KB HOME
Form 10-Q
July 09, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended May 31, 2014.
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from [ ] to [ ].
Commission File No. 001-09195
KB HOME
(Exact name of registrant as specified in its charter)

Delaware	95-3666267
(State of incorporation)	(IRS employer identification number)

10990 Wilshire Boulevard
Los Angeles, California 90024
(310) 231-4000
(Address and telephone number of principal executive offices)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of May 31, 2014.
There were 91,791,488 shares of the registrant’s common stock, par value $1.00 per share, outstanding on May 31, 2014. The registrant’s grantor stock ownership trust held an additional 10,501,844 shares of the registrant’s common stock on that date.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
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CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts – Unaudited)

	Six Months Ended May 31,		Three Months Ended May 31,	
	2014	2013	2014	2013
Total revenues	$1,015,694	$929,625	$565,007	$524,406
Homebuilding:				
Revenues	$1,010,663	$924,604	$562,396	$521,788
Construction and land costs	(825,834)	(786,263)	(456,560)	(442,998)
Selling, general and administrative expenses	(132,818)	(129,196)	(71,544)	(70,099)
Operating income	52,011	9,145	34,292	8,691
Interest income	283	436	115	232
Interest expense	(19,834)	(29,747)	(8,558)	(14,507)
Equity in income (loss) of unconsolidated joint ventures	1,912	(1,002)	(678)	(567)
Homebuilding pretax income (loss)	34,372	(21,168)	25,171	(6,151)
Financial services:				
Revenues	5,031	5,021	2,611	2,618
Expenses	(1,704)	(1,471)	(852)	(636)
Equity in income (loss) of unconsolidated joint ventures	(12)	1,087	(6)	(4)
Financial services pretax income	3,315	4,637	1,753	1,978
Total pretax income (loss)	37,687	(16,531)	26,924	(4,173)
Income tax benefit (expense)	(500)	1,100	(300)	1,200
Net income (loss)	$37,187	$(15,431)	$26,624	$(2,973)
Earnings (loss) per share:				
Basic	$.43	$(.19)	$.30	$(.04)
Diluted	$.40	$(.19)	$.27	$(.04)
Weighted average shares outstanding:				
Basic	86,668	81,526	89,529	83,605
Diluted	96,759	81,526	99,508	83,605
Cash dividends declared per common share	$.0500	$.0500	$.0250	$.0250

See accompanying notes.

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CONSOLIDATED BALANCE SHEETS
(In Thousands – Unaudited)

	May 31, 2014	November 30, 2013
Assets		
Homebuilding:		
Cash and cash equivalents	$484,472	$530,095
Restricted cash	44,237	41,906
Receivables	99,779	75,749
Inventories	3,006,118	2,298,577
Investments in unconsolidated joint ventures	67,594	130,192
Other assets	116,558	107,076
	3,818,758	3,183,595
Financial services	9,268	10,040
Total assets	$3,828,026	$3,193,635
Liabilities and stockholders' equity		
Homebuilding:		
Accounts payable	$154,170	$148,282
Accrued expenses and other liabilities	388,349	356,176
Mortgages and notes payable	2,573,980	2,150,498
	3,116,499	2,654,956
Financial services	1,854	2,593
Common stock	115,360	115,296
Paid-in capital	657,028	788,893
Retained earnings	514,688	481,889
Accumulated other comprehensive loss	(17,516)	(17,516)
Grantor stock ownership trust, at cost	(113,911)	(113,911)
Treasury stock, at cost	(445,976)	(718,565)
Total stockholders' equity	709,673	536,086
Total liabilities and stockholders' equity	$3,828,026	$3,193,635

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands – Unaudited)

	Six Months Ended May 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$37,187	$(15,431)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in income of unconsolidated joint ventures	(1,900)	(85)
Distributions of earnings from unconsolidated joint ventures	—	1,638
Amortization of discounts and issuance costs	3,360	2,387
Depreciation and amortization	1,026	940
Stock-based compensation	3,725	2,044
Land option contract abandonments	790	284
Changes in assets and liabilities:		
Receivables	(22,710)	(405)
Inventories	(579,173)	(290,661)
Accounts payable, accrued expenses and other liabilities	8,083	32,210
Other, net	(4,917)	(521)
Net cash used in operating activities	(554,529)	(267,600)
Cash flows from investing activities:		
Contributions to unconsolidated joint ventures	(16,242)	(5,651)
Proceeds from sale of investment in unconsolidated joint venture	10,110	—
Purchases of property and equipment, net	(3,012)	(752)
Net cash used in investing activities	(9,144)	(6,403)
Cash flows from financing activities:		
Change in restricted cash	(2,331)	40
Proceeds from issuance of debt	400,000	230,000
Payment of debt issuance costs	(5,448)	(10,086)
Payments on mortgages and land contracts due to land sellers and other loans	(6,476)	(37,830)
Proceeds from issuance of common stock, net	137,045	109,503
Issuance of common stock under employee stock plans	64	2,106
Payments of cash dividends	(4,388)	(4,179)
Stock repurchases	(46)	(33)
Net cash provided by financing activities	518,420	289,521
Net increase (decrease) in cash and cash equivalents	(45,253)	15,518
Cash and cash equivalents at beginning of period	532,523	525,688
Cash and cash equivalents at end of period	$487,270	$541,206

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly our consolidated financial position as of May 31, 2014, the results of our consolidated operations for the three months and six months ended May 31, 2014 and 2013, and our consolidated cash flows for the six months ended May 31, 2014 and 2013. The results of our consolidated operations for the three months and six months ended May 31, 2014 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in operating results and other factors. The consolidated balance sheet at November 30, 2013 has been taken from the audited consolidated financial statements as of that date. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2013, which are contained in our Annual Report on Form 10-K for that period.

Unless the context indicates otherwise, the terms “we,” “our,” and “us” used in this report refer to KB Home, a Delaware corporation, and its subsidiaries.

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

Cash and Cash Equivalents and Restricted Cash. 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 $357.2 million at May 31, 2014 and $436.2 million at November 30, 2013. The majority of our cash and cash equivalents were invested in money market funds and interest-bearing bank deposit accounts.

Restricted cash of $44.2 million at May 31, 2014 and $41.9 million at November 30, 2013 consisted of cash deposited with various financial institutions that was required as collateral for our cash-collateralized letter of credit facilities (the “LOC Facilities”).

Comprehensive Income (Loss). Our comprehensive income was $26.6 million for the three months ended May 31, 2014 and $37.2 million for the six months ended May 31, 2014. Our comprehensive loss was $3.0 million for the three months ended May 31, 2013 and $15.4 million for the six months ended May 31, 2013. Our comprehensive income (loss) for each of the three-month and six-month periods ended May 31, 2014 and 2013 was equal to our net income (loss) for the same periods. The accumulated other comprehensive loss in our consolidated balance sheets as of May 31, 2014 and November 30, 2013 was comprised solely of adjustments recorded directly to accumulated other comprehensive loss in accordance with Accounting Standards Codification Topic No. 715, “Compensation – Retirement Benefits” (“ASC 715”). Such adjustments are made annually as of November 30, when our benefit plan obligations are remeasured. ASC 715 requires an employer to recognize the funded status of defined postretirement benefit plans as an asset or liability on the balance sheet and requires any unrecognized prior service costs and actuarial gains/losses to be recognized in accumulated other comprehensive income (loss).

Recent Accounting Pronouncements. In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2013-11”), which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax

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(Unaudited)

1. Basis of Presentation and Significant Accounting Policies (continued)

loss, or a tax credit carryforward exists at the reporting date. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We believe the adoption of this guidance will not have a material impact on our consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"), which raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the new definition of a discontinued operation. It also allows an entity to present a discontinued operation even when it has continuing cash flows and significant continuing involvement with the disposed component. The amendments in ASU 2014-08 are effective prospectively for disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, "Revenue Recognition," most industry-specific guidance throughout the industry topics of the accounting standards codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation — Stock Compensation" ("ASC 718"), as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We believe the adoption of this guidance will not have a material effect on our consolidated financial statements.

Reclassifications. Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to the 2014 presentation.

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2. Segment Information
As of May 31, 2014, we had identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment, within our consolidated operations in accordance with Accounting Standards Codification Topic No. 280, “Segment Reporting.” As of May 31, 2014, our homebuilding reporting segments conducted ongoing operations in the following states:
West Coast: California
Southwest: Arizona and Nevada
Central: Colorado, New Mexico and Texas
Southeast: Florida, Maryland, North Carolina and Virginia
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, move-up and active adult homebuyers.
Our homebuilding reporting segments were identified based primarily on similarities in economic and geographic characteristics, product types, regulatory environments, methods used to sell and construct homes and land acquisition characteristics. We evaluate segment performance primarily based on segment pretax results.
Our financial services reporting segment offers property and casualty insurance and, in certain instances, earthquake, flood and personal property insurance to our homebuyers in the same markets as our homebuilding reporting segments, and provides title services in the majority of our markets within our Central and Southeast homebuilding reporting segments. This segment also earns revenues pursuant to the terms of a marketing services agreement with Nationstar Mortgage LLC (“Nationstar”), our preferred mortgage lender that offers mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers who elect to use the lender. Our homebuyers are under no obligation to use our preferred mortgage lender and may select any lender of their choice to obtain mortgage financing for the purchase of a home. Except as discussed below, we have had no affiliation, ownership, joint venture or other interests in or with our preferred mortgage lender or its affiliates, or with respect to the revenues or income that may have been generated from their provision of mortgage banking services to, or origination of mortgage loans for, our homebuyers.
On January 21, 2013, we entered into an agreement with Nationstar to form Home Community Mortgage, LLC (“Home Community Mortgage”), a mortgage banking company that will offer an array of mortgage banking services to our homebuyers. We have a 49.9% ownership interest and Nationstar has a 50.1% ownership interest in Home Community Mortgage, with Nationstar providing management oversight of Home Community Mortgage’s operations. Nationstar will continue as our preferred mortgage lender until Home Community Mortgage begins offering mortgage banking services. Home Community Mortgage is accounted for as an unconsolidated joint venture within our financial services reporting segment.
Corporate and other is a non-operating segment that develops and implements company-wide strategic initiatives and provides support to our homebuilding reporting segments by centralizing certain administrative functions, such as promotional marketing, legal, purchasing administration, architecture, accounting, treasury, insurance and risk management, information technology and human resources, to benefit from economies of scale. 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 the homebuilding reporting segments.
Our segments follow the same accounting policies used for our consolidated financial statements. The results of each 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 segments (in thousands):

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(Unaudited)

2. Segment Information (continued)

	Six Months Ended May 31,		Three Months Ended May 31,	
	2014	2013	2014	2013
Revenues:				
West Coast	$442,041	$479,594	$260,320	$273,490
Southwest	94,496	79,078	48,381	47,247
Central	297,546	226,797	172,384	120,305
Southeast	176,580	139,135	81,311	80,746
Total homebuilding revenues	1,010,663	924,604	562,396	521,788
Financial services	5,031	5,021	2,611	2,618
Total	$1,015,694	$929,625	$565,007	$524,406
Pretax income (loss):				
West Coast	$54,329	$37,862	$35,964	$28,020
Southwest	5,056	841	3,771	1,590
Central	13,292	2,484	10,516	2,348
Southeast	(1,916)	(25,092)	(5,757)	(16,768)
Corporate and other	(36,389)	(37,263)	(19,323)	(21,341)
Total homebuilding pretax income (loss)	34,372	(21,168)	25,171	(6,151)
Financial services	3,315	4,637	1,753	1,978
Total	$37,687	$(16,531)	$26,924	$(4,173)
Equity in income (loss) of unconsolidated joint ventures:				
West Coast	$(58)	$(73)	$(20)	$(40)
Southwest	(1,321)	(1,164)	(658)	(639)
Central	—	—	—	—
Southeast	3,291	235	—	112
Total	$1,912	$(1,002)	$(678)	$(567)
Land option contract abandonments:				
West Coast	$103	$284	$103	$284
Southwest	—	—	—	—
Central	433	—	—	—
Southeast	254	—	254	—
Total	$790	$284	$357	$284

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Segment Information (continued)

	May 31, 2014	November 30, 2013
Inventories:		
Homes under construction		
West Coast	$465,052	$275,516
Southwest	46,175	39,661
Central	189,191	157,572
Southeast	123,855	113,690
Subtotal	824,273	586,439
Land under development		
West Coast	729,946	560,032
Southwest	298,501	106,654
Central	323,277	238,311
Southeast	212,301	161,919
Subtotal	1,564,025	1,066,916
Land held for future development		
West Coast	307,179	308,636
Southwest	137,605	157,924
Central	24,274	15,193
Southeast	148,762	163,469
Subtotal	617,820	645,222
Total	$3,006,118	$2,298,577
Investments in unconsolidated joint ventures:		
West Coast	$48,756	$40,246
Southwest	16,337	80,877
Central	—	—
Southeast	2,501	9,069
Total	$67,594	$130,192
Assets:		
West Coast	$1,615,126	$1,230,761
Southwest	521,977	402,443
Central	610,280	465,547
Southeast	506,494	456,965
Corporate and other	564,881	627,879
Total homebuilding assets	3,818,758	3,183,595
Financial services	9,268	10,040
Total	$3,828,026	$3,193,635

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
3. Financial Services

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