at the pleasure of the Board of Directors. Any two of such offices may be held by the same person, except that one person shall not hold the offices of Chairman of the Board of Directors and Secretary,

Chief Executive Officer and Secretary or President and Secretary, and no officer shall execute, acknowledge or verify any instrument for and on behalf of the Corporation in more than one capacity if such instrument is required by applicable law, the Certificate of Incorporation or these By-laws to be executed, acknowledged or verified by two (2) or more officers.

Section 5.2 Election or Appointment of Officers. The Board of Directors, at its meeting to be held on the same day as and promptly after each annual meeting of stockholders, shall elect a Chairman of the Board of Directors, a Chief Executive Officer, a President, one or more Vice Presidents (one or more of whom may be designated Executive Vice President or Senior Vice President), a Secretary and a Treasurer. The Board of Directors (or a duly authorized committee thereof) may from time to time elect or appoint such other officers of the Corporation as the Board of Directors (or a duly authorized committee thereof) may deem necessary or desirable. Each such officer shall have such authority, functions or duties as set forth in these By-laws or as determined by or in accordance with the direction of the Board of Directors (or a duly authorized committee thereof), and shall hold office for such term as may be prescribed by the Board of Directors (or a duly authorized committee thereof), if any, and until such person's successor shall have been duly elected or appointed and qualified, or until such person's earlier death, resignation, retirement or removal. Subject to the foregoing authority of the Board of Directors (or a duly authorized committee thereof) to elect or appoint officers of the Corporation, the Chief Executive Officer shall have the authority (a) to elect, appoint or remove any officers, employees or agents of the Corporation or its subsidiaries who are not elected or appointed as officers of the Corporation by the Board of Directors (or a duly authorized committee thereof) under these By-laws, (b) to determine each such person's authority, functions and duties and (c) to delegate such authority as set forth in the foregoing clauses (a) and (b), in each case as the Chief Executive Officer may deem necessary or desirable; provided, however, that the persons upon whom any offices or titles are so conferred shall not be deemed officers of the Corporation unless elected or appointed by the Board of Directors (or a duly authorized committee thereof).

Section 5.3 Compensation. The salaries and other compensation of all officers of the Corporation shall be fixed by the Board of Directors (or a duly authorized committee thereof) or, in the case of officers and employees other than the Chairman of the Board of Directors, the Chief Executive Officer or the President, by an officer to whom the Board of Directors (or a duly authorized committee thereof) has delegated or otherwise granted its authority to fix salaries and other compensation, subject to the rights, if any, of such officers or employees under any contract of employment.

Section 5.4 Removal, Resignation and Vacancies. Any officer of the Corporation may be removed, with or without cause, by the Board of Directors, without prejudice to the rights, if any, of such officer under any contract to which it is a party. Any officer may resign at any time upon written notice to the Corporation, without prejudice to the rights, if any, of the Corporation under any contract to which such officer is a party. Such resignation shall take effect at the time specified in such notice or, if the time is not specified, upon receipt thereof by the Corporation. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. If any vacancy occurs in any office of the Corporation by death, resignation, removal or otherwise, the Board of Directors (or a duly authorized committee thereof) may elect or appoint a successor to fill such vacancy in such manner as the Board of Directors (or a duly authorized committee thereof) shall determine.

Section 5.5 Chairman of the Board of Directors. The Chairman of the Board of Directors shall be selected from the members of the Board of Directors, and may be removed as Chairman on the vote of a majority of the Board of Directors. The Chairman of the Board of Directors shall preside at meetings of stockholders (unless another person is designated to be the Chair of any such meeting in accordance with Section 2.4 above) and the Board of Directors and be responsible for coordinating the activities of the Board of Directors. The Chairman of the Board of Directors shall have authority, without additional authorization from the Board of Directors, to execute and deliver for and on behalf of the Corporation all bonds, deeds, mortgages, contracts and other instruments and documents (and if any such instrument or

document requires the seal of the Corporation, then under such seal) relating to the usual and ordinary business of the Corporation, except where required by applicable law to be otherwise executed or delivered, and except where the execution or delivery thereof shall be expressly delegated by the Board of Directors (or a duly authorized committee thereof) to some other officer or agent of the Corporation.

Section 5.6 Chief Executive Officer. The Chief Executive Officer shall have general supervision and direction of the business and affairs of the Corporation, shall be responsible for corporate policy and strategy, and shall report directly to the Board of Directors. Unless otherwise provided in these By-laws or by the Board of Directors (or a duly authorized committee thereof), all other officers of the Corporation shall report directly to the Chief Executive Officer or as otherwise determined by the Chief Executive Officer, and the Chief Executive Officer shall have the same authority as the Chairman of the Board of Directors to execute and deliver for and on behalf of the Corporation bonds, deeds, mortgages, contracts and other instruments and documents, and the authority to delegate such authority to execute and deliver such instruments and documents to some other officer or agent of the Corporation as the Chief Executive Officer may deem necessary or desirable. Notwithstanding the foregoing, the Board of Directors may designate the same or separate individuals to have the offices of Chief Executive Officer and President, and may designate his, her or their respective authority, functions or duties in accordance with such offices, which may include any authority, function or duty established in these By-laws for any other office described herein other than the Secretary of the Corporation.

Section 5.7 President. Subject to Section 5.6 above, the President shall assist the Chief Executive Officer in the general and active management of the operations of the Corporation, and shall have such additional authority, functions or duties as may be assigned to him or her from time to time by the Board of Directors (or a duly authorized committee thereof) or the Chief Executive Officer. The President shall have the same authority as the Chief Executive Officer to execute and deliver for and on behalf of the Corporation bonds, deeds, mortgages, contracts and other instruments and documents. During any absence or disability of the Chief Executive Officer, the President shall perform the duties of the Chief Executive Officer.

Section 5.8 Vice Presidents. The Vice Presidents, in the order of their seniority, unless otherwise determined by the Board of Directors (or a duly authorized committee thereof), shall, have such authority, functions and duties as shall be prescribed or delegated from time to time by the Board of Directors (or a duly authorized committee thereof), the Chief Executive Officer or his or her superior officer. Each of the Vice Presidents shall, when requested, counsel with and advise the other officers of the Corporation and shall perform such other functions or duties as such officer may agree with the Chief Executive Officer or as the Board of Directors (or a duly authorized committee thereof) may from time to time determine.

Section 5.9 Secretary and Assistant Secretaries. The powers and duties of the Secretary are (a) to act as Secretary at all meetings of the Board of Directors, of the committees of the Board of Directors and of the stockholders and to record the proceedings of such meetings in a book or books to be kept for that purpose; (b) to see that all notices required to be given by the Corporation are duly given and served; (c) to act as custodian of the seal of the Corporation and affix the seal or cause it to be affixed to all certificates of the Corporation's capital stock and to all instruments and documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-laws; (d) to have charge of the books, records and papers of the Corporation and see that the reports, statements and other documents required by applicable law to be kept and filed are properly kept and filed; and (e) to perform all of the duties incident to the office of Secretary. The Secretary shall, when requested, counsel with and advise the other officers of the Corporation and shall perform such other functions or duties as such officer may agree with the Chief Executive Officer or as the Board of Directors (or a duly authorized committee thereof) may from time to time determine. Assistant Secretaries in the order of their seniority, unless otherwise determined by the Board of Directors (or a duly authorized committee thereof), shall, in the absence or disability of the Secretary, perform the functions and duties and exercise the powers of the Secretary. They shall perform such other functions or duties and have such

other powers as the Board of Directors (or a duly authorized committee thereof), the Chief Executive Officer or the Secretary may from time to time prescribe.

Section 5.10 Treasurer and Assistant Treasurers. The Treasurer shall supervise and be responsible for all the funds and securities of the Corporation, the deposit of all moneys and other valuables to the credit of the Corporation in depositories of the Corporation, borrowings and compliance with the provisions of all indentures, agreements and instruments governing such borrowings to which the Corporation is a party, the disbursement of funds of the Corporation and the investment of its funds and shall perform all of the duties incident to the office of the Treasurer. The Treasurer shall, when requested, counsel with and advise the other officers of the Corporation and shall perform such other functions or duties as such officer may agree with the Chief Executive Officer or as the Board of Directors (or a duly authorized committee thereof) may from time to time determine. Assistant Treasurers in the order of their seniority, unless otherwise determined by the Board of Directors (or a duly authorized committee thereof), shall, in the absence or disability of the Treasurer, perform the functions and duties and exercise the powers of the Treasurer. They shall perform such other functions or duties and have such other powers as the Board of Directors (or a duly authorized committee thereof), the Chief Executive Officer or the Treasurer may from time to time prescribe.

Section 5.11 Checks; Drafts; Evidences of Indebtedness. From time to time, the Board of Directors (or a duly authorized committee thereof) shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes, bonds, debentures or other evidences of indebtedness that are issued in the name of or payable by the Corporation, and only the persons so authorized shall sign or endorse such instruments.

Section 5.12 Corporate Contracts and Instruments; How Executed. Except as otherwise provided in these By-laws, the Board of Directors (or a duly authorized committee thereof) may authorize any officer or officers, or agent or agents, to enter into any contract or execute or deliver any instrument or document in the name of and for and on behalf of the Corporation, and any such contract, instrument or document may be signed on behalf of any such authorized officer or agent by a duly appointed attorney-in-fact. Such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors (or a duly authorized committee thereof) or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 5.13 Action with Respect to Securities of Other Corporations. The Chief Executive Officer or any other officer of the Corporation authorized by the Board of Directors (or a duly authorized committee thereof) or the Chief Executive Officer is authorized to vote, represent, and exercise on behalf of the Corporation all rights incident to any and all shares or other interests of any other corporation or corporations or other enterprise or enterprises standing in the name of the Corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by the person having such authority.

CAPITAL STOCK

Section 6.1 Certificates of Stock. The shares of the Corporation's capital stock shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation's capital stock shall be uncertificated shares. Any such resolution, whether adopted before or after the adoption of these By-laws, shall not apply to shares of the Corporation's capital stock represented by a certificate until such certificate is surrendered to the Corporation. Every holder of the Corporation's capital stock represented by certificates shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman of the Board of Directors, if any, or the Chief Executive Officer or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation certifying the number of shares of the

Corporation's capital stock owned by such holder in the Corporation. Any or all such signatures may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 6.2 Special Designation on Certificates. If the Corporation is authorized to issue more than one class of its capital stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of its capital stock or series thereof and the qualifications, limitations or restrictions of such powers, designations, preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the Corporation shall issue to represent such class or series of its capital stock; provided, however, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the Corporation shall issue to represent such class or series of its capital stock a statement that the Corporation will furnish such information without charge to each stockholder who so requests it. Within a reasonable time after the issuance or transfer of its uncertificated capital stock, the Corporation shall send to the registered holder thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 6.2 or Section 156, 202(a) or 218(a) of the DGCL or with respect to this Section 6.2, a statement that the Corporation will furnish such information without charge to each stockholder who so requests it. Except as otherwise expressly provided by applicable law, the rights and obligations of the holders of the Corporation's uncertificated capital stock and the rights and obligations of the holders of certificates representing the Corporation's capital stock of the same class and series shall be identical.

Section 6.3 Transfers of Stock. Subject to the Certificate of Incorporation or resolutions of the Board of Directors, transfers of shares of the Corporation's capital stock shall be made only on the books of the Corporation upon authorization by the registered holder thereof or by such holder's attorney thereunto authorized by a power of attorney duly executed and filed with the Secretary of the Corporation or a transfer agent for such stock, and if such shares are represented by a certificate, upon surrender of the certificate or certificates for such shares properly endorsed or accompanied by a duly executed stock transfer power and the payment of any taxes thereon; provided, however, that the Corporation shall be entitled to establish, recognize and enforce any lawful restriction on transfer.

Section 6.4 Lost Certificates. The Corporation may issue a new share certificate or new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the Corporation a bond (or other adequate security) sufficient to indemnify the Corporation against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate. The Board of Directors may adopt such other provisions and restrictions with reference to lost, stolen or destroyed certificates, not inconsistent with applicable law, as it shall deem necessary, appropriate or convenient.

Section 6.5 Addresses of Stockholders. Each stockholder shall designate to the Secretary of the Corporation an address at which notices of meetings and all other corporate notices may be served or mailed to such stockholder and, if any stockholder shall fail to so designate such an address, corporate notices may be served upon such stockholder by mail directed to the mailing address, if any, as the same appears in the stock ledger of the Corporation or at the last known mailing address of such stockholder.

Section 6.6 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares of the Corporation's capital stock to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other

claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by applicable law.

Section 6.7 Record Date for Determining Stockholders.

(a) In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, unless otherwise required by applicable law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance herewith at the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of its capital stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which shall not be more than sixty (60) days prior to any such action. If no such record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 6.8 Regulations. The Board of Directors may make such additional rules and regulations as it may deem necessary, appropriate or convenient concerning the issue, transfer and registration of shares of the Corporation's capital stock.

**ARTICLE VII
GENERAL MATTERS**

Section 7.1 Fiscal Year. The fiscal year of the Corporation shall commence on December 1 and end on November 30 of the same year, or such other twelve (12) consecutive month period as the Board of Directors may designate.

Section 7.2 Corporate Seal. The Board of Directors may provide for a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary of the Corporation. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or Assistant Treasurer of the Corporation.

Section 7.3 Reliance Upon Books, Reports and Records. Each member of the Board of Directors and of any committee thereof shall, in the performance of his or her duties, be fully protected in relying in good faith upon the records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors or by any other person as to matters the member reasonably believes are within such other person's

professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 7.4 Subject to Certificate of Incorporation and Applicable Law. All powers, duties and responsibilities provided for in these By-laws, whether or not explicitly so qualified, are qualified by the Certificate of Incorporation and applicable law.

Section 7.5 Dividends. Subject to (a) limitations contained in the DGCL and the Certificate of Incorporation and (b) the rights of any holders of Preferred Stock, the Board of Directors may declare and the Corporation may pay dividends on its outstanding shares of capital stock in cash, property or its own shares of capital stock.

Section 7.6 Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by applicable law, (a) the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation; (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, other employee or stockholder of the Corporation to the Corporation or the Corporation's stockholders, or any action asserting a claim for aiding and abetting any such breach of fiduciary duty; (iii) any action asserting a claim arising pursuant to, or seeking to enforce any right, obligation or remedy under, any provision of the General Corporation Law of the State of Delaware, the Corporation's Certificate of Incorporation or these By-laws (as each may be amended from time to time); (iv) any action asserting a claim governed by the internal affairs doctrine, or (v) any action asserting an "internal corporate claim" as that term is defined in Section 115 of the General Corporation Law of the State of Delaware; except, as to each of (i) through (v) above, if the federal courts have exclusive jurisdiction or the Court of Chancery of the State of Delaware does not have jurisdiction, then the sole and exclusive forum shall be the federal district court for the District of Delaware and (b) a federal district court for the United States of America (a "U.S. district court") shall be the sole and exclusive forum for any action asserting a claim arising under the Securities Act of 1933, as amended. Any person or entity purchasing or otherwise acquiring or holding any interest in any of the capital stock of the Corporation will be deemed to have notice of and to have consented to the provisions of this Section 7.6. If any action the subject matter of which is within the scope of this Section 7.6 is filed in a court other than as permitted above (a "Foreign Action") by or in the name of any stockholder, such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the applicable permitted court in connection with any action brought in any such court to enforce this Section 7.6 and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder. The existence of any prior consent to an alternative forum shall not act as a waiver of the Corporation's ongoing consent right as set forth above in this Section 7.6 with respect to any current or future actions or proceedings.

ARTICLE VIII AMENDMENTS

Section 8.1 Amendments. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, amend or repeal these By-laws.

The foregoing By-laws were adopted by the Board of Directors on January 19, 2023, and are effective as of such date.

KB HOME,
Company,

THE EXISTING GUARANTORS PARTY HERETO,
Guarantors,

KB HOME TUCSON INC.
Additional Guarantor,

and

REGIONS BANK,
Trustee

TWELFTH SUPPLEMENTAL INDENTURE

Dated as of January 19, 2023

THIS TWELFTH SUPPLEMENTAL INDENTURE (this “Twelfth Supplemental Indenture”) is dated as of January 19, 2023 and is executed by and among KB Home, a Delaware corporation (“Company”), the Existing Guarantors (as defined below) and KB HOME Tucson Inc., an Arizona corporation (“Additional Guarantor”), and Regions Bank (successor to U.S. Bank Trust Company, National Association), as trustee (the “Trustee”).

RECITALS:

WHEREAS, the Company, the guarantors party thereto and the Trustee have heretofore executed and delivered an Indenture dated as of January 28, 2004 (the “Original Indenture”), providing for the issuance by the Company from time to time of its Securities (as defined in the Original Indenture), a First Supplemental Indenture dated as of January 28, 2004 (the “First Supplemental Indenture”), a Second Supplemental Indenture dated as of June 30, 2004 (the “Second Supplemental Indenture”), a Third Supplemental Indenture dated as of May 1, 2006 (the “Third Supplemental Indenture”), a Fourth Supplemental Indenture dated as of November 9, 2006 (the “Fourth Supplemental Indenture”), a Fifth Supplemental Indenture dated as of August 17, 2007 (the “Fifth Supplemental Indenture”), a Sixth Supplemental Indenture dated as of January 30, 2012 (the “Sixth Supplemental Indenture”), a Seventh Supplemental Indenture dated as of January 11, 2013 (the “Seventh Supplemental Indenture”), an Eighth Supplemental Indenture dated as of March 12, 2013 (the “Eighth Supplemental Indenture”), a Ninth Supplemental Indenture dated as of February 28, 2014 (the “Ninth Supplemental Indenture”), a Tenth Supplemental Indenture dated as of January 22, 2019 (the “Tenth Supplemental Indenture”), and an Eleventh Supplemental Indenture dated as of January 20, 2022 (the “Eleventh Supplemental Indenture”); the Original Indenture, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, and this Twelfth Supplemental Indenture, is hereinafter called the “Indenture”, which term shall include the terms and provisions of each series of Securities established from time to time pursuant to Section 301 of the Original Indenture;

WHEREAS, pursuant to Articles Two and Three of the Original Indenture, the Company has established (i) by an Officers’ Certificate and Guarantor’s Officers’ Certificate, dated as of February 20, 2019, the form and terms of a series of the Company’s Securities designated the “6.875% Senior Notes due 2027” (“2027 Notes”), (ii) by an Officers’ Certificate and Guarantor’s Officers’ Certificate, dated as of November 4, 2019, the form and terms of a series of the Company’s Securities designated the “4.800% Senior Notes due 2029” (“2029 Notes”), (iii) by an Officers’ Certificate and Guarantor’s Officers’ Certificate, dated as of June 9, 2021, the form and terms of a series of the Company’s Securities designated the “4.00% Senior Notes due 2031” (“2031 Notes”), and (iv) by an Officers’ Certificate and Guarantor’s Officers’ Certificate, dated as of June 22, 2022, the form and terms of a series of the Company’s Securities designated the “7.250% Senior Notes due 2030” (“2030 Notes” and, together with the 2027 Notes, the 2029 Notes, and the 2031 Notes, “Senior Notes”) (the Officers’ Certificates and Guarantor’s Officers’ Certificates referred to in clauses (i), (ii), (iii) and (iv) of this paragraph are hereinafter called, together, “Existing Certificates”);

WHEREAS, concurrently with the execution and delivery of this Twelfth Supplemental Indenture, the Additional Guarantor is, pursuant to an Instrument of Joinder to the Subsidiary Guaranty (“Joinder”), guaranteeing the obligations of the Company under that certain Fourth Amended and Restated Revolving Loan Agreement, dated as of February 18, 2022, between the Company, the banks party thereto and Citibank, N.A. as Administrative Agent, as may be amended from time to time (“Revolving Loan Agreement”); and the date of the Joinder’s effectiveness, “Effective Date”);

WHEREAS, the Company, the Existing Guarantors and the Additional Guarantor wish to amend and supplement the Indenture to provide for the Additional Guarantor to become a Guarantor under the Indenture and to guarantee the obligations of the Company under the Indenture and the Securities (including, without limitation, the Senior Notes) issued thereunder from time to time and any Coupons appertaining thereto, and otherwise to modify the Indenture on the terms set forth in this Twelfth Supplemental Indenture; and

WHEREAS, the Company has by Company Order dated the date hereof instructed the Trustee to execute and deliver this Twelfth Supplemental Indenture pursuant to the terms of the Original Indenture, and all requirements necessary to make this Twelfth Supplemental Indenture a valid instrument in accordance with its terms have been performed and the execution and delivery of this Twelfth Supplemental Indenture have been duly authorized in all respects by the Company, each of the Existing Guarantors and the Additional Guarantor.

NOW, THEREFORE, for and in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company, the Existing Guarantors, the Additional Guarantor and the Trustee mutually covenant and agree for the equal and proportionate benefit of the Holders (as defined in the Original Indenture) of the Securities or any series thereof and any Coupons, as follows:

SECTION 1. Definitions.

(a) Terms used herein and not defined herein have the meanings ascribed to such terms in the Original Indenture.

(b) As used in this Twelfth Supplemental Indenture, the terms “2027 Notes,” “2029 Notes,” “2030 Notes,” “2031 Notes,” “Additional Guarantor,” “Existing Certificates,” “Joinder,” “Effective Date,” “Original Indenture,” “First Supplemental Indenture,” “Second Supplemental Indenture,” “Third Supplemental Indenture,” “Fourth Supplemental Indenture,” “Fifth Supplemental Indenture,” “Sixth Supplemental Indenture,” “Seventh Supplemental Indenture,” “Eighth Supplemental Indenture,” “Ninth Supplemental Indenture,” “Tenth Supplemental Indenture,” “Eleventh Supplemental Indenture,” “Twelfth Supplemental Indenture,” “Indenture,” “Senior Notes,” “Trustee” and “Company” have the meanings specified in the recitals hereto and in the paragraph preceding such recitals; and the term “Existing Guarantors” means KB HOME Coastal Inc., KB HOME Greater Los Angeles Inc., KB HOME Sacramento Inc., and KB HOME South Bay Inc., each a California corporation, and KB HOME Las Vegas Inc. and KB HOME Reno Inc., each a Nevada corporation, and KB HOME Colorado Inc., a Colorado

corporation, and KB HOME Lone Star Inc. and KBSA, Inc., each a Texas corporation, and KB HOME Phoenix Inc., an Arizona corporation, and KB HOME Florida LLC, KB HOME Fort Myers LLC, KB HOME Jacksonville LLC, KB HOME Treasure Coast LLC, KB HOME Orlando LLC, and KBHPNW LLC, each a Delaware limited liability company.

SECTION 2. Guarantee. The parties hereto covenant and agree that, from and after the Effective Date:

(a) the Additional Guarantor shall be a Guarantor under the Indenture as if the Additional Guarantor was an original signatory thereto and an original Guarantor named therein;

(b) without limitation of the other provisions of this Section 2, the Additional Guarantor shall be a Guarantor under the Indenture with respect to all of the Securities issued and outstanding thereunder from time to time (including, without limitation, the Senior Notes) and any Coupons appertaining thereto on and subject to the terms and provisions of the Indenture (including, without limitation, the terms and provisions of the Existing Certificates);

(c) without limitation of the other provisions of this Section 2, the Additional Guarantor agrees that the Indenture constitutes a valid and binding obligation of the Additional Guarantor, enforceable against the Additional Guarantor in accordance with its terms;

(d) without limitation of the other provisions of this Section 2, the Additional Guarantor agrees to perform and to comply with all of the covenants and agreements of a Guarantor in the Indenture and each of the Existing Certificates, in each case as if the Additional Guarantor were an original signatory thereto and an original Guarantor named therein; and

(e) without limitation of the other provisions of this Section 2, the Existing Guarantors hereby affirm their Guarantees and obligations under the Indenture.

SECTION 3. Governing Law; Twelfth Supplemental Indenture. This Twelfth Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made or instruments entered into and, in each case, performed in said State. The terms and conditions of this Twelfth Supplemental Indenture shall be, and be deemed to be, part of the terms and conditions of the Indenture for any and all purposes. Other than as amended and supplemented by this Twelfth Supplemental Indenture, the Original Indenture, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, and the Eleventh Supplemental Indenture, is in all respects ratified and confirmed.

SECTION 4. Acceptance by Trustee. Subject to Section 7 hereof, the Trustee hereby accepts this Twelfth Supplemental Indenture and agrees to perform the same upon the terms and conditions set forth in the Indenture.

SECTION 5. Counterparts. This Twelfth Supplemental Indenture may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument.

SECTION 6. Headings. The headings of this Twelfth Supplemental Indenture are for reference only and shall not limit or otherwise affect the meaning hereof.

SECTION 7. Trustee Not Responsible for Recitals. The recitals herein contained are made by the Company, the Existing Guarantors and the Additional Guarantor and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Twelfth Supplemental Indenture, except as to its validity with respect to the Trustee.

SECTION 8. Separability. In case any one or more of the provisions contained in this Twelfth Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not, to the fullest extent permitted by law, in any way be affected or impaired thereby.

[Signature Page Follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Twelfth Supplemental Indenture to be duly executed, all as of the day and year first above written.

“Company”:

KB HOME

By: /s/ Jeff J. Kaminski
Name: Jeff J. Kaminski
Title: Executive Vice President and
Chief Financial Officer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Corporate Secretary

“Existing Guarantors”:

KB HOME COASTAL INC., a California
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page - Twelfth Supplemental Indenture]

KB HOME GREATER LOS ANGELES INC., a
California corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME SACRAMENTO INC., a
California corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

KB HOME SOUTH BAY INC., a California
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME RENO INC., a Nevada
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

KB HOME LAS VEGAS INC., a Nevada
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME COLORADO INC., a Colorado
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME LONE STAR INC., a Texas
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KBSA, INC., a Texas corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

KB HOME PHOENIX INC., an Arizona
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

KB HOME FLORIDA LLC, a Delaware
limited liability company

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME FORT MYERS LLC, a
Delaware limited liability company

By: KB HOME FLORIDA LLC, a Delaware
limited liability company, its sole member

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME TREASURE COAST LLC, a
Delaware limited liability company

By: KB HOME FLORIDA LLC, a Delaware
limited liability company, its sole member

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

KB HOME JACKSONVILLE LLC, a
Delaware limited liability company

By: KB HOME FLORIDA LLC, a Delaware
limited liability company, its sole member

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KB HOME ORLANDO LLC, a
Delaware limited liability company

By: KB HOME FLORIDA LLC, a Delaware
limited liability company, its sole member

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

KBHPNW LLC, a
Delaware limited liability company

By: KB HOME COLORADO INC., a Colorado
corporation, its sole member

By: /s/ William R. Hollinger
Name: William R. Hollinger
Title: Vice President, CFO and Assistant Secretary

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page – Twelfth Supplemental Indenture]

“Additional Guarantor”

KB HOME TUCSON INC., an Arizona
corporation

By: /s/ Thad Johnson
Name: Thad Johnson
Title: Vice President and Treasurer

Attest:

/s/ William A. (Tony) Richelieu
Name: William A. (Tony) Richelieu
Title: Secretary

[Signature Page - Twelfth Supplemental Indenture]

“Trustee”: REGIONS BANK,

as Trustee

By: /s/ Douglas R. Milner
Name: Douglas R. Milner
Title: Senior Vice President

Attest:

/s/ Colin Ramsey
Name: Colin Ramsey
Title: Vice President

[Signature Page - Twelfth Supplemental Indenture]

CONSOLIDATED SUBSIDIARIES OF KB HOME

The following subsidiaries* of KB Home were included in the November 30, 2022 consolidated financial statements:

Name of Company/Jurisdiction of Incorporation or Formation	Percentage of Voting Securities Owned by the Registrant or a Subsidiary of the Registrant
<i>Arizona</i>	
KB HOME Phoenix Inc.	100
KB HOME Sales - Phoenix Inc.	100
KB HOME Sales - Tucson Inc.	100
KB HOME Tucson Inc.	100
<i>California</i>	
KB HOME Central Valley Inc.	100
KB HOME Coastal Inc.	100
KB HOME Greater Los Angeles Inc.	100
KB HOME Insurance Agency Inc.	100
KB HOME Sacramento Inc.	100
KB HOME South Bay Inc.	100
<i>Colorado</i>	
KB HOME Colorado Inc.	100
<i>Delaware</i>	
KB HOME California LLC	100
KB HOME Florida LLC	100
KB HOME Fort Myers LLC	100
KB HOME Inspirada LLC	100
KB HOME Jacksonville LLC	100
KB HOME North Bay LLC	100
KB HOME Orlando LLC	100
KB HOME Tampa LLC	100
KB HOME Treasure Coast LLC	100
KBHPNW LLC	100
KBHPNW Sales LLC	100
KB Urban Inc.	100
<i>Florida</i>	
KB HOME Title Services Inc.	100
<i>Illinois</i>	
KB HOME Mortgage Company	100
<i>Nevada</i>	
KB HOME Las Vegas Inc.	100
KB HOME Reno Inc.	100
<i>Texas</i>	
KB HOME Lone Star Inc.	100
KBSA, Inc.	100

* Certain subsidiaries have been omitted from this list. These subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary as defined in Rule 1-02(w) of Regulation S-X.

LIST OF GUARANTOR SUBSIDIARIES

The following subsidiaries of KB Home were, as of November 30, 2022, guarantors of its outstanding senior notes:

Name of Guarantor Subsidiary	State of Incorporation or Organization
KB HOME Coastal Inc.	California
KB HOME Colorado Inc.	Colorado
KB HOME Florida LLC	Delaware
KB HOME Fort Myers LLC	Delaware
KB HOME Greater Los Angeles Inc.	California
KB HOME Jacksonville LLC	Delaware
KB HOME Las Vegas Inc.	Nevada
KB HOME Lone Star Inc.	Texas
KB HOME Orlando LLC	Delaware
KB HOME Phoenix Inc.	Arizona
KB HOME Reno Inc.	Nevada
KB HOME Sacramento Inc.	California
KB HOME South Bay Inc.	California
KB HOME Treasure Coast LLC	Delaware
KB HOME Tucson Inc.	Arizona
KBHPNW LLC	Delaware
KBSA, Inc.	Texas

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-239778) of KB Home,
- (2) Registration Statement (Form S-8 No. 333-129273) pertaining to the KB Home 1988 Employee Stock Plan, the KB Home 1998 Stock Incentive Plan, the KB Home Performance-Based Incentive Plan for Senior Management, the KB Home Non-Employee Directors Stock Plan, the KB Home 401(k) Savings Plan, the KB Home 1999 Incentive Plan, the KB Home 2001 Stock Incentive Plan, certain stock grants and the resale of certain shares by officers of KB Home,
- (3) Registration Statement (Form S-8 No. 333-168179) pertaining to the KB Home 401(k) Savings Plan,
- (4) Registration Statements (Form S-8 No. 333-168181 and Form S-8 No. 333-175601) pertaining to the KB Home 2010 Equity Incentive Plan,
- (5) Registration Statement (Form S-8 No. 333-197521) pertaining to the KB Home 2014 Equity Incentive Plan, the Third Amended and Restated KB Home Non-Employee Directors Compensation Plan, and the KB Home 401(k) Savings Plan, and
- (6) Registration Statement (Form S-8 No. 333-212521) pertaining to the Amended KB Home 2014 Equity Incentive Plan and the KB Home 401(k) Savings Plan;

of our reports dated January 20, 2023 with respect to the consolidated financial statements of KB Home, and the effectiveness of internal control over financial reporting of KB Home, included in this Annual Report (Form 10-K) of KB Home for the year ended November 30, 2022.

/s/ Ernst & Young LLP

Los Angeles, California
January 20, 2023

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey T. Mezger, certify that:

1. I have reviewed this annual report on Form 10-K of KB Home;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated January 20, 2023

/s/ JEFFREY T. MEZGER
Jeffrey T. Mezger
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeff J. Kaminski, certify that:

1. I have reviewed this annual report on Form 10-K of KB Home;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated January 20, 2023

/s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of KB Home (the “Company”) on Form 10-K for the period ended November 30, 2022 (the “Report”), I, Jeffrey T. Mezger, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated January 20, 2023

/s/ JEFFREY T. MEZGER
Jeffrey T. Mezger
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of KB Home (the “Company”) on Form 10-K for the period ended November 30, 2022 (the “Report”), I, Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated January 20, 2023

/s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**RESOLUTIONS OF
THE BOARD OF DIRECTORS OF
KB HOME**

WHEREAS, KB Home (the “**Corporation**”) has in effect an Amended KB Home 2014 Equity Incentive Plan (the “**Amended Plan**”), which was approved by the Board of Directors of the Corporation (the “**Board**”) and the Management Development and Compensation Committee of the Board (the “**Committee**”) and submitted for approval by the Board to the stockholders of the Corporation.

WHEREAS, the Corporation has in effect an Amended Rights Agreement (the “**Amended Rights Agreement**”), which was approved by the Board and submitted for approval by the Board to the stockholders of the Corporation.

WHEREAS, copies of the Amended Plan and Amended Rights Agreement have been provided to the Board.

WHEREAS, the Board has been informed that, as more fully described in the resolutions set forth below, there may be uncertainty regarding whether the Amended Plan was validly approved and that, as a result, a question could potentially be raised regarding the validity of the additional share grant capacity of the Amended Plan and awards specifically made under that additional grant capacity and whether the Amended Rights Agreement was validly approved. There are no questions about the validity of the Original Plan or the Original Agreement (each such term as defined below).

WHEREAS, any potentially defective corporate act that is or may be void or voidable due to a failure or potential failure to authorize or effect such act in compliance with, among other things, any plan or agreement to which the Corporation is a party may be ratified under Section 204 of the Delaware General Corporation Law (the “**DGCL**”).

WHEREAS, following the effectiveness of a ratification approved under Section 204 of the DGCL, each act so ratified is no longer deemed void or voidable as a result of any failures of authorization and such effect is retroactive to the original time of such ratified act.

WHEREAS, the Board has determined that it is advisable and in the best interests of the Corporation to adopt the resolutions set forth below in order to eliminate potential questions regarding the validity of the Amended Plan or the Amended Rights Agreement.

RESOLVED, that:

- (1) The acts to be ratified by this resolution are the adoption and effectiveness of the Amended Plan, including all amendments to the prior KB Home 2014 Equity Incentive Plan (the “**Original Plan**”) effected thereby which included, among other things, increasing the shares of common stock of the Corporation available for grant under such equity plan by 7.5 million shares to a total of 12.3 million shares (plus any other shares available for grant under the terms of the Amended Plan).
 - (2) The Amended Plan was approved by the Board on January 21, 2016 and was approved by the Committee on February 10, 2016. The Board submitted the Amended Plan for approval by the Corporation’s stockholders through the Corporation’s proxy statement for its 2016 annual meeting of stockholders, and the proposal to so approve the Amended Plan received well over a majority of the votes cast by stockholders of the Corporation on April 7, 2016.
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- (3) The nature of the potential failure of authorization in respect of the adoption and effectiveness of the Amended Plan, and the amendments effected thereby, is that although under the terms of the Original Plan, the Amended Plan could be approved by the Board, and the Board did in fact approve the Amended Plan, it also submitted the matter for stockholder approval. Although the Corporation believes that the Amended Plan was approved in accordance with the requirements of the Original Plan, the record date for the Corporation's 2016 Annual Meeting may not have been fixed in accordance with the DGCL and the Company's By-Laws. Therefore, there may be an argument that the stockholders' approval of the Amended Plan was not effective, which may create uncertainty whether the Board approval was effective.
- (4) In consideration of the foregoing, the Board approves, adopts and authorizes, in all respects, the ratification of the adoption and effectiveness of the Amended Plan, and all amendments effected thereby, pursuant to Section 204 of the DGCL.

RESOLVED, that:

- (1) The acts to be ratified by this resolution are the adoption and effectiveness of the Amended Rights Agreement, including all amendments to the prior KB Home Rights Agreement (the "**Original Agreement**") effected thereby.
- (2) The Amended Rights Agreement was approved by the Board on January 24-25, 2018 and January 21, 2021. The Board submitted the Amended Rights Agreement for approval by the Corporation's stockholders through the Corporation's proxy statement for its 2018 annual meeting of stockholders and through the Corporation's proxy statement for its 2021 annual meeting of stockholders, and the proposal to so approve the Amended Rights Agreement received well over a majority of the votes cast by stockholders of the Corporation on April 12, 2018 and April 8, 2021.
- (3) The nature of the potential failure of authorization in respect of the adoption and effectiveness of the Amended Rights Agreement, and the amendments effected thereby, is that although under the terms of the Original Agreement, the Amended Rights Agreement could be approved by the Board, and the Board did in fact approve the Amended Rights Agreement, it also submitted the matter for stockholder approval. Although the Corporation believes that the Amended Rights Agreement was approved in accordance with the requirements of the Original Agreement, the record dates for the Corporation's 2018 Annual Meeting and 2021 Annual Meeting may not have been fixed in accordance with the DGCL and the Company's By-Laws. Therefore, there may be an argument that the stockholders' approval of the Amended Rights Agreement at the 2018 Annual Meeting and 2021 Annual Meeting was not effective, which may create uncertainty whether the Board approval was effective.
- (4) In consideration of the foregoing, the Board approves, adopts and authorizes, in all respects, the ratification of the adoption and effectiveness of the Amended Rights Agreement, and all amendments effected thereby, pursuant to Section 204 of the DGCL.

RESOLVED, that each officer of the Corporation (acting alone) is authorized and directed, in the name of and on behalf of the Corporation, to provide prompt notice of the adoption of these resolutions by the Board to the Corporation's stockholders in accordance with Section 204(g) of the DGCL.

RESOLVED, that in addition to the ratification permitted by Section 204 of the DGCL, the Board approves, adopts, confirms and ratifies the adoption and effectiveness of the Amended Plan, and each award previously made thereunder and any shares issued pursuant to such awards, and the Amended Rights Agreement and all rights subject thereto, to the fullest extent permitted by the common law of the State of Delaware or any other applicable law.