

KB HOME
Form 10-Q
October 09, 2015

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended August 31, 2015.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from [] to [].

Commission File No. 001-09195

KB HOME

(Exact name of registrant as specified in its charter)

Delaware

95-3666267

(State 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 31, 2015.

There were 92,071,598 shares of the registrant's common stock, par value \$1.00 per share, outstanding on August 31, 2015. The registrant's grantor stock ownership trust held an additional 10,335,461 shares of the registrant's common stock on that date.

KB HOME
FORM 10-Q
INDEX

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
Consolidated Statements of Operations - Nine Months and Three Months Ended August 31, 2015 and 2014	<u>3</u>
Consolidated Balance Sheets - August 31, 2015 and November 30, 2014	<u>4</u>
Consolidated Statements of Cash Flows - Nine Months Ended August 31, 2015 and 2014	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 4. Controls and Procedures</u>	<u>52</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>52</u>
<u>Item 1A. Risk Factors</u>	<u>52</u>
<u>Item 6. Exhibits</u>	<u>53</u>
<u>SIGNATURES</u>	<u>54</u>
<u>INDEX OF EXHIBITS</u>	<u>55</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KB HOME

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts – Unaudited)

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Total revenues	\$2,046,247	\$1,604,908	\$843,157	\$589,214
Homebuilding:				
Revenues	\$2,038,896	\$1,596,894	\$840,204	\$586,231
Construction and land costs	(1,725,976)	(1,305,258)	(709,148)	(479,424)
Selling, general and administrative expenses	(244,678)	(205,715)	(95,074)	(72,897)
Operating income	68,242	85,921	35,982	33,910
Interest income	342	393	87	110
Interest expense	(17,850)	(26,289)	(4,394)	(6,455)
Equity in income (loss) of unconsolidated joint ventures	(1,180)	1,161	(422)	(751)
Homebuilding pretax income	49,554	61,186	31,253	26,814
Financial services:				
Revenues	7,351	8,014	2,953	2,983
Expenses	(2,802)	(2,563)	(910)	(859)
Equity in income (loss) of unconsolidated joint ventures	3,023	(289)	658	(277)
Financial services pretax income	7,572	5,162	2,701	1,847
Total pretax income	57,126	66,348	33,954	28,661
Income tax expense	(16,500)	(800)	(10,700)	(300)
Net income	\$40,626	\$65,548	\$23,254	\$28,361
Earnings per share:				
Basic	\$.44	\$.74	\$.25	\$.31
Diluted	\$.42	\$.68	\$.23	\$.28
Weighted average shares outstanding:				
Basic	92,005	88,389	92,065	91,793
Diluted	101,605	98,614	101,874	102,070
Cash dividends declared per common share	\$.075	\$.075	\$.025	\$.025

See accompanying notes.

KB HOME
CONSOLIDATED BALANCE SHEETS
(In Thousands – Unaudited)

	August 31, 2015	November 30, 2014
Assets		
Homebuilding:		
Cash and cash equivalents	\$352,952	\$356,366
Restricted cash	25,028	27,235
Receivables	159,576	125,488
Inventories	3,401,737	3,218,387
Investments in unconsolidated joint ventures	72,800	79,441
Deferred tax assets, net	810,016	825,232
Other assets	114,352	114,915
	4,936,461	4,747,064
Financial services	12,035	10,486
Total assets	\$4,948,496	\$4,757,550
Liabilities and stockholders' equity		
Homebuilding:		
Accounts payable	\$178,604	\$172,716
Accrued expenses and other liabilities	497,158	409,882
Notes payable	2,630,732	2,576,525
	3,306,494	3,159,123
Financial services	1,776	2,517
Stockholders' equity:		
Common stock	115,524	115,387
Paid-in capital	679,600	668,857
Retained earnings	1,424,992	1,391,256
Accumulated other comprehensive loss	(21,008)	(21,008)
Grantor stock ownership trust, at cost	(112,106)	(112,106)
Treasury stock, at cost	(446,776)	(446,476)
Total stockholders' equity	1,640,226	1,595,910
Total liabilities and stockholders' equity	\$4,948,496	\$4,757,550
See accompanying notes.		

KB HOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands – Unaudited)

	Nine Months Ended August 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$40,626	\$65,548
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of unconsolidated joint ventures	(1,843	) (872)
Amortization of discounts and issuance costs	5,866	5,246
Depreciation and amortization	2,547	1,677
Deferred income taxes	15,216	—
Stock-based compensation	10,444	5,959
Inventory impairments and land option contract abandonments	4,516	5,211
Changes in assets and liabilities:		
Receivables	(25,032	) (27,754)
Inventories	(72,509	) (784,457)
Accounts payable, accrued expenses and other liabilities	(1,952	) 20,388
Other, net	37	(7,608)
Net cash used in operating activities	(22,084	) (716,662)
Cash flows from investing activities:		
Contributions to unconsolidated joint ventures	(20,955	) (34,034)
Return of investments in unconsolidated joint ventures	14,000	—
Proceeds from sale of investment in unconsolidated joint venture	—	10,110
Purchases of property and equipment, net	(2,100	) (4,158)
Net cash used in investing activities	(9,055	) (28,082)
Cash flows from financing activities:		
Change in restricted cash	2,207	9,450
Proceeds from issuance of debt	250,000	400,000
Payment of debt issuance costs	(4,561	) (5,448)
Repayment of senior notes	(199,906) —
Payments on mortgages and land contracts due to land sellers and other loans	(13,736	) (23,292)
Proceeds from issuance of common stock, net	—	137,045
Issuance of common stock under employee stock plans	436	202
Payments of cash dividends	(6,890	) (6,682)
Stock repurchases	(300	) (46)
Net cash provided by financing activities	27,250	511,229
Net decrease in cash and cash equivalents	(3,889	) (233,515)
Cash and cash equivalents at beginning of period	358,768	532,523
Cash and cash equivalents at end of period	\$354,879	\$299,008
See accompanying notes.		

KB HOME
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 August 31, 2015, the results of our consolidated operations for the three months and nine months ended August 31, 2015 and 2014, and our consolidated cash flows for the nine months ended August 31, 2015 and 2014. The results of our consolidated operations for the three months and nine months ended August 31, 2015 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, 2014 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, 2014, 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 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 \$231.0 million at August 31, 2015 and \$197.7 million at November 30, 2014. The majority of our cash and cash equivalents were invested in money market funds and interest-bearing bank deposit accounts.

Restricted Cash. Restricted cash at August 31, 2015 and November 30, 2014 consisted of cash deposited with various financial institutions that was required as collateral for our cash-collateralized letter of credit facilities (“LOC Facilities”).

Comprehensive Income. Our comprehensive income was \$23.3 million for the three months ended August 31, 2015 and \$28.4 million for the three months ended August 31, 2014. For the nine months ended August 31, 2015 and 2014, our comprehensive income was \$40.6 million and \$65.5 million, respectively. Our comprehensive income for each of the three-month and nine-month periods ended August 31, 2015 and 2014 was equal to our net income for the same periods.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (“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. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim

reporting periods within that reporting period. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, "Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items" ("ASU 2015-01"). ASU 2015-01 eliminates the concept of extraordinary items from GAAP but retains the presentation and disclosure guidance for items that are unusual in nature or occur infrequently and expands the guidance to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. A reporting entity may apply ASU 2015-01 prospectively. A reporting

entity may also apply ASU 2015-01 retrospectively to all periods presented in the financial statements. We believe the adoption of ASU 2015-01 will not have a material effect on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We believe the adoption of ASU 2015-02 will not have a material effect on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, "Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public entities, ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is to be applied on a retrospective basis and represents a change in accounting principle. We believe the adoption of ASU 2015-03 will not have a material effect on our consolidated financial statements.

In August 2015, the FASB issued Accounting Standards Update No. 2015-15, "Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting" ("ASU 2015-15"), which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. In particular, ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We believe the adoption of ASU 2015-15 will not have a material effect on our consolidated financial statements.

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

2. Segment Information

As of August 31, 2015, we had identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment. As of August 31, 2015, 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 operations generate most of their revenues from the delivery of completed homes to homebuyers. They also earn revenues from the sale of land.

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 located within our Central and Southeast homebuilding reporting segments. This segment earns revenues primarily from insurance commissions and from the provision of title services. Prior to July 21, 2014, this segment also earned revenues pursuant to the terms of a marketing services agreement with Nationstar Mortgage LLC ("Nationstar"), under which Nationstar was our preferred mortgage lender and offered mortgage banking services, including residential mortgage loan ("mortgage loan") originations, to our homebuyers who elected to use the lender. Our homebuyers may select any lender of their choice

to obtain mortgage financing for the purchase of their home. Since July 21, 2014, we have offered mortgage banking services, including mortgage loan originations, to our homebuyers indirectly through Home Community Mortgage, LLC (“HCM”), a joint venture of a subsidiary of ours and a subsidiary of Nationstar. Through these

7

respective subsidiaries, we have a 49.9% ownership interest and Nationstar has a 50.1% ownership interest in HCM, with Nationstar providing management oversight of HCM's operations.

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. 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):

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Revenues:				
West Coast	\$932,905	\$707,532	\$378,362	\$265,491
Southwest	273,339	144,597	128,021	50,101
Central	545,913	477,518	210,417	179,972
Southeast	286,739	267,247	123,404	90,667
Total homebuilding revenues	2,038,896	1,596,894	840,204	586,231
Financial services	7,351	8,014	2,953	2,983
Total	\$2,046,247	\$1,604,908	\$843,157	\$589,214
Pretax income (loss):				
West Coast	\$76,177	\$93,599	\$35,769	\$39,270
Southwest	20,420	7,599	11,732	2,543
Central	42,000	24,806	18,649	11,514
Southeast	(20,965)	(9,881)	(4,751)	(7,965)
Corporate and other	(68,078)	(54,937)	(30,146)	(18,548)
Total homebuilding pretax income	49,554	61,186	31,253	26,814
Financial services	7,572	5,162	2,701	1,847
Total	\$57,126	\$66,348	\$33,954	\$28,661
Inventory impairment charges:				
West Coast	\$—	\$—	\$—	\$—
Southwest	—	—	—	—
Central	—	—	—	—
Southeast	3,173	3,408	3,173	3,408
Total	\$3,173	\$3,408	\$3,173	\$3,408
Land option contract abandonments:				
West Coast	\$134	\$554	\$134	\$451
Southwest	—	—	—	—
Central	225	995	225	562
Southeast	984	254	—	—
Total	\$1,343	\$1,803	\$359	\$1,013

	August 31, 2015	November 30, 2014
Inventories:		
Homes under construction		
West Coast	\$649,874	\$536,843
Southwest	117,705	65,647
Central	280,330	201,164
Southeast	139,667	124,618
Subtotal	1,187,576	928,272
Land under development		
West Coast	719,557	765,577
Southwest	322,676	334,691
Central	396,115	363,933
Southeast	248,326	245,948
Subtotal	1,686,674	1,710,149
Land held for future development		
West Coast	287,365	294,060
Southwest	113,661	138,367
Central	22,063	22,957
Southeast	104,398	124,582
Subtotal	527,487	579,966
Total	\$3,401,737	\$3,218,387
Assets:		
West Coast	\$1,775,422	\$1,695,753
Southwest	598,260	579,201
Central	810,123	678,139
Southeast	528,270	531,011
Corporate and other	1,224,386	1,262,960
Total homebuilding assets	4,936,461	4,747,064
Financial services	12,035	10,486
Total	\$4,948,496	\$4,757,550

3. Financial Services

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

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Revenues				
Insurance commissions	\$4,581	\$4,364	\$1,857	\$1,832
Title services	2,769	2,503	1,096	904
Marketing services fees	—	1,147	—	247
Interest income	1	—	—	—
Total	7,351	8,014	2,953	2,983

Edgar Filing: KB HOME - Form 10-Q

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Expenses				
General and administrative	\$ (2,802	) \$ (2,563	) \$ (910	) \$ (859
Operating income	4,549	5,451	2,043	2,124
Equity in income (loss) of unconsolidated joint ventures	3,023	(289	) 658	(277
Pretax income	\$ 7,572	\$ 5,162	\$ 2,701	\$ 1,847
			August 31,	November 30,
			2015	2014
Assets				
Cash and cash equivalents			\$ 1,927	\$ 2,402
Receivables			846	1,738
Investments in unconsolidated joint ventures			9,171	6,149
Other assets			91	197
Total assets			\$ 12,035	\$ 10,486
Liabilities				
Accounts payable and accrued expenses			\$ 1,776	\$ 2,517
Total liabilities			\$ 1,776	\$ 2,517

4. Earnings Per Share

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

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Numerator:				
Net income	\$ 40,626	\$ 65,548	\$ 23,254	\$ 28,361
Less: Distributed earnings allocated to nonvested restricted stock	(24	) (18	) (7	) (6
Less: Undistributed earnings allocated to nonvested restricted stock	(115	) (159	) (63	) (73
Numerator for basic earnings per share	40,487	65,371	23,184	28,282
Effect of dilutive securities:				
Interest expense and amortization of debt issuance costs associated with convertible senior notes, net of taxes	2,000	2,000	667	667
Add: Undistributed earnings allocated to nonvested restricted stock	115	159	63	73
Less: Undistributed earnings reallocated to nonvested restricted stock	(104	) (142	) (57	) (66
Numerator for diluted earnings per share	\$ 42,498	\$ 67,388	\$ 23,857	\$ 28,956

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Denominator:				
Weighted average shares outstanding — basic	92,005	88,389	92,065	91,793
Effect of dilutive securities:				
Share-based payments	1,198	1,823	1,407	1,875
Convertible senior notes	8,402	8,402	8,402	8,402
Weighted average shares outstanding — diluted	101,605	98,614	101,874	102,070
Basic earnings per share	\$.44	\$.74	\$.25	\$.31
Diluted earnings per share	\$.42	\$.68	\$.23	\$.28

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 August 31, 2015 or 2014.

Outstanding stock options to purchase 5.7 million shares of our common stock were excluded from the diluted earnings per share calculations for the three-month and nine-month periods ended August 31, 2015, and outstanding stock options to purchase 5.2 million shares of our common stock were excluded from the diluted earnings per share calculations for the three-month and nine-month periods ended August 31, 2014, because the effect of their inclusion in each case would be antidilutive. Contingently issuable shares associated with outstanding performance-based restricted stock units (each a "PSU") were not included in the earnings per share calculations for the three-month and nine-month periods ended August 31, 2015 and 2014, as the applicable vesting conditions had not been satisfied.

5. Inventories

Inventories consisted of the following (in thousands):

	August 31, 2015	November 30, 2014
Homes under construction	\$1,187,576	\$928,272
Land under development	1,686,674	1,710,149
Land held for future development	527,487	579,966
Total	\$3,401,737	\$3,218,387

Interest is capitalized to inventories while the related communities are being actively developed and until homes are completed. Capitalized interest is amortized to construction and land costs as the related inventories are delivered to homebuyers or land buyers (as applicable). Interest and real estate taxes are not capitalized on land held for future development.

Our interest costs were as follows (in thousands):

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Capitalized interest at beginning of period	\$266,668	\$216,681	\$299,678	\$241,583
Interest incurred	140,789	127,041	46,587	44,603
Interest expensed	(17,850)	(26,289)	(4,394)	(6,455)
Interest amortized to construction and land costs (a)	(99,488)	(59,471)	(51,752)	(21,769)
Capitalized interest at end of period (b)	\$290,119	\$257,962	\$290,119	\$257,962

(a) Interest amortized to construction and land costs for the three months and nine months ended August 31, 2015 included \$16.4 million related to land sales during those periods.

(b) Capitalized interest amounts presented in the table reflect the gross amount of capitalized interest, as inventory impairment charges recognized, if any, are not generally allocated to specific components of inventory.

6. Inventory Impairments and Land Option Contract Abandonments

Each community or land parcel in our owned inventory is assessed on a quarterly basis to determine if indicators of potential impairment exist. We record an inventory impairment charge when indicators of potential impairment exist and the carrying value of a 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 based on the estimated future net cash flows discounted for inherent risk associated with each such asset. We evaluated 29 and 25 communities or land parcels for recoverability during the nine months ended August 31, 2015 and 2014, respectively. The carrying value of the communities or land parcels evaluated during the nine months ended August 31, 2015 and 2014 was \$232.8 million and \$207.4 million, respectively. Some of the communities or land parcels evaluated during the nine months ended August 31, 2015 and 2014 were evaluated in more than one quarterly period. Communities or land parcels evaluated for recoverability in more than one quarterly period, if any, are counted only once for each nine-month period shown.

Based on the results of our evaluations, we recognized an inventory impairment charge of \$3.2 million for the three months and nine months ended August 31, 2015 associated with a community located in Florida. We decided to change our operational and marketing strategy for this community in order to monetize our investment more quickly by accelerating the overall pace for selling, building and delivering homes primarily through lowering the average selling price of these homes. Significant quantitative unobservable inputs used in our fair value measurement with respect to this community included an average selling price of \$178,100; four deliveries per month; and a discount rate of 20%.

For the three months and nine months ended August 31, 2014, we recognized a \$3.4 million inventory impairment charge associated with the then-planned sale of our last remaining land parcel in Atlanta, Georgia, a former market where we do not have ongoing operations. The land sale closed in the 2014 fourth quarter.

As of August 31, 2015, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$248.3 million, representing 25 communities and various other land parcels. As of November 30, 2014, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$266.6 million, representing 33 communities and various other land parcels.

Our inventory controlled under land option contracts and other similar contracts is assessed on a quarterly basis to determine whether it continues to meet our internal investment and marketing standards. 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 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 \$.4 million corresponding to 740 lots for the three months ended August 31, 2015, and \$1.0 million of such charges corresponding to 624 lots for the three months ended August 31, 2014. We recognized land option contract abandonment charges of \$1.3 million corresponding to 1,166 lots for the nine months ended August 31, 2015, and \$1.8 million of such charges corresponding to 1,306 lots for the nine months ended August 31, 2014. We sometimes abandon land option contracts and other similar contracts when we have incurred costs of less than \$100,000; the corresponding lots, which totaled zero and 1,651 lots for the three months ended August 31, 2015 and 2014, respectively, and zero and 7,018 lots for the nine months ended August 31, 2015 and 2014, respectively, and the related costs are not included in the amounts above.

Due to the judgment and assumptions applied in our inventory impairment and land option contract abandonment assessment processes, it is possible that actual results could differ substantially from those estimated.

7. Variable Interest Entities

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 to determine whether they are VIEs and, if so, whether we are the

primary beneficiary. None of our joint ventures at August 31, 2015 and November 30, 2014 were determined to be VIEs. All of our joint ventures were unconsolidated and accounted for under the equity method because we did not have a controlling financial interest.

12

In the ordinary course of our business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. Under such contracts, we typically pay a specified option 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 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. As a result of our analyses, we determined that as of August 31, 2015 and November 30, 2014 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.

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

	August 31, 2015		November 30, 2014	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	\$21,907	\$472,169	\$10,633	\$520,628
Other land option contracts and other similar contracts	20,864	469,427	22,426	437,842
Total	\$42,771	\$941,596	\$33,059	\$958,470

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 \$60.0 million at August 31, 2015 and \$48.0 million at November 30, 2014. These pre-acquisition costs and cash deposits were included in inventories in our consolidated balance sheets. We had outstanding letters of credit of \$.1 million at November 30, 2014 in lieu of cash deposits under certain land option contracts and other similar contracts. There were no such outstanding letters of credit at August 31, 2015.

We also evaluate our land option contracts and other similar contracts for financing arrangements, and, as a result of our evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in our consolidated balance sheets by \$89.4 million at August 31, 2015 and \$3.1 million at November 30, 2014.

8. Investments in Unconsolidated Joint Ventures

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.

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 a home sale is closed and title passes to a homebuyer, at which time we account for those 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 profits and losses of these unconsolidated joint ventures generally in accordance with our respective equity interests. In some instances, we recognize profits and 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 profits or losses from land sales to us, or other items.

The following table presents combined condensed information from the statements of operations of our unconsolidated joint ventures (in thousands):

	Nine Months Ended August 31,		Three Months Ended August 31,	
	2015	2014	2015	2014
Revenues	\$9,758	\$6,118	\$3,338	\$—
Construction and land costs	(17,373)	(3,523)	(3,381)	—
Other expense, net	(2,164)	(3,088)	(753)	(1,050)
Loss	\$(9,779)	\$(493)	\$(796)	\$(1,050)

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

	August 31, 2015	November 30, 2014
Assets		
Cash	\$23,454	\$23,699
Receivables	7,631	5,106
Inventories	169,471	153,427
Other assets	658	—
Total assets	\$201,214	\$182,232
Liabilities and equity		
Accounts payable and other liabilities	\$16,832	\$10,824
Notes payable (a)	31,963	—
Equity	152,419	171,408
Total liabilities and equity	\$201,214	\$182,232

On August 28, 2015, one of our unconsolidated joint ventures entered into a construction loan agreement with a third-party lender to finance its land development activities that is secured by the underlying property and related (a) project assets. The unconsolidated joint venture's outstanding secured debt is non-recourse to us and is scheduled to mature in August 2018. None of our other unconsolidated joint ventures had outstanding debt at August 31, 2015.

None of our unconsolidated joint ventures had outstanding debt at November 30, 2014.

The following table presents information relating to our investments in unconsolidated joint ventures (dollars in thousands):

	August 31, 2015	November 30, 2014
Number of investments in unconsolidated joint ventures	7	6
Investments in unconsolidated joint ventures	\$72,800	\$79,441
Number of unconsolidated joint venture lots controlled under land option contracts and other similar contracts	538	618

In the first quarter of 2014, we sold our interest in an unconsolidated joint venture in Maryland for \$10.1 million, which resulted in a gain of \$3.2 million that was included in equity in income of unconsolidated joint ventures in our consolidated statement of operations for the nine months ended August 31, 2014.

We and our partner in the unconsolidated joint venture that entered into the construction loan agreement described above provided certain guarantees and indemnities to the lender, including a guaranty to complete the construction of improvements for the project; a guaranty against losses the lender suffers due to certain bad acts or failures to act by the unconsolidated joint venture or its partners; a guaranty of interest payments on the outstanding balance of the secured debt under the construction loan agreement; and an indemnity of the lender from environmental issues. In each case, our actual responsibility under the foregoing guaranty and indemnity obligations is limited to our pro rata interest in the unconsolidated joint venture. We do

not have a guaranty or any other obligation to repay or to support the value of the collateral underlying the unconsolidated joint venture's outstanding secured debt under the construction loan agreement. However, various financial and non-financial covenants apply with respect to the outstanding secured debt under the construction loan agreement and 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, if and as may be applicable. As of August 31, 2015, we were in compliance with the applicable terms of our relevant covenants with respect to the construction loan agreement. We do not believe that our existing exposure under our guaranty and indemnity obligations related to the unconsolidated joint venture's outstanding secured debt under the construction loan agreement is material to our consolidated financial statements.

9. Other Assets

Other assets consisted of the following (in thousands):

	August 31, 2015	November 30, 2014
Cash surrender value of insurance contracts	\$67,357	\$70,571
Debt issuance costs	26,896	27,082
Property and equipment, net	12,425	11,831
Prepaid expenses	7,674	5,431
Total	\$114,352	\$114,915

10. Accrued Expenses and Other Liabilities

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

	August 31, 2015	November 30, 2014
Inventory-related obligations	\$129,874	\$52,009
Employee compensation and related benefits	110,061	113,875
Self-insurance and other litigation liabilities	94,303	89,606
Accrued interest payable	76,108	63,275
Warranty liability	48,642	45,196
Customer deposits	18,436	15,197
Real estate and business taxes	11,935	13,684
Other	7,799	17,040
Total	\$497,158	\$409,882

11. Income Taxes

Income Tax Expense. We recognized income tax expense of \$10.7 million for the three months ended August 31, 2015 and \$.3 million for the three months ended August 31, 2014. Our income tax expense for the nine months ended August 31, 2015 was \$16.5 million, compared to \$.8 million for the nine months ended August 31, 2014. Income tax expense for the three months ended August 31, 2015 reflected the favorable net impact of \$2.5 million of federal energy tax credits we earned from building energy-efficient homes, resulting in an effective income tax rate of 31.5%. For the nine months ended August 31, 2015, our effective income tax rate of 28.9% reflected the favorable net impact of \$5.6 million of federal energy tax credits. Our effective income tax rates for the three months and nine months ended August 31, 2014 were not meaningful items due to the effects of the full valuation allowance against our deferred tax assets for those periods.

The tax credit impact in the three months ended August 31, 2015 included energy tax credits we earned from building energy-efficient homes in 2011. The tax credit impact in the nine months ended August 31, 2015 included energy tax credits we earned from building energy-efficient homes in 2011, 2012 and 2013, as well as from building energy-efficient homes in 2014 pursuant to the Tax Increase Prevention Act, which was enacted into law on December 19, 2014. Among other things, the law retroactively extended the availability of a business tax credit for building new energy-efficient homes through December 31, 2014. Prior to this legislation, the tax credit expired on December 31, 2013.

Deferred Tax Asset Valuation Allowance. We evaluate our deferred tax assets quarterly to determine if adjustments to the 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. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets will depend on applicable income tax rates. Based on our evaluation through August 31, 2014, we maintained a full valuation allowance against our deferred tax assets due to the uncertainty of their realization. At November 30, 2014, we evaluated the need for a valuation allowance against our deferred tax assets of \$866.4 million and determined that it was more likely than not that most of our deferred tax assets would be realized. Accordingly, we reversed \$825.2 million of the deferred tax asset valuation allowance in the fourth quarter of 2014. The remaining deferred tax asset valuation allowance of \$41.2 million at November 30, 2014 was primarily related to foreign tax credits and certain state net operating losses (“NOL”) that had not met the “more likely than not” realization standard.

We made no adjustments to our deferred tax asset valuation allowance during the three months and nine months ended August 31, 2015. Therefore, at August 31, 2015, we had deferred tax assets of \$851.2 million that were partly offset by a valuation allowance of \$41.2 million.

Unrecognized Tax Benefits. At August 31, 2015 and November 30, 2014, our gross unrecognized tax benefits (including interest and penalties) totaled \$.1 million and \$.3 million, respectively, of which \$.1 million, if recognized, would affect our effective income tax rate. We anticipate that these gross unrecognized tax benefits will decrease by an amount ranging from zero to \$.1 million during the 12 months from this reporting date. Our fiscal years ending 2012 and later remain open to federal examinations, while fiscal years 2010 and later remain open to state examinations.

12. Notes Payable

Notes payable consisted of the following (in thousands):

	August 31, 2015	November 30, 2014
Mortgages and land contracts due to land sellers and other loans	\$41,244	\$38,250
6 1/4% Senior notes due June 15, 2015	—	199,891
9.10% Senior notes due September 15, 2017	263,282	262,729
7 1/4% Senior notes due June 15, 2018	299,515	299,402
4.75% Senior notes due May 15, 2019	400,000	400,000
8.00% Senior notes due March 15, 2020	346,691	346,253
7.00% Senior notes due December 15, 2021	450,000	450,000
7.50% Senior notes due September 15, 2022	350,000	350,000
7.625% Senior notes due May 15, 2023	250,000	—
1.375% Convertible senior notes due February 1, 2019	230,000	230,000
Total	\$2,630,732	\$2,576,525

Unsecured Revolving Credit Facility. On August 7, 2015, we entered into an amended and restated revolving loan agreement with a syndicate of financial institutions that increased the commitment under our unsecured credit facility (as amended, “Amended Credit Facility”) from \$200.0 million to \$275.0 million and extended its maturity from March 12, 2016 to August 7, 2019. The Amended Credit Facility contains an uncommitted accordion feature under which the aggregate principal amount of available loans can be increased to a maximum of \$450.0 million under certain conditions, including obtaining additional bank commitments, as well as a sublimit of \$137.5 million for the issuance of letters of credit, which may be utilized in combination with or to replace the LOC Facilities. Interest on amounts borrowed under the Amended Credit Facility is payable quarterly in arrears at a rate based on either a Eurodollar or a base rate, plus a spread that depends on our consolidated leverage ratio (“Leverage Ratio”), as defined under the Amended Credit Facility. The Amended Credit Facility also requires the payment of a commitment fee ranging from .30% to .50% of the unused commitment, based on our Leverage