

**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 May 31, 2023.

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 of incorporation)

**95-3666267**  
(IRS employer identification number)

**10990 Wilshire Boulevard**  
**Los Angeles, California 90024**  
**(310) 231-4000**

(Address, including zip code, and telephone number of principal executive offices)

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

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, 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 80,609,911 shares of the registrant’s common stock, par value \$1.00 per share, outstanding on May 31, 2023. The registrant’s grantor stock ownership trust held an additional 6,705,247 shares of the registrant’s common stock on that date.

**KB HOME  
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
<b>Total revenues</b>	<u>\$ 1,765,316</u>	<u>\$ 1,720,062</u>	<u>\$ 3,149,630</u>	<u>\$ 3,118,851</u>
<b>Homebuilding:</b>				
Revenues	\$ 1,757,846	\$ 1,714,826	\$ 3,136,383	\$ 3,108,980
Construction and land costs	(1,386,558)	(1,281,752)	(2,469,379)	(2,363,864)
Selling, general and administrative expenses	(169,186)	(168,614)	(308,413)	(311,094)
Operating income	202,102	264,460	358,591	434,022
Interest income	1,729	39	2,196	75
Equity in loss of unconsolidated joint ventures	(313)	(310)	(1,070)	(287)
Homebuilding pretax income	<u>203,518</u>	<u>264,189</u>	<u>359,717</u>	<u>433,810</u>
<b>Financial services:</b>				
Revenues	7,470	5,236	13,247	9,871
Expenses	(1,472)	(1,362)	(2,830)	(2,709)
Equity in income of unconsolidated joint ventures	5,426	14,807	7,008	19,955
Financial services pretax income	<u>11,424</u>	<u>18,681</u>	<u>17,425</u>	<u>27,117</u>
<b>Total pretax income</b>	<u>214,942</u>	<u>282,870</u>	<u>377,142</u>	<u>460,927</u>
Income tax expense	(50,500)	(72,200)	(87,200)	(116,000)
<b>Net income</b>	<u>\$ 164,442</u>	<u>\$ 210,670</u>	<u>\$ 289,942</u>	<u>\$ 344,927</u>
<b>Earnings per share:</b>				
<b>Basic</b>	<u>\$ 2.00</u>	<u>\$ 2.39</u>	<u>\$ 3.49</u>	<u>\$ 3.90</u>
<b>Diluted</b>	<u>\$ 1.94</u>	<u>\$ 2.32</u>	<u>\$ 3.38</u>	<u>\$ 3.79</u>
<b>Weighted average shares outstanding:</b>				
<b>Basic</b>	<u>81,764</u>	<u>87,858</u>	<u>82,607</u>	<u>88,069</u>
<b>Diluted</b>	<u>84,306</u>	<u>90,316</u>	<u>85,141</u>	<u>90,690</u>

See accompanying notes.

**KB HOME**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands – Unaudited)

	May 31, 2023	November 30, 2022
<b>Assets</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$ 557,037	\$ 328,517
Receivables	341,010	322,767
Inventories	5,128,841	5,543,176
Investments in unconsolidated joint ventures	53,427	46,785
Property and equipment, net	89,804	89,234
Deferred tax assets, net	150,268	160,868
Other assets	106,598	101,051
	<u>6,426,985</u>	<u>6,592,398</u>
<b>Financial services</b>	56,032	59,532
<b>Total assets</b>	<u>\$ 6,483,017</u>	<u>\$ 6,651,930</u>
<b>Liabilities and stockholders' equity</b>		
<b>Homebuilding:</b>		
Accounts payable	\$ 360,585	\$ 412,525
Accrued expenses and other liabilities	668,084	736,971
Notes payable	1,686,663	1,838,511
	<u>2,715,332</u>	<u>2,988,007</u>
<b>Financial services</b>	1,203	3,128
<b>Stockholders' equity:</b>		
Common stock — 101,019,249 and 100,711,153 shares issued at May 31, 2023 and November 30, 2022, respectively	101,019	100,711
Paid-in capital	830,765	836,260
Retained earnings	3,407,813	3,143,578
Accumulated other comprehensive loss	(5,575)	(5,575)
Grantor stock ownership trust, at cost: 6,705,247 shares at May 31, 2023 and November 30, 2022	(72,718)	(72,718)
Treasury stock, at cost: 13,704,091 and 10,015,507 at May 31, 2023 and November 30, 2022, respectively	(494,822)	(341,461)
<b>Total stockholders' equity</b>	<u>3,766,482</u>	<u>3,660,795</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 6,483,017</u>	<u>\$ 6,651,930</u>

See accompanying notes.

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

	Six Months Ended May 31,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 289,942	\$ 344,927
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of unconsolidated joint ventures	(5,938)	(19,668)
Distributions of earnings from unconsolidated joint ventures	12,172	9,295
Amortization of debt issuance costs and premiums	1,673	1,137
Depreciation and amortization	17,760	15,534
Deferred income taxes	10,600	11,500
Stock-based compensation	14,686	15,888
Inventory impairments and land option contract abandonments	9,576	907
Changes in assets and liabilities:		
Receivables	(18,460)	(11,112)
Inventories	413,774	(764,225)
Accounts payable, accrued expenses and other liabilities	(132,245)	84,259
Other, net	(4,810)	(3,254)
<b>Net cash provided by (used in) operating activities</b>	<b>608,730</b>	<b>(314,812)</b>
<b>Cash flows from investing activities:</b>		
Contributions to unconsolidated joint ventures	(17,713)	(16,376)
Return of investments in unconsolidated joint ventures	5,100	1,255
Purchases of property and equipment, net	(18,324)	(22,122)
<b>Net cash used in investing activities</b>	<b>(30,937)</b>	<b>(37,243)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facility	170,000	1,075,000
Repayments under revolving credit facility	(320,000)	(675,000)
Issuance costs for unsecured revolving credit facility	—	(3,805)
Payments on mortgages and land contracts due to land sellers and other loans	(3,001)	(400)
Issuance of common stock under employee stock plans	5,010	—
Stock repurchases	(167,088)	(50,000)
Tax payments associated with stock-based compensation awards	(9,748)	(12,153)
Payments of cash dividends	(25,707)	(27,142)
<b>Net cash provided by (used in) financing activities</b>	<b>(350,534)</b>	<b>306,500</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>227,259</b>	<b>(45,555)</b>
Cash and cash equivalents at beginning of period	330,198	292,136
Cash and cash equivalents at end of period	<u>\$ 557,457</u>	<u>\$ 246,581</u>

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, they do not include all the information and footnotes required by GAAP for complete financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2022, which are contained in our Annual Report on Form 10-K for that period. The consolidated balance sheet at November 30, 2022 has been taken from the audited consolidated financial statements as of that date. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for the fair presentation of our results for the interim periods presented. The results of our consolidated operations for the three months and six months ended May 31, 2023 are not necessarily indicative of the results to be expected for the full year due to seasonal variations in operating results and other factors.

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 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 \$372.6 million at May 31, 2023 and \$15.8 million at November 30, 2022. At May 31, 2023 and November 30, 2022, the majority of our cash equivalents was invested in interest-bearing bank deposit accounts.

*Comprehensive Income.* Our comprehensive income was \$164.4 million for the three months ended May 31, 2023 and \$210.7 million for the three months ended May 31, 2022. For the six months ended May 31, 2023 and 2022, our comprehensive income was \$289.9 million and \$344.9 million, respectively. Our comprehensive income for each of the three-month and six-month periods ended May 31, 2023 and 2022 was equal to our net income for the respective periods.

2. Segment Information

We have identified five operating reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment. As of May 31, 2023, 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 reporting segment earns revenues primarily from insurance commissions and from the provision of title services.

We offer mortgage banking services, including residential consumer mortgage loan (“mortgage loan”) originations, to our homebuyers indirectly through KBHS Home Loans, LLC (“KBHS”), our unconsolidated joint venture with GR Alliance

Ventures, LLC (“GR Alliance”), a subsidiary of Guaranteed Rate, Inc. We and GR Alliance each have a 50.0% ownership interest, with GR Alliance providing management oversight of KBHS’ operations.

Our reporting segments follow the same accounting policies used for our consolidated financial statements. 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
<b>Revenues:</b>				
West Coast	\$ 564,350	\$ 761,217	\$ 1,104,369	\$ 1,420,091
Southwest	335,828	290,924	575,415	500,691
Central	545,214	433,046	935,165	788,368
Southeast	312,454	229,639	521,434	399,830
Total	<u>\$ 1,757,846</u>	<u>\$ 1,714,826</u>	<u>\$ 3,136,383</u>	<u>\$ 3,108,980</u>
<b>Pretax income (loss):</b>				
West Coast	\$ 55,099	\$ 137,518	\$ 114,649	\$ 247,552
Southwest	57,117	64,635	101,148	100,540
Central	78,985	66,200	137,818	104,316
Southeast	48,931	39,059	72,456	59,325
Corporate and other	(36,614)	(43,223)	(66,354)	(77,923)
Total	<u>\$ 203,518</u>	<u>\$ 264,189</u>	<u>\$ 359,717</u>	<u>\$ 433,810</u>
<b>Inventory impairment and land option contract abandonment charges:</b>				
West Coast	\$ 3,079	\$ 157	\$ 3,948	\$ 157
Southwest	—	55	—	164
Central	1,128	520	2,079	586
Southeast	80	—	3,549	—
Total	<u>\$ 4,287</u>	<u>\$ 732</u>	<u>\$ 9,576</u>	<u>\$ 907</u>
<b>Assets:</b>				
			May 31, 2023	November 30, 2022
West Coast			\$ 2,452,625	\$ 2,631,598
Southwest			965,223	1,074,912
Central			1,306,661	1,493,486
Southeast			895,182	929,208
Corporate and other			807,294	463,194
Total			<u>\$ 6,426,985</u>	<u>\$ 6,592,398</u>

### 3. Financial Services

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
<b>Revenues</b>				
Insurance commissions	\$ 4,010	\$ 2,596	\$ 7,384	\$ 5,114
Title services	3,460	2,637	5,863	4,738
Other	—	3	—	19
Total	7,470	5,236	13,247	9,871
<b>Expenses</b>				
General and administrative	(1,472)	(1,362)	(2,830)	(2,709)
Operating income	5,998	3,874	10,417	7,162
Equity in income of unconsolidated joint ventures	5,426	14,807	7,008	19,955
Pretax income	\$ 11,424	\$ 18,681	\$ 17,425	\$ 27,117
			May 31, 2023	November 30, 2022
<b>Assets</b>				
Cash and cash equivalents			\$ 420	\$ 1,681
Receivables			3,692	3,475
Investments in unconsolidated joint venture			21,664	26,678
Other assets (a)			30,256	27,698
Total assets			\$ 56,032	\$ 59,532
<b>Liabilities</b>				
Accounts payable and accrued expenses			\$ 1,203	\$ 3,128
Total liabilities			\$ 1,203	\$ 3,128

(a) Other assets at May 31, 2023 and November 30, 2022 included \$30.2 million and \$27.6 million, respectively, of contract assets for estimated future renewal commissions.

### 4. Earnings Per Share

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net income	\$ 164,442	\$ 210,670	\$ 289,942	\$ 344,927
Less: Distributed earnings allocated to nonvested restricted stock	(91)	(64)	(176)	(129)
Less: Undistributed earnings allocated to nonvested restricted stock	(1,119)	(957)	(1,866)	(1,539)
Numerator for basic earnings per share	163,232	209,649	287,900	343,259
<b>Effect of dilutive securities:</b>				
Add: Undistributed earnings allocated to nonvested restricted stock	1,119	957	1,866	1,539
Less: Undistributed earnings reallocated to nonvested restricted stock	(1,085)	(931)	(1,811)	(1,495)
Numerator for diluted earnings per share	\$ 163,266	\$ 209,675	\$ 287,955	\$ 343,303



	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Denominator:				
Weighted average shares outstanding — basic	81,764	87,858	82,607	88,069
Effect of dilutive securities:				
Share-based payments	2,542	2,458	2,534	2,621
Weighted average shares outstanding — diluted	84,306	90,316	85,141	90,690
Basic earnings per share	\$ 2.00	\$ 2.39	\$ 3.49	\$ 3.90
Diluted earnings per share	\$ 1.94	\$ 2.32	\$ 3.38	\$ 3.79

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 May 31, 2023 or 2022.

For the three-month and six-month periods ended May 31, 2023 and 2022, no outstanding stock options were excluded from the diluted earnings per share calculations. Contingently issuable shares associated with outstanding performance-based restricted stock units (each, a "PSU") were not included in the basic earnings per share calculations for the periods presented, as the applicable vesting conditions had not been satisfied.

#### 5. Receivables

Receivables consisted of the following (in thousands):

	May 31, 2023	November 30, 2022
Due from utility companies, improvement districts and municipalities	\$ 212,385	\$ 181,443
Recoveries related to self-insurance and other legal claims	68,632	76,581
Refundable deposits and bonds	16,967	17,610
Other	47,861	52,201
Subtotal	345,845	327,835
Allowance for doubtful accounts	(4,835)	(5,068)
Total	\$ 341,010	\$ 322,767

#### 6. Inventories

Inventories consisted of the following (in thousands):

	May 31, 2023	November 30, 2022
Homes completed or under construction	\$ 2,094,058	\$ 2,414,675
Land under development	3,034,783	3,128,501
Total	\$ 5,128,841	\$ 5,543,176

Land under development at May 31, 2023 and November 30, 2022 included land held for future development or sale of \$25.8 million and \$21.6 million, respectively.

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.

Our interest costs were as follows (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Capitalized interest at beginning of period	\$ 147,162	\$ 159,649	\$ 145,494	\$ 161,119
Interest incurred	25,995	29,021	53,799	57,324
Interest amortized to construction and land costs	(31,932)	(34,005)	(58,068)	(63,778)
Capitalized interest at end of period	<u>\$ 141,225</u>	<u>\$ 154,665</u>	<u>\$ 141,225</u>	<u>\$ 154,665</u>

#### 7. 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 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. 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.

We evaluated one active community for recoverability as of May 31, 2023 with a carrying value of \$15.9 million. As of November 30, 2022, we evaluated five active communities or land parcels for recoverability with a carrying value of \$118.7 million. In addition, we evaluated land held for future development for recoverability as of both May 31, 2023 and November 30, 2022. Based on the results of our evaluations, we recognized no inventory impairment charges for the three-month and six-month periods ended May 31, 2023 and 2022.

As of May 31, 2023, the aggregate carrying value of our inventory that had been impacted by inventory impairment charges was \$76.9 million, representing six communities and various other land parcels. 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.

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 investment return 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 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 \$4.3 million for the three months ended May 31, 2023 and \$9.6 million for the six months ended May 31, 2023. For the three-month and six-month periods ended May 31, 2022, we recognized land option contract abandonment charges of \$.7 million and \$.9 million, respectively.

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.

#### 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 May 31, 2023 and November 30, 2022 was a VIE, but we were not the primary beneficiary of the VIE. Therefore, all of our joint ventures at May 31, 2023 and November 30, 2022 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. Under these contracts, 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. As a result of our analyses, we determined that as of May 31, 2023 and November 30, 2022, 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):

	May 31, 2023		November 30, 2022	
	Cash Deposits	Aggregate Purchase Price	Cash Deposits	Aggregate Purchase Price
Unconsolidated VIEs	\$ 16,471	\$ 609,927	\$ 22,399	\$ 635,502
Other land option contracts and other similar contracts	19,796	384,118	29,451	529,430
Total	<u>\$ 36,267</u>	<u>\$ 994,045</u>	<u>\$ 51,850</u>	<u>\$ 1,164,932</u>

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 \$30.1 million at May 31, 2023 and \$33.1 million at November 30, 2022. 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). 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 \$9.3 million at May 31, 2023 and \$5.1 million at November 30, 2022.

#### 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.

As of both May 31, 2023 and November 30, 2022, we had investments in six homebuilding unconsolidated joint ventures. The following table presents combined condensed information from the statements of operations for our homebuilding unconsolidated joint ventures (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Revenues	\$ 1,171	\$ 1,108	\$ 1,171	\$ 3,958
Construction and land costs	(683)	(772)	(686)	(3,071)
Other expense, net	(960)	(918)	(2,410)	(1,348)
Loss	<u>\$ (472)</u>	<u>\$ (582)</u>	<u>\$ (1,925)</u>	<u>\$ (461)</u>

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

	May 31, 2023	November 30, 2022
<b>Assets</b>		
Cash	\$ 13,823	\$ 14,066
Receivables	2,886	3,394
Inventories	138,290	114,465
Other assets	554	633
Total assets	<u>\$ 155,553</u>	<u>\$ 132,558</u>
<b>Liabilities and equity</b>		
Accounts payable and other liabilities	\$ 8,085	\$ 8,369
Notes payable (a)	47,457	34,396
Equity	100,011	89,793
Total liabilities and equity	<u>\$ 155,553</u>	<u>\$ 132,558</u>

- (a) As of both May 31, 2023 and 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 May 31, 2023 or November 30, 2022.

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 (in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Revenues	\$ 28,450	\$ 50,224	\$ 48,640	\$ 80,200
Expenses	(17,599)	(20,607)	(34,624)	(40,287)
Income	<u>\$ 10,851</u>	<u>\$ 29,617</u>	<u>\$ 14,016</u>	<u>\$ 39,913</u>

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 venture (in thousands):

	May 31, 2023	November 30, 2022
<b>Assets</b>		
Cash and cash equivalents	\$ 21,818	\$ 28,120
Mortgage loans held for sale	186,573	250,572
Other assets	28,173	33,176
<b>Total assets</b>	<b>\$ 236,564</b>	<b>\$ 311,868</b>
<b>Liabilities and equity</b>		
Accounts payable and other liabilities	\$ 13,255	\$ 15,590
Funding facilities	179,981	242,944
<b>Equity</b>	<b>43,328</b>	<b>53,334</b>
<b>Total liabilities and equity</b>	<b>\$ 236,564</b>	<b>\$ 311,868</b>

**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 ("IRLCs").** 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 \$25.6 million at May 31, 2023 and \$29.8 million at November 30, 2022. The changes in the fair value of IRLCs, which were reported in revenues for the applicable periods, were losses of \$2.7 million and \$4.2 million for the three-month and six-month periods ended May 31, 2023, respectively, and gains of \$25.8 million and \$33.4 million for the three-month and six-month periods ended May 31, 2022, 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 May 31, 2023. In addition to its compliance with these covenants, KBHS also depends on the ability and willingness of the applicable lenders and financial institutions to extend such credit facilities to KBHS to fund its originated mortgage loans. KBHS intends to renew these facilities 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 the subsidiaries that guarantee our senior notes, unsecured revolving credit facility with various banks ("Credit Facility") and senior unsecured term loan agreement ("Term Loan"), (collectively, "Guarantor Subsidiaries").

#### 10. Other Assets

Other assets consisted of the following (in thousands):

	May 31, 2023	November 30, 2022
Cash surrender value of corporate-owned life insurance contracts	\$ 54,858	\$ 55,591
Lease right-of-use assets	24,757	25,469
Prepaid expenses	23,157	15,645
Debt issuance costs associated with unsecured revolving credit facility, net	3,826	4,346
Total	<u>\$ 106,598</u>	<u>\$ 101,051</u>

#### 11. Accrued Expenses and Other Liabilities

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

	May 31, 2023	November 30, 2022
Self-insurance and other legal liabilities	\$ 229,283	\$ 234,128
Employee compensation and related benefits	130,749	182,443
Warranty liability	99,142	101,890
Customer deposits	67,006	76,738
Accrued interest payable	28,891	29,989
Lease liabilities	26,787	27,494
Inventory-related obligations (a)	21,461	19,136
Federal and state taxes payable	15,449	3,671
Real estate and business taxes	11,125	17,557
Other	38,191	43,925
Total	<u>\$ 668,084</u>	<u>\$ 736,971</u>

(a) Represents liabilities for financing arrangements discussed in Note 8 – Variable Interest Entities, as well as liabilities for fixed or determinable amounts associated with tax increment financing entity (“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.

#### 12. 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. 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. Our total lease expense for the three months ended May 31, 2023 and 2022 was \$5.6 million and \$4.9 million, respectively, and included short-term lease costs of \$2.2 million and \$1.8 million, respectively. For the six months ended May 31, 2023 and 2022, our total lease expense was \$10.8 million and \$9.2 million, respectively, and included short-term lease costs of \$3.9 million and \$3.0 million, respectively. Variable lease costs and external sublease income for the three-month and six-month periods ended May 31, 2023 and 2022 were immaterial.

The following table presents our lease right-of-use assets and lease liabilities (in thousands):

	May 31, 2023	November 30, 2022
Lease right-of-use assets (a)	\$ 24,768	\$ 25,545
Lease liabilities (a)	26,795	27,580

(a) Consists of amounts within both our homebuilding and financial services operations. The financial services amounts were nominal as of each date.

### 13. Income Taxes

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Income tax expense	\$ 50,500	\$ 72,200	\$ 87,200	\$ 116,000
Effective tax rate	23.5 %	25.5 %	23.1 %	25.2 %

Our income tax expense and effective tax rate for the three months ended May 31, 2023 included the favorable impact of \$6.8 million of federal tax credits we recognized primarily from building energy-efficient homes and \$1.1 million of excess tax benefits related to stock-based compensation, partly offset by \$3.5 million of nondeductible executive compensation expense. Our income tax expense and effective tax rate for the three months ended May 31, 2022 reflected the favorable impact of \$6 million of federal tax credits we recognized primarily from building energy-efficient homes, which was more than offset by \$2.2 million of nondeductible executive compensation expense.

For the six months ended May 31, 2023, our income tax expense and effective tax rate included the favorable impacts of \$12.5 million of federal tax credits we recognized primarily from building energy-efficient homes and \$3.8 million of excess tax benefits related to stock-based compensation, partly offset by \$6.6 million of nondeductible executive compensation expense. Our income tax expense and effective tax rate for the six months ended May 31, 2022 reflected the favorable impacts of \$2.2 million of excess tax benefits related to stock-based compensation and \$.8 million of federal tax credits we recognized primarily from building energy-efficient homes, which were more than offset by \$3.9 million of nondeductible executive compensation expense.

*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. 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 \$167.4 million as of May 31, 2023 and \$178.0 million as of November 30, 2022 were each partly offset by a valuation allowance of \$17.1 million. The deferred tax asset valuation allowances as of May 31, 2023 and November 30, 2022 were primarily related to certain state net operating losses that had not met the “more likely than not” realization standard at those dates. Based on the evaluation of our deferred tax assets as of May 31, 2023, we determined that most of our deferred tax assets would be realized. Therefore, no adjustments to our deferred tax asset valuation allowance were needed for the six months ended May 31, 2023.

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.

#### 14. Notes Payable

Notes payable consisted of the following (in thousands):

	May 31, 2023	November 30, 2022
Unsecured revolving credit facility	\$ —	\$ 150,000
Senior unsecured term loan due August 25, 2026	357,821	357,485
6.875% Senior notes due June 15, 2027	297,824	297,595
4.80% Senior notes due November 15, 2029	297,399	297,230
7.25% Senior notes due July 15, 2030	345,878	345,663
4.00% Senior notes due June 15, 2031	385,982	385,778
Mortgages and land contracts due to land sellers and other loans	1,759	4,760
Total	<u>\$ 1,686,663</u>	<u>\$ 1,838,511</u>

The carrying amounts of our senior notes listed above are net of unamortized debt issuance costs, which totaled \$15.1 million at May 31, 2023 and \$16.2 million at November 30, 2022.

*Unsecured Revolving Credit Facility.* We have a \$1.09 billion Credit Facility that will mature on 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 Secured Overnight Financing Rate (“SOFR”) or a base rate, plus a spread that depends on our consolidated leverage ratio (“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 a consolidated interest coverage ratio (“Interest Coverage Ratio”) or 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 May 31, 2023, we had no cash borrowings and \$6.6 million of letters of credit outstanding under the Credit Facility. Therefore, as of May 31, 2023, we had \$1.08 billion available for cash borrowings under the Credit Facility, with up to \$243.4 million of that amount available for the issuance of letters of credit.

*Senior Unsecured Term Loan.* We have a \$360.0 million Term Loan with the lenders party thereto. 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 accrues at an adjusted term SOFR or a base rate, plus a spread that depends on our Leverage Ratio. Interest is payable quarterly (base rate) or each month or three months (adjusted term SOFR). 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 May 31, 2023, the weighted average annual interest rate on our outstanding borrowings under the Term Loan was 6.4%.

*Letter of Credit Facility.* We maintain an unsecured letter of credit agreement with a financial institution (“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 May 31, 2023 and November 30, 2022, we had letters of credit outstanding under the LOC Facility of \$14.5 million and \$36.4 million, respectively.

*Senior Notes.* All the senior notes outstanding at May 31, 2023 and November 30, 2022 represent senior unsecured obligations that are guaranteed by our Guarantor Subsidiaries and rank equally in right of payment with all of our and our Guarantor Subsidiaries’ existing 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 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 and 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 May 31, 2023, we were in compliance with 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. Our ability to access the Credit Facility's full borrowing capacity, as well as the LOC Facility's full issuance capacity, also depends on the ability and willingness of the applicable lenders and financial institutions, including any substitute or additional lenders and financial institutions, to meet their commitments to fund loans, extend credit or provide payment guarantees to or for us under those instruments.

*Mortgages and Land Contracts Due to Land Sellers and Other Loans.* As of May 31, 2023, inventories having a carrying value of \$23.6 million were pledged to collateralize mortgages and land contracts due to land sellers and other loans.

As of May 31, 2023, principal payments on our notes payable are due during each year ending November 30 as follows: 2023 – \$.4 million; 2024 – \$.8 million; 2025 – \$.6 million ; 2026 – \$360.0 million; 2027 – \$300.0 million and thereafter – \$1.04 billion.

#### 15. 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 for the six months ended May 31, 2023 and the year ended November 30, 2022 (in thousands):

Description	Fair Value Hierarchy	May 31, 2023			November 30, 2022		
		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

(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	May 31, 2023		November 30, 2022	
		Carrying Value (a)	Estimated Fair Value	Carrying Value (a)	Estimated Fair Value
Financial Liabilities:					
Senior notes	Level 2	\$ 1,327,083	\$ 1,263,000	\$ 1,326,266	\$ 1,205,875

(a) The carrying values for the senior notes, as presented, include 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.

#### 16. 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 101,238	\$ 97,466	\$ 101,890	\$ 96,153
Warranties issued	10,653	9,678	18,643	17,568
Payments	(12,749)	(7,937)	(21,391)	(14,514)
Balance at end of period	<u>\$ 99,142</u>	<u>\$ 99,207</u>	<u>\$ 99,142</u>	<u>\$ 99,207</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 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 products 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 periods 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 \$30.3 million and \$32.7 million are included in receivables in our consolidated balance sheets at May 31, 2023 and November 30, 2022, 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 period to period. 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 171,269	\$ 190,594	\$ 175,977	\$ 189,131
Self-insurance provided	3,977	5,773	7,818	10,512
Payments	(1,838)	(11,664)	(9,134)	(14,130)
Adjustments (a)	(1,185)	(16,028)	(2,438)	(16,838)
Balance at end of period	\$ 172,223	\$ 168,675	\$ 172,223	\$ 168,675

(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.

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 May 31, 2023, we had approximately 465 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 May 31, 2023, 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 May 31, 2023, we had \$1.34 billion of performance bonds and \$21.2 million of letters of credit outstanding. At November 30, 2022, we had \$1.27 billion of performance bonds and \$43.0 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 our business, we enter into land option contracts and other similar contracts to acquire rights to land for the construction of homes. At May 31, 2023, we had total cash deposits of \$36.3 million to purchase land having an aggregate purchase price of \$994.0 million. Our land option contracts and other similar contracts generally do not contain provisions requiring our specific performance.

## 17. 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 May 31, 2023, 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.

## 18. Stockholders' Equity

A summary of changes in stockholders' equity is presented below (in thousands):

	Three Months Ended May 31, 2023 and 2022									
	Number of Shares									
	Common Stock	Grantor Stock Ownership Trust	Treasury Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Grantor Stock Ownership Trust	Treasury Stock	Total Stockholders' Equity
Balance at February 28, 2023	100,783	(6,705)	(11,587)	\$ 100,783	\$ 819,904	\$ 3,256,602	\$ (5,575)	\$ (72,718)	\$ (403,533)	\$ 3,695,463
Net income	—	—	—	—	—	164,442	—	—	—	164,442
Dividends on common stock	—	—	—	—	—	(13,231)	—	—	—	(13,231)
Employee stock options/other	236	—	—	236	3,640	—	—	—	—	3,876
Stock awards	—	—	46	—	(1,598)	—	—	—	1,598	—
Stock-based compensation	—	—	—	—	8,819	—	—	—	—	8,819
Stock repurchases	—	—	(2,163)	—	—	—	—	—	(92,887)	(92,887)
Balance at May 31, 2023	101,019	(6,705)	(13,704)	\$ 101,019	\$ 830,765	\$ 3,407,813	\$ (5,575)	\$ (72,718)	\$ (494,822)	\$ 3,766,482
Balance at February 28, 2022	100,711	(6,705)	(5,384)	\$ 100,711	\$ 828,238	\$ 2,499,491	\$ (19,119)	\$ (72,718)	\$ (202,287)	\$ 3,134,316
Net income	—	—	—	—	—	210,670	—	—	—	210,670
Dividends on common stock	—	—	—	—	—	(13,012)	—	—	—	(13,012)
Stock awards	—	—	64	—	(2,376)	—	—	—	2,376	—
Stock-based compensation	—	—	—	—	9,021	—	—	—	—	9,021
Stock repurchases	—	—	(1,520)	—	—	—	—	—	(50,000)	(50,000)
Balance at May 31, 2022	100,711	(6,705)	(6,840)	\$ 100,711	\$ 834,883	\$ 2,697,149	\$ (19,119)	\$ (72,718)	\$ (249,911)	\$ 3,290,995

## Six Months Ended May 31, 2023 and 2022

	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, 2022	100,711	(6,705)	(10,016)	\$ 100,711	\$ 836,260	\$ 3,143,578	\$ (5,575)	\$ (72,718)	\$ (341,461)	\$ 3,660,795
Net income	—	—	—	—	—	289,942	—	—	—	289,942
Dividends on common stock	—	—	—	—	—	(25,707)	—	—	—	(25,707)
Employee stock options/other	308	—	—	308	4,702	—	—	—	—	5,010
Stock awards	—	—	717	—	(24,883)	—	—	—	24,883	—
Stock-based compensation	—	—	—	—	14,686	—	—	—	—	14,686
Stock repurchases	—	—	(4,128)	—	—	—	—	—	(168,496)	(168,496)
Tax payments associated with stock-based compensation awards	—	—	(277)	—	—	—	—	—	(9,748)	(9,748)
Balance at May 31, 2023	101,019	(6,705)	(13,704)	\$ 101,019	\$ 830,765	\$ 3,407,813	\$ (5,575)	\$ (72,718)	\$ (494,822)	\$ 3,766,482
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	—	—	—	—	—	344,927	—	—	—	344,927
Dividends on common stock	—	—	—	—	—	(27,142)	—	—	—	(27,142)
Stock awards	—	—	785	—	(29,625)	—	—	—	29,625	—
Stock-based compensation	—	—	—	—	15,888	—	—	—	—	15,888
Stock repurchases	—	—	(1,520)	—	—	—	—	—	(50,000)	(50,000)
Tax payments associated with stock-based compensation awards	—	—	(320)	—	—	—	—	—	(12,153)	(12,153)
Balance at May 31, 2022	100,711	(6,705)	(6,840)	\$ 100,711	\$ 834,883	\$ 2,697,149	\$ (19,119)	\$ (72,718)	\$ (249,911)	\$ 3,290,995

On February 24, 2023, the management development and compensation committee of our board of directors approved the payout of 602,265 shares of our common stock in connection with the vesting of PSUs that were granted to certain employees on October 3, 2019. The shares paid out under the PSUs reflected our achievement of certain performance measures that were based on cumulative earnings per share, average return on invested capital, and revenue growth relative to a peer group of high-production public homebuilding companies over the three-year period from December 1, 2019 through November 30, 2022. Of the shares of common stock paid out, 276,853 shares, or \$9.7 million, were purchased by us in the 2023 first quarter to satisfy the recipients' withholding taxes on the vesting of the PSUs. The shares purchased were not considered repurchases under the authorizations described below.

On April 7, 2022, our board of directors authorized us to repurchase up to \$300.0 million of our outstanding common stock, excluding excise tax. As of November 30, 2022, there was \$150.0 million of remaining availability under this share repurchase authorization, excluding excise tax. In the 2023 first quarter, we repurchased 1,965,442 shares of our common stock on the open market pursuant to this authorization at a total cost of approximately \$75.0 million, excluding excise tax. On March 21, 2023, our board of directors authorized us to repurchase up to \$500.0 million of our outstanding common stock, excluding excise tax. This authorization replaced the prior board of directors authorization, which had \$75.0 million remaining, excluding excise tax. In the 2023 second quarter, we repurchased 2,162,882 shares of our common stock at a total cost of approximately \$92.1 million, excluding excise tax, bringing our total repurchases for the six months ended May 31, 2023 to 4,128,324 shares of common stock at a total cost of approximately \$167.1 million, excluding excise tax. Repurchases under the current 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 May 31, 2023, we were authorized to repurchase up to approximately \$407.9 million of our outstanding common stock in additional transactions, excluding excise tax.

The Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022, imposed a nondeductible 1% excise tax on the net value of certain stock repurchases made after December 31, 2022. In the 2023 first half, we reflected the applicable excise tax in treasury stock as part of the cost basis of the stock repurchased and recorded a corresponding liability for the excise taxes payable in accrued expenses and other liabilities on our consolidated balance sheet.

In the three-month periods ended May 31, 2023 and 2022, our board of directors declared, and we paid, a quarterly cash dividend on our common stock of \$.15 per share. Quarterly dividends declared and paid during the six-month periods ended May 31, 2023 and 2022 totaled \$.30 per share.

#### 19. Stock-Based Compensation

*Stock Options.* At May 31, 2023 and November 30, 2022, we had 1,366,297 and 1,674,393 stock options outstanding with a weighted average exercise price of \$15.40 and \$15.56, respectively. We have not granted any stock option awards since 2016. In the 2023 first half, 308,096 stock options with a weighted average exercise price of \$16.26 were exercised. As of May 31, 2023, stock options outstanding and stock options exercisable each had a weighted average remaining contractual life of 2.6 years. As all outstanding stock options have been fully vested since 2019, there was no stock-based compensation expense associated with stock options for the three-month and six-month periods ended May 31, 2023 and 2022. Stock options outstanding and stock options exercisable each had an aggregate intrinsic value of \$38.2 million at May 31, 2023. (The intrinsic value of a stock option is the amount by which the market value of a share of the underlying common stock exceeds the exercise price of the stock option.)

*Other Stock-Based Awards.* From time to time, we grant restricted stock and PSUs to various employees as a compensation benefit. We recognized total compensation expense of \$8.8 million and \$9.0 million for the three months ended May 31, 2023 and 2022, respectively, related to restricted stock and PSUs. For the six months ended May 31, 2023 and 2022, we recognized total compensation expense of \$14.7 million and \$15.9 million, respectively.

*Approval of the Amended and Restated KB Home 2014 Equity Incentive Plan.* At our Annual Meeting of Stockholders held on April 20, 2023, our stockholders approved the Amended and Restated KB Home 2014 Equity Incentive Plan ("Amended and Restated 2014 Plan"), confirming, among other things, an aggregate share grant capacity for stock-based awards to our employees, non-employee directors and consultants of 18,200,000 shares through approving and incorporating the base amount of 12,300,000 shares under the predecessor Amended KB Home 2014 Equity Incentive Plan and adding 5,900,000 shares, plus any shares subject to outstanding awards under our 2010 Equity Incentive Plan ("2010 Plan") that subsequently expire or are cancelled, forfeited, tendered or withheld to satisfy tax withholding obligations with respect to full value awards, or settled for cash. With no other shares available for grant under the 2010 Plan, the Amended and Restated 2014 Plan is our only active equity compensation plan. As with the Amended KB Home 2014 Equity Incentive Plan, under the Amended and Restated 2014 Plan, grants of stock options and other similar awards reduce the share grant capacity on a 1-for-1 basis, and grants of restricted stock and other similar "full value" awards reduce the share grant capacity on a 1.78-for-1 basis. The Amended and Restated 2014 Plan provides stock options and SARs may be awarded for periods of up to 10 years, and enables us to grant other stock-based awards and cash bonuses. As of the date of this report, no grants have been made under the Amended and Restated 2014 Plan following the date of its approval by our stockholders.

#### 20. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Six Months Ended May 31,	
	2023	2022
Summary of cash and cash equivalents at end of period:		
Homebuilding	\$ 557,037	\$ 244,186
Financial services	420	2,395
Total	<u>\$ 557,457</u>	<u>\$ 246,581</u>
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	\$ 1,098	\$ (237)
Income taxes paid	64,824	97,654
Supplemental disclosures of non-cash activities:		
Increase (decrease) in consolidated inventories not owned	4,264	(13,465)
Increase in inventories due to distributions of land and land development from an unconsolidated joint venture	4,896	4,967



## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

#### OVERVIEW

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

	Three Months Ended May 31,			Six Months Ended May 31,		
	2023	2022	Variance	2023	2022	Variance
Revenues:						
Homebuilding	\$ 1,757,846	\$ 1,714,826	3 %	\$ 3,136,383	\$ 3,108,980	1 %
Financial services	7,470	5,236	43	13,247	9,871	34
Total revenues	\$ 1,765,316	\$ 1,720,062	3 %	\$ 3,149,630	\$ 3,118,851	1 %
Pretax income:						
Homebuilding	\$ 203,518	\$ 264,189	(23) %	\$ 359,717	\$ 433,810	(17) %
Financial services	11,424	18,681	(39)	17,425	27,117	(36)
Total pretax income	214,942	282,870	(24)	377,142	460,927	(18)
Income tax expense	(50,500)	(72,200)	30	(87,200)	(116,000)	25
Net income	\$ 164,442	\$ 210,670	(22) %	\$ 289,942	\$ 344,927	(16) %
Diluted earnings per share	\$ 1.94	\$ 2.32	(16) %	\$ 3.38	\$ 3.79	(11) %

We generated solid financial results in the 2023 second quarter amid improving housing market conditions compared to the 2022 second half and 2023 first quarter, periods in which the combination of relatively high mortgage interest rates, elevated inflation and various other macroeconomic and geopolitical concerns significantly depressed demand. Though the business environment continues to be less favorable than during the 2022 first half, we achieved monthly sequential increases in our net orders in the current quarter, sustaining the trend we experienced in the first quarter, due to typical seasonal factors, buyers adjusting to the higher mortgage interest rates, and low resale home inventory. Our total net orders for the 2023 second quarter were slightly above the year-earlier quarter, and up 84% sequentially, as a 20% year-over-year increase in our average community count offset a slower monthly net order pace per community of 5.2. While this monthly pace is down from the year-ago period’s exceptional 6.2 level, it is generally in line with our second-quarter average, prior to the pandemic-driven volatility.

During the second quarter, we remained focused on balancing pace, price and construction starts at each community to optimize our return on each inventory asset. With market conditions having improved compared to the 2022 second half and 2023 first quarter, reflecting a stabilizing mortgage interest rate environment, we were able to raise or maintain selling prices in most of our communities compared to those earlier periods. On a more selective basis and to a lesser extent than in the first quarter, we implemented targeted sales strategies, including pricing adjustments and other homebuyer concessions (particularly, mortgage-related concessions such as interest rate buydown or lock programs), to drive order activity and minimize cancellations. These actions, together with product and geographic mix shifts, as discussed below under “Homebuilding” and “Homebuilding Reporting Segments,” contributed to our 2023 second quarter net orders increasing 1% year over year and net order value decreasing 11%, reflecting a lower average selling price for these net orders. These year-over-year comparisons improved significantly from the 2023 first quarter when our net orders and net order value were down 49% and 53%, respectively. However, we anticipate the pricing adjustments and other homebuyer concessions we have implemented, along with other factors discussed below under “Outlook,” will contribute to a year-over-year decrease in the average selling price of homes delivered in each of the remaining 2023 quarters.

Homebuilding revenues for the three months ended May 31, 2023 and 2022 were generated entirely from housing revenues. Housing revenues for the 2023 second quarter rose 3% from the year-earlier quarter due to a 6% increase in the number of homes delivered to 3,666, partly offset by a 3% decrease in their average selling price to \$479,500. Approximately 48% of our homes delivered in the 2023 second quarter were to first-time homebuyers. Homebuilding operating income for the three months ended May 31, 2023 decreased 24% year over year to \$202.1 million and, as a percentage of revenues, was down 390 basis points to 11.5%. Our homebuilding operating income margin for the 2023 second quarter reflected a decrease in our housing gross profit margin to 21.1%, compared to 25.3% for the year-ago quarter. Net income and diluted earnings per share for the three months ended May 31, 2023 decreased 22% and 16%, respectively. Our diluted earnings per share for the 2023



second quarter reflected the favorable impact of our common stock repurchases over the past several quarters, which are discussed in Note 18 – Stockholders’ Equity in the Notes to Consolidated Financial Statements in this report.

In the 2023 second quarter, we achieved a meaningful sequential improvement in our construction cycle times. This was driven by a normalizing supply chain and better construction services availability as well as our ongoing initiative to simplify our product offerings, alleviating to an extent the significant production challenges that have persisted to varying degrees since the 2020 second quarter, and resulted in cycle times that remain extended relative to our historical average, and delivery and community opening delays. We remain committed to further reducing build times and continue to work with our suppliers and trade partners to improve their performance and cost, which may help offset some of the impact of the above-described pricing adjustments and other homebuyer concessions we have implemented. While we are pleased with the production gains in the second quarter, ongoing supply chain-related challenges for certain items may continue to negatively affect our land development and home construction activities through the 2023 second half, and it is possible they will worsen in that and in later periods.

We believe our strong balance sheet and liquidity position provide us with the flexibility to operate effectively through evolving market conditions. In the 2023 first half, we generated \$608.7 million of cash from operating activities, reflecting our reduced investments in land and land development as we continue to calibrate those investments to evolving market conditions. As a result, we ended the 2023 second quarter with total liquidity of \$1.64 billion, including cash and cash equivalents and \$1.08 billion of available capacity under the Credit Facility. We had no cash borrowings outstanding under the Credit Facility at May 31, 2023.

Our ending backlog value at May 31, 2023 decreased 44% year over year to approximately \$3.46 billion, largely due to our lower backlog at the beginning of the quarter, which reflected the slowdown in housing market demand that began in the 2022 second half and continued into the 2023 first quarter. Yet, we believe we are well-positioned to achieve solid results for the 2023 third quarter and full year, as described below under “Outlook.”

## 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
<b>Revenues:</b>				
Housing	\$ 1,757,846	\$ 1,714,826	\$ 3,136,383	\$ 3,108,980
Land	—	—	—	—
Total	1,757,846	1,714,826	3,136,383	3,108,980
<b>Costs and expenses:</b>				
Construction and land costs				
Housing	(1,386,558)	(1,281,752)	(2,469,379)	(2,363,864)
Land	—	—	—	—
Total	(1,386,558)	(1,281,752)	(2,469,379)	(2,363,864)
Selling, general and administrative expenses	(169,186)	(168,614)	(308,413)	(311,094)
Total	(1,555,744)	(1,450,366)	(2,777,792)	(2,674,958)
Operating income	202,102	264,460	358,591	434,022
Interest income	1,729	39	2,196	75
Equity in loss of unconsolidated joint ventures	(313)	(310)	(1,070)	(287)
Homebuilding pretax income	\$ 203,518	\$ 264,189	\$ 359,717	\$ 433,810

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Homes delivered	3,666	3,469	6,454	6,337
Average selling price	\$ 479,500	\$ 494,300	\$ 486,000	\$ 490,600
Housing gross profit margin as a percentage of housing revenues	21.1 %	25.3 %	21.3 %	24.0 %
Adjusted housing gross profit margin as a percentage of housing revenues	21.4 %	25.3 %	21.6 %	24.0 %
Selling, general and administrative expenses as a percentage of housing revenues	9.6 %	9.8 %	9.8 %	10.0 %
Operating income as a percentage of revenues	11.5 %	15.4 %	11.4 %	14.0 %

**Revenues.** Homebuilding revenues for the three months and six months ended May 31, 2023 and 2022 were comprised solely of housing revenues. In the 2023 second quarter, housing revenues grew 3% from the year-earlier quarter, reflecting a 6% increase in the number of homes delivered, partly offset by a 3% decrease in their overall average selling price. The year-over-year growth in the number of homes delivered reflected increases of 23%, 17% and 14% in our Southeast, Central and Southwest homebuilding reporting segments, respectively, partly offset by a 22% decrease in our West Coast homebuilding reporting segment. The decline in our West Coast homebuilding reporting segment mainly resulted from a 48% year-over-year decrease in this segment's backlog of homes at the beginning of the quarter. The lower overall average selling price primarily reflected product and geographic mix factors, and increased concessions we selectively extended to buyers within backlog prior to delivery in conjunction with our targeted sales strategies.

For the six months ended May 31, 2023, housing revenues were about the same as the corresponding 2022 period, as the number of homes delivered increased 2% and their overall average selling price was essentially even with the year-earlier period.

**Operating Income.** Our homebuilding operating income for the three months ended May 31, 2023 decreased 24% from the year-earlier period, primarily reflecting lower housing gross profits. Operating income for the 2023 second quarter included inventory-related charges of \$4.3 million, compared to \$7 million in the year-earlier quarter. As a percentage of revenues, our operating income for the three months ended May 31, 2023 was 11.5%, compared to 15.4% for the corresponding 2022 period, reflecting a lower housing gross profit margin. Excluding inventory-related charges, our operating income as a percentage of revenues decreased 380 basis points to 11.7% for the 2023 second quarter from 15.5% for the year-earlier quarter.

For the six months ended May 31, 2023, our operating income decreased 17% from the prior-year period due to lower housing gross profits, partly offset by lower selling, general and administrative expenses. Operating income for the six months ended May 31, 2023 included inventory-related charges of \$9.6 million, compared to \$9 million of such charges in the corresponding 2022 period. As a percentage of revenues, our operating income for the six months ended May 31, 2023 decreased 260 basis points year over year to 11.4%, reflecting a lower housing gross profit margin. Excluding inventory-related charges, our operating income as a percentage of revenues declined 230 basis points to 11.7% for the six months ended May 31, 2023 from 14.0% for the corresponding year-earlier period.

- **Housing Gross Profits** – Housing gross profits of \$371.3 million for the three months ended May 31, 2023 declined 14% from \$433.1 million for the year-earlier period, due to a decrease in our housing gross profit margin, partly offset by an increase in housing revenues. Our housing gross profit margin for the 2023 second quarter decreased 420 basis points year over year to 21.1%, mainly due to price decreases and other homebuyer concessions, together with higher construction costs, product and geographic mix shifts, and increased inventory-related charges. As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations, which is included in construction and land costs, was 1.8% and 2.0% for the three months ended May 31, 2023 and 2022, respectively. Excluding the inventory-related charges associated with housing operations of \$4.3 million in the current quarter and \$7 million in the year-earlier quarter, our adjusted housing gross profit margin for the 2023 second quarter decreased 390 basis points year over year.

For the six months ended May 31, 2023, our housing gross profits of \$667.0 million decreased 10% from \$745.1 million for the year-earlier period. Our housing gross profit margin for the six months ended May 31, 2023 declined 270 basis points to 21.3%, primarily due to the reasons described above with respect to the three months ended May 31, 2023. As a percentage of housing revenues, the amortization of previously capitalized interest associated with housing operations was 1.9% for the six months ended May 31, 2023, compared to 2.1% for the corresponding 2022 period. Excluding the inventory-related charges associated with housing operations of \$9.6 million in the current period and \$9 million in the

year-earlier period, our adjusted housing gross profit margin of 21.6% for the six months ended May 31, 2023 decreased 240 basis points year over year.

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.”

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

	Three Months Ended May 31,				Six Months Ended May 31,			
	2023	% of Housing Revenues	2022	% of Housing Revenues	2023	% of Housing Revenues	2022	% of Housing Revenues
Marketing expenses	\$ 37,788	2.1 %	\$ 35,655	2.1 %	\$ 70,926	2.2 %	\$ 64,503	2.1 %
Commission expenses (a)	62,906	3.6	54,794	3.2	109,393	3.5	103,423	3.3
General and administrative expenses	68,492	3.9	78,165	4.5	128,094	4.1	143,168	4.6
Total	<u>\$ 169,186</u>	<u>9.6 %</u>	<u>\$ 168,614</u>	<u>9.8 %</u>	<u>\$ 308,413</u>	<u>9.8 %</u>	<u>\$ 311,094</u>	<u>10.0 %</u>

(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 the three months ended May 31, 2023 were essentially even with the year-earlier quarter. As a percentage of housing revenues, our selling, general and administrative expenses for the 2023 second quarter improved 20 basis points, reflecting increased operating leverage due to our higher housing revenues as compared to the year-earlier quarter.

For the six months ended May 31, 2023, selling, general and administrative expenses decreased slightly year over year. As a percentage of housing revenues, selling, general and administrative expenses for the six months ended May 31, 2023 improved 20 basis points, reflecting the slight decrease in general and administrative expenses, and housing revenues that were about the same as the year-earlier period.

**Interest Income/Expense.** Interest income, which is generated from short-term investments, totaled \$1.7 million and \$2.2 million for the three-month and six-month periods ended May 31, 2023, respectively, and was nominal for the corresponding year-earlier periods. 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. All interest incurred during the three-month and six-month periods ended May 31, 2023 and 2022 was capitalized as the average amount of our inventory qualifying for interest capitalization was higher than our average debt level for each period. Accordingly, we had no interest expense for these periods. 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 Loss of Unconsolidated Joint Ventures.** Our equity in loss of unconsolidated joint ventures was nominal for the three months ended May 31, 2023 and 2022. For the six months ended May 31, 2023, our equity in loss of unconsolidated joint ventures was \$1.1 million, compared to a nominal amount for the year-earlier period. Further information regarding our investments in homebuilding unconsolidated joint ventures is provided in Note 9 – Investments in Unconsolidated Joint Ventures in the Notes to Consolidated Financial Statements in this report.

*Net Orders, Cancellation Rates, Backlog and Community Count.* The following table presents information about our net orders, cancellation rate, ending backlog and community count (dollars in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Net orders	3,936	3,914	6,078	8,124
Net order value (a)	\$ 1,899,649	\$ 2,124,754	\$ 2,901,517	\$ 4,278,488
Cancellation rate (b)	22 %	17 %	28 %	14 %
Ending backlog — homes	7,286	12,331	7,286	12,331
Ending backlog — value	\$ 3,456,693	\$ 6,121,233	\$ 3,456,693	\$ 6,121,233
Ending community count	249	214	249	214
Average community count	253	211	250	213

- (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 rates represent 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 for the 2023 second quarter rose 1% from the year-earlier quarter, reflecting an increase in gross orders, partly offset by higher cancellations. Although the pace of monthly net orders per community slowed to 5.2 in the 2023 second quarter, compared to 6.2 in the corresponding quarter of 2022, overall net orders increased slightly due to a 20% increase in our average community count. The value of our net orders declined 11% year over year, due to the lower average selling price for those homes. Reflecting pricing adjustments and other homebuyer concessions, as well as a product and geographic mix shift, the average selling price of our net orders for the 2023 second quarter was \$482,600, down 11% from the year-earlier period. The year-over-year net order and net order value comparisons for the 2023 second quarter improved from the declines of 49% and 53%, respectively, in the 2023 first quarter. In the 2023 second quarter, the year-over-year growth in our overall net orders reflected increases of 19% and 10% in our West Coast and Southwest homebuilding reporting segments, respectively, partly offset by a 20% decrease in our Central segment. Net orders in our Southeast segment were essentially even with the year-earlier quarter.

Our cancellation rate as a percentage of gross orders for the three months ended May 31, 2023 increased compared to the year-earlier period, reflecting elevated mortgage interest rates and ongoing economic uncertainty. On a sequential basis, the cancellation rate for the 2023 second quarter improved from 36% in the 2023 first quarter, reflecting a moderation back toward historical levels.

**Backlog.** The number of homes in our backlog at May 31, 2023 decreased 41% from May 31, 2022, mainly due to our substantially lower backlog at the beginning of the quarter and a year-over-year increase in homes delivered in the 2023 second quarter. The potential future housing revenues in our backlog at May 31, 2023 declined 44% from May 31, 2022 as a result of both the lower number of homes in backlog and a 4% decrease in their average selling price. The year-over-year decrease in our overall backlog value at May 31, 2023 reflected decreases in all of our homebuilding reporting segments, ranging from 36% in our Southwest segment to 55% in our Central segment. A portion of the homes in backlog will not result in homes delivered due to cancellations.

**Community Count.** We use the term “community count” to refer to the number of communities open for sale with at least five homes left to sell at the end of a reporting period. Our average community count for the three months ended May 31, 2023 expanded 20% from the year-earlier period, reflecting increases in each of our homebuilding reporting segments. Our ending community count for the 2023 second quarter rose 16% from the corresponding quarter of 2022. The year-over-year increases in our average and ending community counts primarily reflected new community openings and fewer communities selling out during the three months ended May 31, 2023. While maintaining a healthy supply of land owned or controlled under land option contracts and other similar contracts to fuel future community openings, we continued to moderate our land investments in the 2023 first half with evolving housing market conditions, 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):

Three Months Ended May 31,						
Segment	Homes Delivered		Net Orders		Cancellation Rates	
	2023	2022	2023	2022	2023	2022
West Coast	802	1,029	1,299	1,088	12 %	15 %
Southwest	778	685	789	719	16	11
Central	1,302	1,117	1,042	1,300	33	22
Southeast	784	638	806	807	24	16
Total	3,666	3,469	3,936	3,914	22 %	17 %

Segment	Net Order Value			Average Community Count		
	2023	2022	Variance	2023	2022	Variance
West Coast	\$ 870,149	\$ 844,831	3 %	78	59	32 %
Southwest	345,340	341,240	1	44	36	22
Central	365,213	582,084	(37)	83	73	14
Southeast	318,947	356,599	(11)	48	43	12
Total	\$ 1,899,649	\$ 2,124,754	(11) %	253	211	20 %

Six Months Ended May 31,						
Segment	Homes Delivered		Net Orders		Cancellation Rates	
	2023	2022	2023	2022	2023	2022
West Coast	1,588	1,943	2,156	2,182	16 %	13 %
Southwest	1,314	1,201	1,259	1,467	20	9
Central	2,237	2,070	1,453	2,744	43	18
Southeast	1,315	1,123	1,210	1,731	29	12
Total	6,454	6,337	6,078	8,124	28 %	14 %

Segment	Net Order Value			Average Community Count		
	2023	2022	Variance	2023	2022	Variance
West Coast	\$ 1,405,688	\$ 1,690,348	(17) %	79	58	36 %
Southwest	522,732	668,809	(22)	44	36	22
Central	504,681	1,200,093	(58)	81	75	8
Southeast	468,416	719,238	(35)	46	44	5
Total	\$ 2,901,517	\$ 4,278,488	(32) %	250	213	17 %

Segment	May 31,					
	Backlog – Homes			Backlog – Value		
	2023	2022	Variance	2023	2022	Variance
West Coast	1,855	2,680	(31) %	\$ 1,224,334	\$ 2,035,168	(40) %
Southwest	1,637	2,460	(33)	695,613	1,078,701	(36)
Central	2,205	4,585	(52)	889,379	1,960,299	(55)
Southeast	1,589	2,606	(39)	647,367	1,047,065	(38)
Total	7,286	12,331	(41) %	\$ 3,456,693	\$ 6,121,233	(44) %

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/or 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 for 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 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. Corporate and other had operating losses of \$38.3 million and \$43.3 million in the three months ended May 31, 2023 and 2022, respectively. For the six months ended May 31, 2023, Corporate and other had operating losses of \$68.5 million, compared to \$78.0 million for the corresponding year-earlier period.

Housing market conditions in the three-month and six-month periods ended May 31, 2023 were significantly more challenging than in the corresponding year-earlier periods. The financial results of our homebuilding reporting segments for each of the 2023 periods were negatively impacted to varying degrees by homebuyer concessions we selectively extended to buyers within backlog prior to delivery in conjunction with our targeted sales strategies, as well as product and geographic mix shifts of homes delivered. Segment financial results for three months and six months ended May 31, 2023 were also affected by construction services availability constraints and building material cost pressures, as well as ongoing supply chain disruptions and other production-related challenges.

**West Coast.** The following table presents financial information related to our West Coast segment (dollars in thousands, except average selling price):

	Three Months Ended May 31,			Six Months Ended May 31,		
	2023	2022	Variance	2023	2022	Variance
Revenues	\$ 564,350	\$ 761,217	(26) %	\$ 1,104,369	\$ 1,420,091	(22) %
Construction and land costs	(465,158)	(575,709)	19	(906,344)	(1,083,174)	16
Selling, general and administrative expenses	(43,584)	(47,741)	9	(82,197)	(89,249)	8
Operating income	\$ 55,608	\$ 137,767	(60) %	\$ 115,828	\$ 247,668	(53) %
Homes delivered	802	1,029	(22) %	1,588	1,943	(18) %
Average selling price	\$ 703,700	\$ 739,800	(5) %	\$ 695,400	\$ 730,900	(5) %
Operating income as a percentage of revenues	9.9 %	18.1 %	(820)bps	10.5 %	17.4 %	(690)bps

This segment's revenues for the three-month and six-month periods ended May 31, 2023 declined from the corresponding year-earlier periods due to decreases in both the number of homes delivered and their average selling price. Operating income for each of the three-month and six-month periods ended May 31, 2023 was down year over year, reflecting lower housing gross profits, partly offset by reduced selling, general and administrative expenses. Operating income as a percentage of revenues for the 2023 second quarter decreased from the year-earlier quarter, primarily due to a 680 basis-point decline in the housing gross profit margin to 17.6% and a 140 basis-point increase in selling, general and administrative expenses as a percentage of housing revenues to 7.7%. For the six months ended May 31, 2023, operating income as a percentage of revenues declined from the corresponding 2022 period, reflecting a 580 basis-point decrease in the housing gross profit margin to 17.9% and a 110 basis-point increase in selling, general and administrative expenses as a percentage of housing revenues to 7.4%.

The year-over-year decreases in the housing gross profit margins for the three-month and six-month periods ended May 31, 2023 primarily reflected price decreases and other homebuyer concessions, higher relative construction costs, a product and geographic mix shift of homes delivered, and reduced operating leverage from lower housing revenues, partially offset by lower relative amortization of previously capitalized interest. In addition, the housing gross profit margins for the three-month and six-month periods ended May 31, 2023 included \$3.1 million and \$3.9 million of inventory-related charges, respectively, compared to nominal inventory-related charges in each of the corresponding year-earlier periods. The year-over-year increases in selling, general and administrative expenses as a percentage of housing revenues for the three-month and six-month periods ended May 31, 2023 reflected reduced operating leverage from lower housing revenues, partly offset by a decrease in these expenses.

Southwest. The following table presents financial information related to our Southwest segment (dollars in thousands, except average selling price):

	Three Months Ended May 31,			Six Months Ended May 31,		
	2023	2022	Variance	2023	2022	Variance
Revenues	\$ 335,828	\$ 290,924	15 %	\$ 575,415	\$ 500,691	15 %
Construction and land costs	(256,035)	(204,469)	(25)	(433,038)	(360,897)	(20)
Selling, general and administrative expenses	(22,728)	(21,764)	(4)	(41,194)	(39,088)	(5)
Operating income	\$ 57,065	\$ 64,691	(12) %	\$ 101,183	\$ 100,706	— %
Homes delivered	778	685	14 %	1,314	1,201	9 %
Average selling price	\$ 431,700	\$ 424,700	2 %	\$ 437,900	\$ 416,900	5 %
Operating income as a percentage of revenues	17.0 %	22.2 %	(520)bps	17.6 %	20.1 %	(250)bps

The year-over-year growth in this segment's revenues for the three-month and six-month periods ended May 31, 2023 reflected increases in both the number of homes delivered and their average selling price. Operating income for the three months ended May 31, 2023 decreased from the corresponding year-earlier period due to lower housing gross profits and higher selling, general and administrative expenses. As a percentage of revenues, this segment's operating income for the 2023 second quarter declined from the year-earlier quarter, reflecting a 590 basis-point decrease in the housing gross profit margin to 23.8% that was partly offset by a 70 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 6.8%. For the six months ended May 31, 2023, operating income was nearly even with the corresponding year-earlier period, while operating income as a percentage of revenues declined from the corresponding 2022 period, reflecting a 320 basis-point decrease in the housing gross profit margin to 24.7%, partially offset by a 70 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 7.1%.

The year-over-year decline in the housing gross profit margin for the three months ended May 31, 2023 primarily reflected price decreases and other homebuyer concessions, a product and geographic mix shift of homes delivered, and higher relative amortization of previously capitalized interest, partly offset by improved operating leverage from higher housing revenues. The year-over-year decrease in the housing gross profit margin for the six months ended May 31, 2023 was mainly due to the same reasons described for the three months ended May 31, 2023, except for the relative amortization of previously capitalized interest, which was the same year over year. The year-over-year improvement in selling, general and administrative expenses as a percentage of housing revenues for the three-month and six-month periods ended May 31, 2023 primarily reflected increased operating leverage from higher housing revenues as well as relatively lower general and administrative expenses.



Central. The following table presents financial information related to our Central segment (dollars in thousands, except average selling price):

	Three Months Ended May 31,			Six Months Ended May 31,		
	2023	2022	Variance	2023	2022	Variance
Revenues	\$ 545,214	\$ 433,046	26 %	\$ 935,165	\$ 788,368	19 %
Construction and land costs	(424,628)	(330,473)	(28)	(721,914)	(615,333)	(17)
Selling, general and administrative expenses	(41,604)	(36,373)	(14)	(75,443)	(68,719)	(10)
Operating income	\$ 78,982	\$ 66,200	19 %	\$ 137,808	\$ 104,316	32 %
Homes delivered	1,302	1,117	17 %	2,237	2,070	8 %
Average selling price	\$ 418,800	\$ 387,700	8 %	\$ 418,000	\$ 380,900	10 %
Operating income as a percentage of revenues	14.5 %	15.3 %	(80)bps	14.7 %	13.2 %	150 bps

This segment's revenues for the three-month and six-month periods ended May 31, 2023 rose from the corresponding year-earlier periods, reflecting increases in both the number of homes delivered and their average selling price. Operating income for the 2023 second quarter and first half increased from the corresponding year-earlier periods due to higher housing gross profits, partly offset by higher selling, general and administrative expenses. This segment's operating income as a percentage of revenues for the three months ended May 31, 2023 decreased from the year-earlier period primarily due to a 160 basis-point decline in the housing gross profit margin to 22.1%, partly offset by an 80 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 7.6%. For the six months ended May 31, 2023, operating income as a percentage of revenues increased from the corresponding 2022 period, reflecting a 90 basis-point increase in the housing gross profit margin to 22.8% and a 60 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 8.1%.

The year-over-year decrease in the housing gross profit margin for the three months ended May 31, 2023 primarily reflected higher construction costs, a product and geographic mix shift of homes delivered and increased homebuyer concessions, partly offset by improved operating leverage from higher housing revenues. For the six months ended May 31, 2023, the year-over-year increase in the housing gross profit margin mainly reflected a product and geographic mix shift of homes delivered and improved operating leverage on higher housing revenues, partly offset by increased inventory-related charges and homebuyer concessions. Inventory-related charges for the 2023 first half were \$2.1 million, compared to \$6.6 million for the year-earlier period. The year-over-year improvement in selling, general and administrative expenses as a percentage of housing revenues for the three-month and six-month periods ended May 31, 2023 was primarily due to increased operating leverage from higher housing revenues.

Southeast. The following table presents financial information related to our Southeast segment (dollars in thousands, except average selling price):

	Three Months Ended May 31,			Six Months Ended May 31,		
	2023	2022	Variance	2023	2022	Variance
Revenues	\$ 312,454	\$ 229,639	36 %	\$ 521,434	\$ 399,830	30 %
Construction and land costs	(238,348)	(168,905)	(41)	(403,404)	(301,135)	(34)
Selling, general and administrative expenses	(25,320)	(21,671)	(17)	(45,719)	(39,366)	(16)
Operating income	\$ 48,786	\$ 39,063	25 %	\$ 72,311	\$ 59,329	22 %
Homes delivered	784	638	23 %	1,315	1,123	17 %
Average selling price	\$ 398,500	\$ 359,900	11 %	\$ 396,500	\$ 356,000	11 %
Operating income as a percentage of revenues	15.6 %	17.0 %	(140)bps	13.9 %	14.8 %	(90) bps

This segment's revenues for the three-month and six-month periods ended May 31, 2023 grew year over year from the corresponding 2022 periods as a result of increases in both the number of homes delivered and their average selling prices. Operating income for the 2023 second quarter and first half each increased year over year, reflecting higher housing gross



profits, partly offset by higher selling, general and administrative expenses. As a percentage of revenues, operating income for the 2023 second quarter declined from the year-earlier quarter mainly due to a 270 basis-point decrease in the housing gross profit margin to 23.7%, partly offset by a 130 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 8.1%. For the six months ended May 31, 2023, operating income as a percentage of revenues decreased from the corresponding 2022 period, reflecting a 210 basis-point decline in the housing gross profit margin to 22.6%, partly offset by a 120 basis-point improvement in selling, general and administrative expenses as a percentage of housing revenues to 8.7%.

The year-over-year decline in the housing gross profit margin for the three-month and six-month periods ended May 31, 2023 primarily reflected higher construction costs, a product and geographic mix shift of homes delivered and increased homebuyer concessions, partly offset by improved operating leverage from higher housing revenues. The year-over-year decrease in the housing gross profit margin for the six months ended May 31, 2023 was also due to inventory-related charges of \$3.5 million in the current period, compared to no such charges in the year-earlier period. The year-over-year improvement in selling, general and administrative expenses as a percentage of housing revenues for the three-month and six-month periods ended May 31, 2023 primarily reflected increased operating leverage from 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Revenues	\$ 7,470	\$ 5,236	\$ 13,247	\$ 9,871
Expenses	(1,472)	(1,362)	(2,830)	(2,709)
Equity in income of unconsolidated joint ventures	5,426	14,807	7,008	19,955
Pretax income	\$ 11,424	\$ 18,681	\$ 17,425	\$ 27,117
Total originations (a):				
Loans	2,445	2,052	4,261	3,835
Principal	\$ 966,615	\$ 799,552	\$ 1,693,280	\$ 1,491,485
Percentage of homebuyers using KBHS	80 %	68 %	80 %	69 %
Average FICO score	736	734	735	733
Loans sold (a):				
Loans sold to GR Alliance	2,383	1,830	4,211	3,357
Principal	\$ 948,471	\$ 733,838	\$ 1,689,939	\$ 1,329,797
Loans sold to third parties	89	265	180	617
Principal	\$ 31,122	\$ 89,809	\$ 63,364	\$ 202,000

(a) Loan originations and sales occurred within KBHS.

*Revenues.* Financial services revenues for the three-month and six-month periods ended May 31, 2023 grew from the corresponding 2022 periods due to increases in both title services revenues and insurance commissions.

*Pretax income.* Financial services pretax income for the three months ended May 31, 2023 declined 39% from the year-earlier period, as a decrease in the equity in income of unconsolidated joint ventures was partly offset by improved results from our insurance and title services businesses. In the 2023 second quarter, the equity in income of unconsolidated joint ventures decreased to \$5.4 million, compared to \$14.8 million in the year-earlier quarter, primarily as a result of a decline in KBHS' income. The year-over-year decline in KBHS' income mainly reflected losses of \$2.7 million in the fair value of IRLCs in the current quarter, compared to gains of \$25.8 million in the year-earlier quarter, due to a lower volume of new IRLCs in the 2023 second quarter. Partly offsetting this were the higher principal amount of loans originated in the current quarter, which primarily reflected increases in both the number of homes delivered and the percentage of homebuyers using KBHS. The significant gain in the 2022 second quarter resulted from a substantial increase in the fair value of IRLCs within the joint venture as a greater number of customers elected to lock their mortgage interest rates and for relatively extended periods, due to the sharp rise in such rates during that period. This substantial increase within KBHS resulted in a shift of some of our then-expected equity in income of KBHS from the 2022 second half to the 2022 first half.

For the six months ended May 31, 2023, our financial services pretax income declined 36% from the corresponding 2022 period, reflecting a decrease in the equity in income of unconsolidated joint ventures, partially offset by improved results from our insurance and title services businesses. In the 2023 first half, the equity in income of unconsolidated joint ventures decreased to \$7.0 million, compared to \$20.0 million in the year-earlier period, mainly as a result of a decline in KBHS' income. The year-over-year decline in KBHS' income was primarily due to losses of \$4.2 million in the fair value of IRLCs in the current period, compared to gains of \$33.4 million in the year-earlier period due to the factors described above for the three months ended May 31, 2023.

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 tax rates were as follows (dollars in thousands):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Income tax expense	\$ 50,500	\$ 72,200	\$ 87,200	\$ 116,000
Effective tax rate	23.5 %	25.5 %	23.1 %	25.2 %

Our effective tax rate for the three months ended May 31, 2023 decreased from the year-earlier period, mainly due to a \$6.2 million increase in the federal tax credits we recognized primarily from building energy-efficient homes and a \$1.1 million increase in excess tax benefits related to stock-based compensation, partly offset by a \$1.3 million increase in nondeductible executive compensation expense. For the six months ended May 31, 2023, our effective tax rate decreased from the year-earlier period, mainly due to a \$11.7 million increase in the federal tax credits we recognized primarily from building energy-efficient homes and a \$1.6 million increase in excess tax benefits related to stock-based compensation, partly offset by a \$2.7 million increase in nondeductible executive compensation expense. The year-over-year increase in federal tax credits for the three months and six months ended May 31, 2023 reflected the enactment of the Inflation Reduction Act of 2022 on August 16, 2022, which extended the federal tax credit for building energy-efficient homes for homes delivered from January 1, 2022 (retroactively) through December 31, 2032, as well as modified and increased it starting in 2023. Previously, the federal tax credit expired for homes delivered after December 31, 2021.

Further information regarding our income taxes is provided in Note 13 – 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 GAAP. We believe this non-GAAP financial measure is relevant and useful to investors in understanding our operations and the leverage employed in our operations, and may be helpful in comparing us with other companies in the homebuilding industry to the extent they provide similar information. However, because 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):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2023	2022	2023	2022
Housing revenues	\$ 1,757,846	\$ 1,714,826	\$ 3,136,383	\$ 3,108,980
Housing construction and land costs	(1,386,558)	(1,281,752)	(2,469,379)	(2,363,864)
Housing gross profits	371,288	433,074	667,004	745,116
Add: Inventory-related charges (a)	4,287	732	9,576	907
Adjusted housing gross profits	\$ 375,575	\$ 433,806	\$ 676,580	\$ 746,023
Housing gross profit margin as a percentage of housing revenues	21.1 %	25.3 %	21.3 %	24.0 %
Adjusted housing gross profit margin as a percentage of housing revenues	21.4 %	25.3 %	21.6 %	24.0 %

(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.

### **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 acquisition 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.

We ended the 2023 second quarter with total liquidity of \$1.64 billion, including cash and cash equivalents and \$1.08 billion of available capacity under the Credit Facility. Based on our financial position as of May 31, 2023, and our business forecast for the remainder of 2023 as discussed below under “Outlook,” we have no material concerns related to our liquidity. 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. Though the financial industry and capital markets turmoil that began with regulatory authorities closing two U.S. banks in early March 2023 could also create a potential liquidity risk if it spreads, as discussed below under Part II, Item 1A – Risk Factors, as of the date of this report, we believe it will not impair our ability to access any cash and cash equivalents we have invested in

interest-bearing bank deposit accounts, or the full borrowing, credit extension and payment guarantee capacities available under our Credit Facility and the LOC Facility.

*Cash Requirements.* Other than the decrease in our notes payable presented in the table below, which reflects the repayment of all cash borrowings outstanding under the Credit Facility during the six months ended May 31, 2023, there have been no significant changes in our cash requirements from those reported in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the year ended November 30, 2022.

*Investments in Land and Land Development.* Our investments in land and land development for the six months ended May 31, 2023 decreased 46% to \$763.2 million, compared to \$1.40 billion for the year-earlier period, as we continued to calibrate our investments with evolving market conditions. In the six months ended May 31, 2023, our land acquisitions decreased 79% to \$130.6 million from \$624.0 million, reflecting a pivot in our land investment strategy beginning in the 2022 third quarter in response to then-softening housing market conditions, to emphasize developing land positions we already own or control under land option contracts and other similar contracts. We have also evaluated our transaction pipeline and renegotiated pricing and terms for many deals while abandoning others that no longer met our investment return standards. In addition, we have modified our land development strategy, electing where appropriate to build in smaller phases, and in some cases, defer the start of the next phase of lots in a community to align with expected demand. Reflecting these shifts in our land strategy, approximately 17% of our total investments for the six months ended May 31, 2023 related to land acquisitions, compared to approximately 44% in the prior-year period. While we made strategic investments in land and land development in each of our homebuilding reporting segments during the six months ended May 31, 2023 and 2022, approximately 55% and 52%, respectively, of these investments for each period were made in our West Coast homebuilding reporting segment.

For the remainder of 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. While we expect our land acquisition activity to increase during the 2023 second half as compared to the 2023 first half, 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	May 31, 2023		November 30, 2022		Variance	
	Lots	Carrying Value	Lots	Carrying Value	Lots	Carrying Value
West Coast	17,018	\$ 2,300,284	19,302	\$ 2,425,141	(2,284)	\$ (124,857)
Southwest	7,806	891,751	8,841	993,059	(1,035)	(101,308)
Central	19,232	1,098,704	24,001	1,278,420	(4,769)	(179,716)
Southeast	13,876	838,102	16,651	846,556	(2,775)	(8,454)
Total	57,932	\$ 5,128,841	68,795	\$ 5,543,176	(10,863)	\$ (414,335)

The number and carrying value of lots we owned or controlled under land option contracts and other similar contracts at May 31, 2023 decreased from November 30, 2022, reflecting homes delivered in the 2023 first half as well as the above-mentioned pivot in our land investment strategy, which included our abandonment of 6,179 previously controlled lots in the six months ended May 31, 2023. The number of lots in inventory as of May 31, 2023 included 3,448 lots under contract where the associated deposits were refundable at our discretion, compared to 5,543 of such lots at November 30, 2022. Our lots controlled under land option contracts and other similar contracts as a percentage of total lots was 25% at May 31, 2023, compared to 30% at November 30, 2022. 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.

*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 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 May 31, 2023, we estimate the remaining purchase price to be paid would be as follows: 2023 – \$361.2 million; 2024 – \$295.1 million; 2025 – \$151.8 million; 2026 – \$175.8 million; 2027 – \$6.3 million; and thereafter – \$3.8 million.

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

	May 31, 2023	November 30, 2022
Cash and cash equivalents	\$ 557,037	\$ 328,517
Credit Facility commitment	1,090,000	1,090,000
Borrowings outstanding under the Credit Facility	—	(150,000)
Letters of credit outstanding under the Credit Facility	(6,650)	(6,650)
Credit Facility availability	1,083,350	933,350
Total liquidity	\$ 1,640,387	\$ 1,261,867

The majority of our cash equivalents at May 31, 2023 and November 30, 2022 were invested in interest-bearing bank deposit accounts.

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

	May 31, 2023	November 30, 2022	Variance
Credit Facility	\$ —	\$ 150,000	\$ (150,000)
Term Loan	357,821	357,485	336
Senior notes	1,327,083	1,326,266	817
Mortgages and land contracts due to land sellers and other loans	1,759	4,760	(3,001)
Total	\$ 1,686,663	\$ 1,838,511	\$ (151,848)

Our financial leverage, as measured by the ratio of debt to capital, was 30.9% at May 31, 2023, compared to 33.4% at November 30, 2022. The ratio of debt to capital is calculated by dividing notes payable by capital (notes payable plus stockholders' equity).

**LOC Facility.** We maintain the 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 May 31, 2023 and November 30, 2022, we had letters of credit outstanding under the LOC Facility of \$14.5 million and \$36.4 million, respectively.

**Performance Bonds.** As discussed in Note 16 – Commitments and Contingencies in the Notes to Consolidated Financial Statements in this report, we had \$1.34 billion and \$1.27 billion of performance bonds outstanding at May 31, 2023 and November 30, 2022, respectively.

**Unsecured Revolving Credit Facility.** We have a \$1.09 billion Credit Facility that will mature on 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 May 31, 2023, we had no cash borrowings and \$6.6 million of letters of credit outstanding under the Credit Facility. The Credit Facility is further described in Note 14 – 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, Leverage Ratio, and either an 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.
- 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 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 May 31, 2023:

Financial Covenants and Other Requirements	Covenant Requirement	Actual
Consolidated tangible net worth	≥ \$2.64 billion	\$3.73 billion
Leverage Ratio	≤ .600	.312
Interest Coverage Ratio (a)	≥ 1.500	10.316
Minimum liquidity (a)	≥ \$114.5 million	\$557.0 million
Investments in joint ventures and non-guarantor subsidiaries	≤ \$849.9 million	\$305.2 million
Borrowing base in excess of borrowing base indebtedness (as defined)	n/a	\$2.64 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 May 31, 2023, we were in compliance with the applicable terms of all of 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. Our ability to access the Credit Facility's full borrowing capacity, as well as the LOC Facility's full issuance capacity, also depends on the ability and willingness of the applicable lenders and financial institutions, including any substitute or additional lenders and financial institutions, to meet their commitments to fund loans, extend credit or provide payment guarantees to or for us under those instruments.

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 May 31, 2023, we had outstanding mortgages and land contracts due to land sellers and other loans payable in connection with such financing of \$1.8 million, secured primarily by the underlying property, which had an aggregate carrying value of \$23.6 million.

**Senior Unsecured Term Loan.** We have a \$360.0 million Term Loan with the lenders party thereto that 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 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report.

**Credit Ratings.** Our credit ratings are periodically reviewed by rating agencies. In April 2023, S&P Global reaffirmed our BB credit rating and changed its rating outlook to stable from positive.

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

	Six Months Ended May 31,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 608,730	\$ (314,812)
Investing activities	(30,937)	(37,243)
Financing activities	(350,534)	306,500
Net increase (decrease) in cash and cash equivalents	\$ 227,259	\$ (45,555)

**Operating Activities.** Generally, our net operating cash flows fluctuate mainly based on changes in our inventories and our profitability. Our net cash provided by operating activities for the six months ended May 31, 2023 primarily reflected a net decrease in inventories of \$413.8 million and net income of \$289.9 million, partly offset by a net decrease in accounts payable, accrued expenses and other liabilities of \$132.2 million and a net increase in receivables of \$18.5 million. In the six months ended May 31, 2022, our net cash used in operating activities mainly reflected a net increase in inventories of \$764.2 million and a net increase in receivables of \$11.1 million, partly offset by net income of \$344.9 million and a net increase in accounts payable, accrued expenses and other liabilities of \$84.3 million.

**Investing Activities.** In the six months ended May 31, 2023, our uses of cash included \$18.3 million for net purchases of property and equipment and \$17.7 million for contributions to unconsolidated joint ventures. These uses of cash were partially offset by a \$5.1 million return of investments in unconsolidated joint ventures. In the six months ended May 31, 2022, the net cash used for investing activities reflected \$22.1 million for net purchases of property and equipment and \$16.4 million for contributions to unconsolidated joint ventures. These uses of cash were partially offset by a \$1.3 million return of investments in unconsolidated joint ventures.

**Financing Activities.** In the six months ended May 31, 2023, our uses of cash included stock repurchases of \$167.1 million, net repayments under the Credit Facility of \$150.0 million, dividend payments on our common stock of \$25.7 million, tax payments associated with stock-based compensation awards of \$9.7 million and payments on mortgages and land contracts due to land sellers and other loans of \$3.0 million. The cash used was partly offset by \$5.0 million of issuances of common stock under employee stock plans. In the six months ended May 31, 2022, cash was provided by net borrowings under the Credit Facility of \$400.0 million. Partially offsetting the cash provided were \$50.0 million of stock repurchases, \$27.1 million of dividend payments on our common stock, \$12.2 million of tax payments associated with stock-based compensation awards, \$3.8 million of costs incurred for an amendment of the Credit Facility and \$4 million of payments on mortgages and land contracts due to land sellers and other loans.

**Dividends.** In the three-month periods ended May 31, 2023 and 2022, our board of directors declared, and we paid, a quarterly cash dividend on our common stock of \$.15 per share. Quarterly dividends declared and paid during the six-month periods ended May 31, 2023 and 2022 totaled \$.30 per share. 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.

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. For the remainder of 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 or loans 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 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. The potential liquidity risks from the financial industry and capital markets turmoil that began in early March 2023 with the closing of two U.S. banks is discussed below under Part II, Item 1A – Risk Factors.

### **Supplemental Guarantor Financial Information**

As of May 31, 2023, we had \$1.34 billion in aggregate principal amount of outstanding senior notes, no 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 our Guarantor Subsidiaries. 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 14 – Notes Payable in the Notes to Consolidated Financial Statements in this report for additional information regarding the terms of our senior notes, 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 the 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)	May 31, 2023	November 30, 2022
<b>Assets</b>		
Cash	\$ 521,705	\$ 265,916
Inventories	4,681,211	5,118,252
Amounts due from Non-Guarantor Subsidiaries	469,835	403,249
<b>Total assets</b>	<b>6,305,162</b>	<b>6,404,755</b>
<b>Liabilities and Stockholders’ Equity</b>		
Notes payable	\$ 1,686,663	\$ 1,836,001
Amounts due to Non-Guarantor Subsidiaries	303,823	283,280
<b>Total liabilities</b>	<b>2,790,451</b>	<b>2,977,348</b>
<b>Stockholders’ equity</b>	<b>3,514,711</b>	<b>3,427,407</b>



Summarized Statement of Operations Data (in thousands)	Six Months Ended May 31, 2023
Revenues	\$ 2,963,692
Construction and land costs	(2,323,069)
Selling, general and administrative expenses	(302,244)
Interest income from Non-Guarantor Subsidiaries	14,009
Pretax income	354,204
Net income	272,304

### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements requires the use of judgment in the application of accounting policies and estimates of uncertain matters. There have been no significant changes to our critical accounting policies and estimates during the six months ended May 31, 2023 from those disclosed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the year ended November 30, 2022.

### **Recent Accounting Pronouncements**

There are no recent accounting pronouncements that are expected to have a material impact on our consolidated financial statements.

### **Outlook**

We believe several long-term housing market fundamental factors remain positive, including favorable demographics, a decade-plus underproduction of new homes relative to population growth and low resale home inventory. In the current period, while mortgage interest rates and inflation remained elevated, demand strengthened compared to the 2022 second half and 2023 first quarter, with buyers adjusting to the higher mortgage interest rates and a stabilizing rate environment. Our 3,936 net orders for the 2023 second quarter were about even with the year-earlier quarter and we achieved a 5.2 monthly net orders per community pace, generally in line with our second-quarter average, prior to the pandemic-driven volatility. We anticipate a sequential decline in net orders in the 2023 third and fourth quarters, partly due to seasonality. This could be influenced up or down by inventory levels or movement in mortgage interest rates, among other supply and demand factors, including expected continued consumer caution from interest rate and economic uncertainties as well as affordability pressures.

With market conditions having improved compared to the 2022 second half and 2023 first quarter, we were able to raise or maintain selling prices in most of our communities in the 2023 second quarter as compared to those earlier periods. However, we anticipate the pricing adjustments and other homebuyer concessions we have selectively implemented since the 2022 second half and plan to use to a lesser extent in the 2023 second half, subject to market dynamics and the size and construction stage of the backlog within each community, as well as lower proportion of deliveries expected from higher-priced communities within our West Coast homebuilding reporting segment, will contribute to a year-over-year decrease in the average selling price of homes delivered in each of the remaining 2023 quarters. At the same time, we are continuing to pursue reductions in our direct construction costs and cycle times to help offset any such pricing adjustments and other homebuyer concessions. We are committed to reducing our build times to achieve deliveries within our normal historical period of between six and seven months from home order.

We believe we are in a strong position to operate effectively through changing market conditions, with a solid balance sheet and liquidity, and anticipated healthy operating cash flow for the 2023 fiscal year. While we expect our land acquisition activity to increase during the 2023 second half as compared to the 2023 first half, 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.

We intend to maintain a balanced approach to capital allocation to maximize long-term stockholder value. In this regard, we ended the 2023 second quarter with approximately \$407.9 million remaining under our current board of directors share repurchase authorization, which provides us flexibility to continue to repurchase our common stock.

We plan to continue to balance pace, price and construction starts at each community to optimize our return on each inventory asset within its market context, leveraging our differentiated, highly customer-centric Built to Order business model and operational capabilities to help effectively meet evolving consumer preferences and budgets. With our backlog value of \$3.46 billion at May 31, 2023, we believe we can achieve our projected results for 2023, subject to the factors and risks described in this report. Based on the foregoing, our present outlook for the 2023 third quarter and full year is as follows:

### *2023 Third Quarter*

- We expect to generate housing revenues in the range of \$1.35 billion to \$1.50 billion, a decrease from \$1.84 billion in the corresponding 2022 period, and anticipate our average selling price to be approximately \$470,000, compared to \$508,700 in the year-earlier period.
- We expect our homebuilding operating income margin will be in the range of 9.5% to 10.1%, assuming no inventory-related charges, down from 18.1% for the year-earlier quarter.
  - We expect our housing gross profit margin will be in the range of 20.4% to 21.0%, assuming no inventory-related charges, compared to 27.0% 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 10.6% to 11.2%, compared to 8.9% in the 2022 third quarter.
- We expect our effective tax rate will be approximately 23%. The effective tax rate for the year-earlier quarter was approximately 22%.
- We expect our average community count will be up approximately 10%, compared to the prior-year quarter, with a sequential decline in our quarter-end community count.
- We expect our net orders will range between 3,000 and 3,500, representing a 59% year-over-year increase at the mid-point.

### *2023 Full Year*

- We expect our housing revenues to be in the range of \$5.80 billion to \$6.20 billion, a 13% decrease at the mid-point from \$6.88 billion in 2022, and anticipate our average selling price will be approximately \$485,000, a decrease from \$500,800 for 2022.
- We expect our homebuilding operating income margin to be about 11.0%, assuming no inventory-related charges, compared to 15.6% for 2022.
  - We expect our housing gross profit margin to be approximately 21.2%, assuming no inventory-related charges, compared to 24.8% for 2022.
  - We expect our selling, general and administrative expenses as a percentage of housing revenues to be about 10.3%, compared to 9.2% in the prior year.
- We expect the effective tax rate will be approximately 23%, compared to approximately 24% for 2022.
- We expect our average community count will be up roughly 10%, and our ending community count flat, year over year.

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 and into 2023 to moderate persistent U.S. inflation, and the further actions it may take, are expected to be an ongoing headwind for the housing market, as they have elevated mortgage interest rates and created macroeconomic uncertainty and financial market turbulence that, among other things, has tempered consumer demand for homes and disrupted credit and lending markets. In addition, while we experienced improvement with respect to ongoing supply chain disruptions, other production challenges and construction cost pressures described in this Management's Discussion and Analysis of Financial Condition and Results of Operations, we believe they will generally persist for the 2023 second half. 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 the 2023 second quarter and first half, 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 new community, expenses, expense ratios, housing gross profits, housing gross profit margins, earnings or earnings per share, or growth or growth rates), future market conditions, future interest rates, and other economic conditions, ongoing business strategies or prospects, future dividends and changes in dividend levels, the value of our backlog (including amounts that we expect to realize upon delivery of homes included in our backlog and the timing of those deliveries), the value of our net orders, potential future asset acquisitions and the impact of completed acquisitions, future share issuances or repurchases, future debt issuances, repurchases or redemptions and other possible future actions are also forward-looking statements as defined by the Act. Forward-looking statements are based on our current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about our operations, economic and market factors, and the homebuilding industry, among other things. These statements are not guarantees of future performance, and we have no specific policy or intention to update these statements. If we update or revise any such statement(s), no assumption should be made that we will further update or revise 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 may further increase to moderate inflation, and those 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;
- the ability and willingness of the applicable lenders and financial institutions, or any substitute or additional lenders and financial institutions, to meet their commitments or fund borrowings, extend credit or provide payment guarantees to or for us under the Credit Facility or LOC Facility;
- 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, such as a lack of adequate water supply to permit new home communities in certain areas;
- 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 to 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 home 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 homeowners insurance policies, which may depend on the ability and willingness of insurers to offer coverage in certain locations at an affordable price or at all;
- the ability of our homebuyers to obtain residential mortgage loans and mortgage banking services, which may depend on the ability and willingness of lenders and financial institutions to offer such loans and services to our homebuyers;
- the performance of mortgage lenders to our homebuyers;
- the performance of KBHS;
- the ability and willingness of lenders and financial institutions to extend credit facilities to KBHS to fund its originated mortgage loans;
- information technology failures and data security breaches;

- an epidemic or pandemic, and the control response measures that international, federal, state and local governments, agencies, law enforcement and/or health authorities implement to address it, which may 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.

Please see our Annual Report on Form 10-K for the year ended November 30, 2022 and other filings with the SEC for a further discussion of these and other risks and uncertainties applicable to our business.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in our market risk since November 30, 2022, other than our repayment of all \$150.0 million of cash borrowings under the Credit Facility during the six months ended May 31, 2023. As of May 31, 2023, we had no cash borrowings outstanding under the Credit Facility. For additional information regarding our market risk, refer to the “Quantitative and Qualitative Disclosures About Market Risk” section of our Annual Report on Form 10-K for the year ended November 30, 2022.

### **Item 4. 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 our 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 May 31, 2023.

We have invested significant resources over the past few years to develop and implement a new custom enterprise resource planning (“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 most of our operating divisions have transitioned 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 May 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a discussion of our legal proceedings, see Note 17 – Legal Matters in the Notes to Consolidated Financial Statements in this report.

### **Item 1A. Risk Factors**

Except as set forth below, as of the date of this report, there have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended November 30, 2022. However, we cannot provide any assurance that any such risk factor will not materialize.

***Financial industry and capital markets turmoil may materially and adversely affect our liquidity and consolidated financial statements.***

In early March 2023, federal and state banking regulators closed two U.S. banks, with which neither we nor KBHS had any banking, financing or other business relationships or dependencies, precipitating financial industry and capital markets turmoil centered on concerns about the stability and solvency of other banks and financial institutions and the attendant risk they may be closed and/or forced by governmental agencies into receivership or sale. The failure of other banks and financial institutions, if it occurs, could have a material adverse effect on our liquidity or consolidated financial statements if we have

placed cash and cash equivalent deposits at such banks or financial institutions, or if such banks or financial institutions, or any substitute or additional banks or financial institutions, participate in our Credit Facility or LOC Facility. Under our Credit Facility, non-defaulting lenders are not obligated to cover or acquire a defaulting lender's respective commitment to fund loans or to issue letters of credit, and may not issue additional letters of credit if we do not enter into arrangements to address the risk with respect to the defaulting lender (which may include cash collateral). If the non-defaulting lenders are unable or unwilling to cover or acquire a defaulting lender's respective commitment, potentially due to other demands they face under other credit instruments to which they are party, or because of regulatory restrictions, among other factors, we may not be able to access the Credit Facility's full borrowing or letter of credit capacity to support our business needs. Similarly, if the applicable lender fails to meet its commitment to provide payment guarantees for us under the LOC Facility, we may not be able to access its full issuance capacity to carry out important operational processes. In addition, if a party to the warehouse line of credit and master repurchase agreements KBHS uses to fund mortgage originations fails, or is unable or unwilling to fulfill their obligations, KBHS may be limited in its ability, or unable, to provide mortgage loans to our homebuyers, which may prevent them from closing on their home at the time expected or at all. Also, if there is a failure of the lender of the revolving line of credit to one of our unconsolidated joint ventures for it to finance its land acquisition, development and construction activities, the unconsolidated joint venture may be delayed or unable to complete the project.

Based on our outreach to our, KBHS' and the unconsolidated joint venture's banking and financial institution partners, and steps we have taken to place deposits only with certain of those partners, as of the date of this report, we believe the above-described financial industry and capital markets turmoil will not impair our, KBHS' or the unconsolidated joint venture's ability to access any cash and cash equivalents on deposit or the full amounts available for borrowings or other credit extensions under the applicable financial instruments, in each case if and as needed in the ordinary course.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes purchases of our own equity securities during the three months ended May 31, 2023 (dollars in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (a) (b)
March 1-31	—	\$ —	\$ —	\$ 500,000
April 1-30	1,236,197	40.92	50,590	449,410
May 1-31	926,685	44.78	41,498	407,912
Total	2,162,882	\$ 42.58	\$ 92,088	

(a) The Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022, imposed a nondeductible 1% excise tax on the net value of certain stock repurchases made after December 31, 2022. All dollar amounts presented exclude such excise taxes, as applicable.

(b) On March 21, 2023, our board of directors authorized us to repurchase up to \$500.0 million of our outstanding common stock, excluding excise tax. This authorization replaced a prior board of directors authorization, which had \$75.0 million remaining, excluding excise tax. In the 2023 second quarter, we repurchased 2,162,882 shares of our common stock on the open market pursuant to the current authorization at a total cost of \$92.1 million. As of May 31, 2023, we were authorized to repurchase up to \$407.9 million of common stock in additional transactions, excluding excise tax.

## Item 6. Exhibits

### Exhibits

10.35	<a href="#"><u>Amended and Restated KB Home 2014 Equity Incentive Plan, effective April 20, 2023.</u></a>
22	<a href="#"><u>List of Guarantor Subsidiaries, filed as an exhibit to our Annual Report on Form 10-K for the year ended November 30, 2022 (File No. 001-09195), is incorporated by reference herein.</u></a>
31.1	<a href="#"><u>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.</u></a>
31.2	<a href="#"><u>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.</u></a>
32.1	<a href="#"><u>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.</u></a>
32.2	<a href="#"><u>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.</u></a>
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).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KB HOME  
Registrant

Dated	<u>July 7, 2023</u>	By:	<u>/s/ JEFF J. KAMINSKI</u> Jeff J. Kaminski Executive Vice President and Chief Financial Officer (Principal Financial Officer)
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Dated	<u>July 7, 2023</u>	By:	<u>/s/ WILLIAM R. HOLLINGER</u> William R. Hollinger Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
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**AMENDED AND RESTATED**

**KB HOME**

**2014 EQUITY INCENTIVE PLAN**

**Effective April 20, 2023**

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**AMENDED AND RESTATED KB HOME  
2014 EQUITY INCENTIVE PLAN**

**ARTICLE 1.  
PURPOSE**

The purpose of the Amended and Restated KB Home 2014 Equity Incentive Plan (the “*Plan*”) is to attract, motivate and retain the services of Employees, Non-Employee Directors and Consultants by enabling them to participate in the growth and financial success of KB Home (the “*Company*”) and to align their individual interests to those of the Company’s stockholders.

**ARTICLE 2.  
DEFINITIONS AND CONSTRUCTION**

Wherever the following terms are used in the Plan they shall have the meanings specified below:

1. “*Affiliate*” shall mean a person or entity that directly or indirectly controls or is controlled by, or is under common control with, the Company.
2. “*Amended Effective Date*” shall mean the date the Amended Plan is first approved by the Company’s stockholders in accordance with the requirements of the Company’s by-laws, the applicable Securities Exchange and Section 422 of the Code.
3. “*Award*” shall mean, as the case may be, a grant under the Plan of Options, Restricted Stock, Restricted Stock Units, Performance Awards, Stock Payments or Stock Appreciation Rights.
4. “*Award Agreement*” shall mean any written notice, terms and conditions, contract or other instrument or document evidencing an Award, including in electronic form, which shall contain any terms and conditions with respect to the Award as the Committee shall determine consistent with the Plan and any applicable Program.
5. “*Award Limit*” shall mean with respect to Awards payable in Shares or in cash, as the case may be, the respective limit set forth in Section 4.5.
6. “*Board*” shall mean the Board of Directors of the Company.
7. A “*Change of Ownership*” shall be deemed to have occurred if any of the following has occurred: (a) any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company, as determined in accordance with Section 1.409A-3(i)(5)(v) of the Treasury Regulations; *provided*, that if a person or group is considered either to own more than 50% of the total fair market value or total voting power of the stock of the Company, or to own more than the market value or total voting power specified in (b) below, and such person or group acquires additional stock of the Company, the acquisition of additional stock by such person or group shall not be considered to cause a “Change of Ownership”; (b) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company, as determined in accordance with Section 1.409A-3(i)(5)(vi) of the Treasury Regulations; *provided*, that if a person or group is considered to possess 30% or more of the total voting power of the stock of the Company, and such person or group acquires additional stock of the Company, the acquisition of additional stock by such person or group shall not be considered to cause a “Change of Ownership”; (c) a majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election, as determined in accordance with Section 1.409A-3(i)(5)(vi) of the Treasury Regulations; (d) any one

person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions, as determined in accordance with Section 1.409A-3(i)(5)(vii) of the Treasury Regulations; *provided*, that a transfer of assets shall not be treated as a “Change of Ownership” when such transfer is made to an entity that is controlled by the stockholders of the Company, as determined in accordance with Section 1.409A-3(i)(5)(vii)(B) of the Treasury Regulations; or (e) the Company’s stockholders approve a liquidation or dissolution of the Company.

8. “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time, together with the Treasury Regulations and official guidance promulgated by the U.S. Department of Treasury.

9. “*Committee*” shall mean the Management Development and Compensation Committee of the Board or another committee of the Board designated by the Board that consists solely of Directors meeting the qualifications described in Section 12.1.

10. “*Common Stock*” shall mean the common stock of the Company, par value \$1.00 per share.

11. “*Company Stock Administrator*” shall mean the stock administrator of the Company, or such other person or entity designated by the Committee, or his, her or its office, as applicable, whether or not employed by the Company.

12. “*Consultant*” shall mean any consultant or advisor engaged to provide services to the Company or any Affiliate that qualifies as a consultant or advisor under the instructions for use of a Form S-8 Registration Statement.

13. “*Director*” shall mean a member of the Board.

14. “*Eligible Individual*” shall mean any person who is an Employee, a Consultant or a Non-Employee Director, as determined by the Committee or the Board.

15. “*Employee*” shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code) of the Company or of any Affiliate.

16. “*Equity Restructuring*” shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the Shares (or other securities of the Company) or the Share price (or the price of other securities), and results upon its implementation in a change in the per-Share value of the Shares underlying outstanding Awards.

17. “*Exchange Act*” shall mean the Securities Exchange Act of 1934.

18. “*Fair Market Value*” shall mean, as of any given date, the value of a Share determined as follows:

(1) If the Common Stock is listed on any Securities Exchange, its Fair Market Value shall be the closing sales price for a Share as quoted on such Securities Exchange for such date or, if there is no closing sales price for a Share on the date in question, the closing sales price for a Share on the last preceding date for which such quotation exists, as reported by *The Wall Street Journal* or such other source (whether in print or electronic) as the Committee deems reliable;

(2) If the Common Stock is not listed on any Securities Exchange, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a Share on such date, the high bid and low asked prices for a Share on the last preceding date for which such

information exists, as reported by *The Wall Street Journal* or such other source (whether in print or electronic) as the Committee deems reliable; or

(3) If the Common Stock is neither listed on any Securities Exchange nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Committee in good faith.

19. “*Full Value Award*” shall mean any Award other than (i) an Option, (ii) a Stock Appreciation Right or (iii) any other Award for which the Holder must pay the intrinsic value existing as of the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Affiliate) as a condition to exercising or receiving payment under it.

20. “*Greater Than 10% Stockholder*” shall mean an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary corporation (as defined in Section 424(f) of the Code) or parent corporation (as defined in Section 424(e) of the Code) thereof.

21. “*Holder*” shall mean a person who has been granted an Award.

22. “*Incentive Stock Option*” shall mean an Option that is intended to qualify as an incentive stock option and conforms to the applicable provisions of Section 422 of the Code.

23. “*Non-Employee Director*” shall mean a Director of the Company who is not an Employee.

24. “*Non-Qualified Stock Option*” shall mean an Option that is not an Incentive Stock Option.

25. “*Option*” shall mean a right to purchase Shares at a specified exercise price, granted under Article 6. An Option shall be either a Non-Qualified Stock Option or an Incentive Stock Option; *provided, however*, that Options granted to Non-Employee Directors and Consultants shall only be Non-Qualified Stock Options.

26. “*Original Effective Date*” shall mean April 3, 2014.

27. “*Performance Award*” shall mean a cash bonus award, stock bonus award, performance award or incentive award that is paid in cash, Shares or a combination of both, awarded under Section 9.1.

28. “*Performance Criteria*” shall mean the criteria that the Committee selects for an Award for purposes of establishing the Performance Goal or Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish Performance Goals are limited to the following: (i) **income/loss** (e.g., operating income/loss, EBIT or similar measures, net income/loss, earnings/loss per share, residual or economic earnings), (ii) **cash flow** (e.g., operating cash flow, total cash flow, EBITDA, cash flow in excess of cost of capital or residual cash flow, cash flow return on investment and cash flow sufficient to achieve financial ratios or a specified cash balance), (iii) **returns** (e.g., on revenues, investments, assets, capital or equity), (iv) **working capital** (e.g., working capital divided by revenues), (v) **margins** (e.g., variable margin, profits divided by revenues, gross margins or margins divided by revenues), (vi) **liquidity** (e.g., total or net debt, debt reduction, debt-to-capital, debt-to-EBITDA and other liquidity ratios), (vii) **revenues, cost initiative and stock price metrics** (e.g., revenues, stock price, total stockholder return, expenses, cost structure improvements and costs divided by revenues or other metrics); provided that any of the foregoing in (i) through (vii) may be calculated, or described on a GAAP or non-GAAP basis; and (viii) **strategic metrics** (e.g., market share, customer satisfaction, employee satisfaction /turnover/development, service quality, unit volume, orders, backlog, traffic, homes delivered, cancellation rates, productivity, operating efficiency, inventory management, community count, goals related to acquisitions, divestitures or other transactions and goals related to KB Edge operational business model principles, including goals based on a per-employee, per-home delivered or other basis).

29. “*Performance Goals*” shall mean, for a Performance Period, one or more goals established in writing by the Committee for the Performance Period based upon one or more Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance, either independently or as compared to one or more companies, an index of companies, performance of specific subsidiaries or business units, either independently or as compared to one or more companies or such companies’ subsidiaries or business units, an index of companies, or otherwise as determined by the Committee. If the Committee believes, in its sole discretion, that an equitable adjustment to any Performance Goal is advisable in light of new developments or circumstances, the Committee may provide for one or more objectively determinable adjustments. Such adjustments may include or arise from one or more of the following: (i) items related to a change in accounting principle; (ii) items relating to financing or capital market activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (vii) items related to the disposal of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the Performance Period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments, (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company’s core, on-going business activities; (xiv) items related to acquired in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual, infrequently occurring or nonrecurring events or changes in applicable laws or business conditions.

30. “*Performance Period*” shall mean one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Holder’s right to, and the payment of, a Performance Award.

31. “*Permitted Transferee*” shall mean, with respect to a Holder, any person entitled to use a Form S-8 Registration Statement to exercise Awards originally granted to the Holder and to sell Shares issued pursuant to Awards originally granted to the Holder.

32. “*Program*” shall mean any program adopted by the Committee pursuant to the Plan containing terms and conditions intended to govern one or more specific types of Awards and/or the manner in which they may be granted.

33. “*QDRO*” shall mean a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended from time to time, or the regulations or official guidance promulgated thereunder.

34. “*Restricted Stock*” shall mean Shares awarded under Article 8 that are subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

35. “*Restricted Stock Units*” shall mean the right to receive Shares or the value of Shares awarded under Section 9.3.

36. “*Retirement*” shall mean an Employee’s severance from employment with the Company and its Affiliates for any reason other than a leave of absence, termination for cause, death or disability, at such time as the Employee’s age and years of service with the Company and its Affiliates equals at least 65 or more, provided that the Employee is then at least 55 years of age. The Company shall have the sole right to determine whether an Employee’s severance from employment constitutes a Retirement.

37. “*Securities Act*” shall mean the Securities Act of 1933.

38. “*Securities Exchange*” shall mean the New York Stock Exchange or any other securities exchange, national market system or automated quotation system on which the Shares are listed, quoted or traded.

39. “*Shares*” shall mean shares of Common Stock.

40. “*Stock Appreciation Right*” shall mean a stock appreciation right as described and granted under Article 10.

41. “*Stock Payment*” shall mean (a) a payment in the form of Shares or (b) a right to purchase Shares, however denominated or described, as part of a bonus, deferred compensation or other arrangement, in any such case awarded under Section 9.2.

42. “*Substitute Award*” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

43. “*Termination of Service*” shall mean,

(1) As to a Consultant, the time when the engagement of a Holder as a Consultant to the Company or an Affiliate is terminated for any reason, with or without cause, including, without limitation, by resignation, discharge, death or retirement, but excluding terminations where the Consultant simultaneously commences or remains in employment or service with the Company or any Affiliate.

(2) As to a Non-Employee Director, the time when a Holder who is a Non-Employee Director ceases to be a Director for any reason, with or without cause, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Holder simultaneously commences employment or service with the Company or any Affiliate.

(3) As to an Employee, the time when the employee-employer relationship between a Holder and the Company or any Affiliate is terminated for any reason, with or without cause, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Holder simultaneously commences or remains in employment or service with the Company or any Affiliate.

The Committee, in its sole discretion, shall determine the effect of all matters and questions relating to Terminations of Service, including, without limitation, the question of whether a Termination of Service resulted from a discharge for cause and all questions of whether particular leaves of absence constitute a Termination of Service; *provided, however*, that, with respect to Incentive Stock Options, unless the Committee otherwise provides in the terms of the Program, Award Agreement or otherwise, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Service only if and to the extent that any such event interrupts employment for the purposes of Section 422(a)(2) of the Code. For purposes of the Plan, a Holder’s employee-employer relationship or consultancy relationship shall be deemed to be terminated in the event that the Affiliate employing or contracting with such Holder ceases to remain an Affiliate following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off).

Notwithstanding the foregoing, with respect to any Award that constitutes “deferred compensation” subject to the requirements of Section 409A of the Code, a Termination of Service shall be deemed to have occurred upon a “separation from service” within the meaning of Section 409A of the Code, as determined in accordance with Section 1.409A-1(h) of the Treasury Regulations; provided that (i) for a Holder who provides services to the Company as an Employee, a separation from service shall be deemed to occur when the Holder has experienced a termination of employment with the Company and



the facts and circumstances indicate that the Holder and the Company reasonably anticipate that either (A) no further services will be performed by the Holder for the Company after a certain date or (B) the level of bona fide services the Holder will perform for the Company after a certain date (whether as an Employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of bona fide services performed by the Holder (whether as an Employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Company if the Holder has been performing services for less than 36 months); and (ii) for a Holder who provides services to the Company as an independent contractor, a separation from service shall be deemed to occur upon expiration or termination of all contracts under which services are performed by the Holder for the Company, provided that such expiration or termination constitutes a good-faith and complete severing of the contractual relationship between the Holder and the Company, and provided, further, that for a Holder who provides services to the Company as both an Employee and an independent contractor, a separation from service shall generally not occur until the Holder has ceased providing services for the Company as both an Employee and an independent contractor pursuant to clauses (i) and (ii) of this sentence. For purposes of determining whether a separation from service has occurred, services performed for the Company shall include services performed both for the Company and for any other corporation that is a member of the same "controlled group" as the Company under Section 414(b) of the Code or any other trade or business (such as a partnership) that is under common control with the Company as determined under Section 414(c) of the Code, in each case as modified by Section 1.409A-1(h)(3) of the Treasury Regulations and substituting "at least 50 percent" for "at least 80 percent" each place it appears in Section 1563(a) of the Code or Section 1.414(c)-2 of the Treasury Regulations.

44. "*Treasury Regulations*" shall mean the final, temporary and proposed regulations promulgated by the U.S. Department of the Treasury under the Code, as such regulations may be amended from time to time.

### **ARTICLE 3. SHARES SUBJECT TO THE PLAN**

#### **3.1 *Number of Shares.***

(a) Subject to adjustment as provided in Section 3.1(b) and Section 13.2, the aggregate number of Shares which may be authorized for grant under the Plan is the sum of (i) Twelve Million Three Hundred Thousand (12,300,000) Shares, plus upon the Amended Effective Date Five Million Nine Hundred Thousand (5,900,000) Shares, and (ii) any Shares which were, as of the Original Effective Date, subject to awards under the Company's 2010 Equity Incentive Plan and which subsequently expire or are canceled, forfeited, tendered or withheld to satisfy tax withholding obligations in respect of full value awards or settled for cash. Any Share that is subject to an Award that could be settled with Shares and is not a Full Value Award shall be deducted from this limit at the ratio of one (1) Share for every one (1) Share subject to the Award. Any Share that is subject to a Full Value Award that could be settled with Shares shall be deducted from this limit at the ratio of 1.78 Shares for every one (1) Share subject to the Award. After the Original Effective Date, no new awards could be granted under the 2010 Equity Incentive Plan, but any awards under the 2010 Equity Incentive Plan that are outstanding as of the Original Effective Date or the Amended Effective Date shall continue to be subject to the terms and conditions of the 2010 Equity Incentive Plan.

(b) If an Award expires or is canceled, forfeited or settled for cash (in whole or in part), the Shares subject to such Award shall, to the extent of such expiration, cancellation, forfeiture or cash settlement, again be available as Shares authorized for grant under the Plan, in accordance with Section 3.1(d) below. Shares tendered by a Holder or withheld by the Company to satisfy any tax withholding obligation with respect to a Full Value Award shall again be available as Shares authorized for grant under the Plan in accordance with Section 3.1(d) below. Notwithstanding anything to the contrary

contained herein, Shares tendered by a Holder or withheld by the Company in payment of the exercise price of an Award or to satisfy any tax withholding obligation with respect to an Award that is not a Full Value Award shall not be available as Shares authorized for grant under the Plan.

(c) To the extent permitted by applicable law or the requirements of the Securities Exchange, Substitute Awards shall not reduce the Shares authorized for grant under the Plan or the limitations on grants to a Participant under Section 4.5, nor shall Shares subject to a Substitute Award be added to the Shares available for Awards under the Plan as provided in paragraph (b) above. Additionally, in the event that a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan; *provided*, that Awards using such available shares shall not be made after the date awards could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Affiliates immediately prior to such acquisition or combination.

(d) Each Share that again becomes available for grant pursuant to this Section 3.1 shall be added back as (i) one (1) Share if such Share was subject to an Award other than a Full Value Award (or subject to a similar award under the 2010 Equity Incentive Plan), and (ii) as 1.78 Share if such Share was subject to a Full Value Award (or subject to a similar award under the 2010 Equity Incentive Plan).

3.2 *Stock Distributed*. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Common Stock, treasury Common Stock or Common Stock purchased on the open market.

#### **ARTICLE 4. GRANTING OF AWARDS**

4.1 *Participation*. The Committee may, from time to time, select from among all Eligible Individuals, those to whom an Award shall be granted.

4.2 *Award Agreement*. Each Award shall be evidenced by an Award Agreement. Award Agreements shall contain such terms and conditions as may be determined by the Committee that are not inconsistent with the Plan, including any terms and conditions that are necessary for Awards to comply with, or be exempt from, the requirements of Section 409A of the Code. Award Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

4.3 *Programs*. The Board or the Committee may from time to time establish Programs pursuant to the Plan. An Award Agreement evidencing an Award granted pursuant to any Program shall comply with the terms and conditions of such Program and the Plan.

4.4 *Limitations Applicable to Section 16 Persons*. Notwithstanding any other provision of the Plan, the Plan, any Award granted to any individual who is then subject to Section 16 of the Exchange Act, and any applicable Program, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including Rule 16b-3 of the Exchange Act and any amendments thereto) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and each Program and Award shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

4.5 *Fiscal Year Award Limit*. Notwithstanding any provision in the Plan to the contrary, and subject to Section 13.2 and the terms of this Section 4.5 with respect to a Non-Employee Director, (a) the

maximum aggregate number of Shares that may be delivered pursuant to Options or Stock Appreciation Rights that may be granted to any one person during any fiscal year of the Company shall be One Million (1,000,000), and (b) the maximum aggregate amount of cash that may be paid to any one person during any fiscal year of the Company with respect to one or more Performance Awards payable in cash shall be Ten Million Dollars (\$10,000,000); provided, however, that any Award granted pursuant to Section 11.7 shall not count against such fiscal year limits. Notwithstanding any provision in the Plan to the contrary, the aggregate amount of all compensation granted to any Non-Employee Director during any fiscal year of the Company, including any Awards (based on grant date fair value computed as of the date of grant in accordance with applicable financial accounting rules) and any cash retainer or meeting fee paid or provided for service on the Board or any committee thereof, or any Award granted in lieu of any such cash retainer or meeting fee, shall not exceed Seven Hundred Thousand Dollars (\$700,000); provided, however, that any Award granted pursuant to Section 11.7 shall not count against such fiscal year limits.

**4.6 At-Will Employment.** Nothing in the Plan, any Program or any Award Agreement shall confer upon any Holder any right to be employed by or to serve as a Director or Consultant for the Company or any Affiliate, or to continue in such employment or service, or shall interfere with or restrict in any way the rights of the Company and any Affiliate, which rights are hereby expressly reserved, to discharge any Holder at any time for any reason whatsoever, with or without cause, and with or without notice, or to terminate or change all other terms and conditions of employment or engagement, except to the extent expressly provided otherwise in a written agreement between the Holder and the Company or any Affiliate.

**4.7 Stand-Alone and Tandem Awards.** Awards granted pursuant to the Plan may, in the sole discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or (subject to the requirements of Section 409A of the Code) at a different time from the grant of such other Awards.

## **ARTICLE 5. [INTENTIONALLY OMITTED]**

## **ARTICLE 6. GRANTING OF OPTIONS**

**6.1 Granting of Options to Eligible Individuals.** The Committee is authorized to grant Options to Eligible Individuals on such terms and conditions as it may determine that are not inconsistent with the Plan; *provided, however*, that no Option shall be granted to any Employee or Consultant of an Affiliate unless the Company is an “eligible issuer of service recipient stock” with respect to such person within the meaning of Section 409A of the Code.

**6.2 Qualification of Incentive Stock Options.** No Incentive Stock Option shall be granted to any person who is not an Employee of the Company or any subsidiary corporation of the Company (as defined in Section 424(f) of the Code). No person who is a Greater Than 10% Stockholder may be granted an Incentive Stock Option unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code. Any Incentive Stock Option granted under the Plan may be modified by the Committee, with the consent of the Holder, to disqualify such Option from treatment as an “incentive stock option” under Section 422 of the Code. To the extent that the aggregate Fair Market Value of Shares with respect to which “incentive stock options” (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Holder during any calendar year under the Plan, and all other plans of the Company and any subsidiary or parent corporation thereof (each as defined in Section 424(f) and (e) of the Code, respectively), exceeds \$100,000, the Options shall be treated as Non-Qualified Stock Options to the extent required by Section

422 of the Code. The requirements set forth in the preceding sentence shall be applied by taking Options and other “incentive stock options” into account in the order in which they were granted and the Fair Market Value of Shares shall be determined as of the time the respective instruments were granted. Subject to adjustment as provided in Section 3.1(b) and Section 13.2, no more than One Million Seven Hundred and Fifty Thousand (1,750,000) Shares may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan.

**6.3 Option Exercise Price.** The exercise price per Share subject to each Option shall be set by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted (or on the date the Option is modified, extended or renewed for purposes of Section 409A of the Code or, as to an Incentive Stock Option, Section 424(h) of the Code). In addition, in the case of Incentive Stock Options granted to a Greater Than 10% Stockholder, such price shall not be less than 110% of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

**6.4 Option Term.** The term of each Option shall be set by the Committee in its sole discretion; *provided, however*, that the term shall not be more than ten (10) years from the date the Option is granted, or five (5) years from the date an Incentive Stock Option is granted to a Greater Than 10% Stockholder. The Committee shall determine the time period, including the time period following a Termination of Service, during which a Holder has the right to exercise the vested Options, which time period may not extend beyond the term of the Option.

**6.5 Option Vesting.** The Committee shall determine the period of time and other conditions that must be satisfied before the Holder’s right to exercise an Option, in whole or in part, shall vest. Such vesting may be based on service with the Company or an Affiliate, any of the Performance Criteria, or any other criterion or condition determined by the Committee. No portion of an Option that cannot be exercised at the Holder’s Termination of Service shall thereafter become exercisable.

**6.6 Substitute Awards.** Notwithstanding the foregoing provisions of this Article 6 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant; *provided*, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate Fair Market Value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such Fair Market Value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares, and that the grant of the Substitute Award otherwise satisfies the requirements of Section 1.409A-1(b)(5)(v)(D) of the Treasury Regulations or, in the case of an Incentive Stock Option, Section 1.424-1(a) of the Treasury Regulations.

**6.7 Substitution of Stock Appreciation Rights.** The Committee may provide in the applicable Program or the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; *provided*, that such Stock Appreciation Right shall be exercisable with respect to the same number of Shares for which such substituted Option would have been exercisable and such Stock Appreciation Right shall have the same exercise price and the same remaining vesting schedule and term as such Option.

## **ARTICLE 7. EXERCISE OF OPTIONS**

**7.1 *Partial Exercise.*** An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Committee may require that, by the terms of the Option, a partial exercise must be with respect to a minimum number of Shares.

**7.2 *Manner of Exercise.*** All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Company Stock Administrator:

(a) A written or electronic notice complying with the applicable rules established by the Company Stock Administrator stating that the Option, or a portion thereof, is exercised. The notice must be signed in writing or electronically by the Holder or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Company Stock Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable laws and regulations, and the rules of any applicable Securities Exchange. The Company Stock Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised by any person other than the Holder who is permitted to exercise the Option in accordance with Section 11.3, appropriate proof of the right of such person to exercise the Option, as determined in the sole discretion of the Company Stock Administrator; and

(d) Full payment of the exercise price and applicable withholding taxes to the Company for the Shares with respect to which the Option, or portion thereof, is exercised, in a manner permitted by Section 11.1 and 11.2.

**7.3 *Notification Regarding Disposition.*** The Holder shall give the Company Stock Administrator prompt written or electronic notice of any disposition of Shares acquired by exercise of an Incentive Stock Option which occurs within (a) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Holder, or (b) one year after the transfer of such shares to such Holder.

## **ARTICLE 8. AWARD OF RESTRICTED STOCK**

### **8.1 *Award of Restricted Stock.***

(a) The Committee is authorized to grant Restricted Stock to Eligible Individuals, and shall determine such terms and conditions, including the restrictions applicable to each Award of Restricted Stock, that are not inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock, as it deems appropriate.

(b) The Committee shall establish the purchase price, if any, and form of payment for Restricted Stock; *provided, however*, that if a purchase price is charged, such purchase price shall be no less than the par value of the Shares to be purchased, unless otherwise permitted by applicable state law. In all cases, legal consideration shall be required for each issuance of Restricted Stock.

**8.2 *Rights as Stockholders.*** Subject to Section 8.4, upon the grant of a Restricted Stock Award, the Holder shall have, unless otherwise provided in the terms of the applicable Award Agreement, all the rights of a stockholder with respect to the Shares subject to the Award, subject to the restrictions in the applicable Program or in his or her Award Agreement, including the right to receive all dividends and

other distributions paid or made with respect to the Shares; *provided, however*, that if the lifting or lapsing of the restrictions on an Award of Restricted Stock is subject to satisfaction of one or more Performance Goals, the Holder shall not be entitled to receive dividends or other distributions with respect to the Shares subject to the Award unless and until each of the applicable Performance Goals has been satisfied, at which time declared and accrued but unpaid dividends and distributions from and after the date of grant of the Award shall become payable to the Holder as soon as practicable.

**8.3 Restrictions.** All Shares of Restricted Stock (including any Shares received by Holders thereof with respect to Shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, under the terms of the applicable Program or Award Agreement, be subject to such restrictions and vesting requirements as the Committee shall provide. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Committee, including, without limitation, criteria based on the Holder's duration of employment or service with the Company or its Affiliates, applicable Performance Criteria, Company performance or individual performance. Restricted Stock may not be sold or encumbered until all applicable restrictions are satisfied, terminated or expire.

**8.4 Repurchase or Forfeiture of Restricted Stock.** Except as set forth in an Award Agreement, if no purchase price was paid by a Holder in cash or property for a grant of Restricted Stock, upon a Termination of Service the Holder's rights in any Shares of Restricted Stock then subject to restrictions shall terminate, and such Shares of Restricted Stock shall be surrendered to the Company and cancelled without consideration. Except as set forth in an Award Agreement, if a purchase price was paid by a Holder in cash or property for a grant of Restricted Stock, upon a Termination of Service the Company shall have the right to repurchase from the Holder the Shares of Restricted Stock then subject to restrictions at a cash price per Share equal to the purchase price paid by the Holder in cash or property for such Shares of Restricted Stock or such other amount as may be specified under the applicable Program or in the applicable Award Agreement.

**8.5 Certificates for Restricted Stock.** Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Company Stock Administrator shall determine. Certificates, book entries or electronic registration evidencing shares of Restricted Stock must include an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its sole discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse.

**8.6 Section 83(b) Election.** If a Holder makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Holder would otherwise be taxable under Section 83(a) of the Code, the Holder shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

## **ARTICLE 9. AWARD OF PERFORMANCE AWARDS, STOCK PAYMENTS AND RESTRICTED STOCK UNITS**

### **9.1 Performance Awards.**

(a) The Committee is authorized to grant Performance Awards to any Eligible Individual, and to determine such terms and conditions that are not inconsistent with the Plan. The number of Shares subject to a Performance Award and the value of a Performance Award may be linked to any one or more of the Performance Criteria or other specific criteria determined by the Committee, in each case on a

specified date or dates or over any period or periods determined by the Committee. Performance Awards may be paid in cash, Shares, or both, as determined by the Committee.

(b) Without limiting Section 9.1(a), the Committee may grant Performance Awards to any Eligible Individual in the form of a cash bonus payable upon the attainment of objective Performance Goals, or such other criteria, whether or not objective, which are established by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

*9.2 Stock Payments.* The Committee is authorized to make Stock Payments to any Eligible Individual and to determine such terms and conditions that are not inconsistent with the Plan. The number or value of Shares of any Stock Payment shall be determined by the Committee and may be based upon one or more Performance Criteria or any other specific criteria, including service to the Company or any Affiliate, determined by the Committee. Shares underlying a Stock Payment that is subject to a vesting schedule or other restrictions, conditions or criteria set by the Committee will not be issued until the restrictions, conditions or criteria have been satisfied. Unless otherwise provided in the applicable Award Agreement, a Holder of a Stock Payment shall have no rights as a Company stockholder with respect to such Stock Payment until such time as the Stock Payment has vested and the Shares underlying the Award have been issued to the Holder. Stock Payments may, but are not required to, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to such Eligible Individual.

*9.3 Restricted Stock Units.* The Committee is authorized to grant Restricted Stock Units to any Eligible Individual. The number and terms and conditions of Restricted Stock Units shall be determined by the Committee, which shall not be inconsistent with the Plan. The Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such vesting restrictions, conditions or criteria as it deems appropriate, including, without limitation, conditions based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, in each case on a specified date or dates or over any period or periods, as the Committee determines. The Company Stock Administrator shall specify, or permit the Holder to elect, the conditions and dates upon which the Shares underlying the Restricted Stock Units that shall be issued, if applicable, subject to the requirements of Section 409A of the Code. Restricted Stock Units may be paid in cash, Shares, or both, as determined by the Committee. On the distribution dates, the Company shall issue to the Holder one unrestricted, fully transferable Share (or the Fair Market Value of one such Share in cash) for each vested and nonforfeitable Restricted Stock Unit.

*9.4 Term.* The term of a Performance Award, Stock Payment award and/or Restricted Stock Unit award shall be set by the Committee in its sole discretion.

*9.5 Exercise or Purchase Price.* The Committee may establish an exercise or purchase price for a Performance Award, Shares distributed as a part of a Stock Payment or Shares distributed pursuant to a Restricted Stock Unit Award.

*9.6 Dividend Equivalents.* Dividend equivalents may be granted by the Committee based on dividends declared on the Common Stock, to be credited as of dividend payment dates during the period between the date an Award is granted and the date such Award vests, is exercised, is distributed or expires, as determined by the Committee, except that dividend equivalents may not be granted in connection with Options or Stock Appreciation Rights. Such dividend equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Committee. Notwithstanding the provisions of this Article 9, dividend equivalents, dividends and other distributions paid or made with respect to (a) any Performance Award or (b) any Stock Payment award or Restricted Stock Unit award where the applicable vesting thereof and/or lapse of restrictions, conditions or criteria thereon is subject to the satisfaction of one or more Performance Goals, shall not be payable to an Eligible Individual unless and until each of the applicable Performance Goals has been satisfied, at which time declared and accrued but unpaid dividend

equivalents, dividends and distributions from and after the date of grant of the Award shall become payable to the Eligible Individual as soon as practicable.

## **ARTICLE 10. AWARD OF STOCK APPRECIATION RIGHTS**

### **10.1 *Grant of Stock Appreciation Rights.***

(a) The Committee is authorized to grant Stock Appreciation Rights to Eligible Individuals on such terms and conditions as it may determine that are not inconsistent with the Plan; *provided, however*, that no Stock Appreciation Right shall be granted to any Employee or Consultant of an Affiliate unless the Company is an “eligible issuer of service recipient stock” with respect to such person within the meaning of Section 409A of the Code.

(b) A Stock Appreciation Right shall entitle the Holder (or other person entitled to exercise the Stock Appreciation Right) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price of the Stock Appreciation Right from the Fair Market Value of a Share on the date of exercise of the Stock Appreciation Right, and multiplying the difference, if positive, by the number of Shares with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Committee may impose. Except as described in Section 10.1(c) below, the exercise price of each Stock Appreciation Right shall be set by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date the Stock Appreciation Right is granted (or on the date the Stock Appreciation Right is modified, extended or renewed for purposes of Section 409A of the Code).

(c) Notwithstanding the foregoing provisions of Section 10.1(b) to the contrary, in the case of a Stock Appreciation Right that is a Substitute Award, the exercise price of such Stock Appreciation Right may be less than 100% of the Fair Market Value of a Share on the date of grant; *provided*, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the Shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares, and that the grant of the Substitute Award otherwise satisfies the requirements of Section 1.409A-1(b)(5)(v)(D) of the Treasury Regulations.

**10.2 *Stock Appreciation Right Term.*** The term of each Stock Appreciation Right shall be set by the Committee in its sole discretion; *provided, however*, that the term shall not be more than ten (10) years from the date the Stock Appreciation Right is granted. The Committee shall determine the time period, including the time period following a Termination of Service, during which the Holder has the right to exercise a vested Stock Appreciation Right, which time period may not extend beyond the term of the Stock Appreciation Right.

**10.3 *Stock Appreciation Right Vesting.*** The Committee shall determine the period of time and other conditions that must be satisfied before the Holder’s right to exercise a Stock Appreciation Right, in whole or in part, shall vest. Such vesting may be based on service with the Company or an Affiliate, any of the Performance Criteria, or any other criterion or condition determined by the Committee. No portion of a Stock Appreciation Right that cannot be exercised at the Holder’s Termination of Service shall thereafter become exercisable.



10.4 *Manner of Exercise.* All or a portion of an exercisable Stock Appreciation Right shall be deemed exercised upon delivery of all of the following to the Company Stock Administrator, or such other person or entity designated by the Committee, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Company Stock Administrator stating that the Stock Appreciation Right, or a portion thereof, is exercised. The notice must be signed in writing or electronically by the Holder or other person then entitled to exercise the Stock Appreciation Right or such portion of the Stock Appreciation Right;

(b) Such representations and documents as the Company Stock Administrator, in its sole discretion, deems necessary or advisable to effect compliance with applicable laws and regulations. The Company Stock Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance; and

(c) In the event that the Stock Appreciation Right shall be exercised pursuant to this Section 10.4 by any person or persons other than the Holder, appropriate proof of the right of such person or persons to exercise the Stock Appreciation Right.

10.5 *Payment.* Payment of the amounts payable with respect to Stock Appreciation Rights pursuant to this Article 10 shall be in cash, Shares (based on their Fair Market Value as of the date the Stock Appreciation Right is exercised), or a combination of both, as determined by the Committee, less the applicable withholding taxes.

## **ARTICLE 11. ADDITIONAL TERMS OF AWARDS**

11.1 *Payment.* The Committee shall determine the methods by which payments by any Holder with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) cash or check, (b) Shares (including, in the case of payment of the exercise price of an Award, Shares issuable pursuant to the exercise of the Award) or Shares not subject to any pledge or security interest and held for such period of time as may be required by the Committee, in each case, having a Fair Market Value on the date of delivery equal to the aggregate payments required, (c) delivery of a written or electronic notice that the Holder has placed a market sell order with a broker with respect to Shares then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; *provided*, that payment of such proceeds is then made to the Company upon settlement of such sale, or (d) other property or legal consideration acceptable to the Committee. The Committee shall also determine the methods by which Shares shall be delivered or deemed to be delivered to Holders. Notwithstanding any other provision of the Plan to the contrary, no Holder who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment, with a loan from the Company or a loan arranged by the Company to the extent it would violate Section 13(k) of the Exchange Act.

11.2 *Tax Withholding.* The Company and any Affiliate shall have the authority and the right to deduct or withhold, or require a Holder to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Holder’s FICA or employment tax obligation) required by law to be withheld with respect to any taxable event concerning a Holder arising as a result of the Plan. The Committee may, in its sole discretion and in satisfaction of the foregoing requirement, allow a Holder to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the surrender of Shares). The number of Shares which may be so withheld or surrendered shall be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities not to exceed the minimum statutory withholding rates for federal, state, local

and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income (or such other rate that will not create an adverse accounting cost or consequence). The Company Stock Administrator shall determine the Fair Market Value of the Shares, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option exercise or a Stock Appreciation Right exercise involving the sale of Shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

#### 11.3 *Transferability of Awards.*

(a) Except as otherwise provided in Section 11.3(b):

(i) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than to a Permitted Transferee by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a QDRO, unless and until and to the extent such Award has been exercised, or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed;

(ii) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Holder or the Holder's successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted imposition of liability thereon or disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted hereunder; and

(iii) During the lifetime of the Holder, only the Holder (or the personal representative of an incompetent Holder) may exercise an Award (or any portion thereof) granted to such Holder under the Plan, unless it has been disposed of pursuant to a QDRO, in which case the beneficiary of the QDRO may exercise the Award; after the death of the Holder, any exercisable portion of an Award may be exercised by a Permitted Transferee, but only prior to the time when such portion expires or becomes unexercisable under the Plan or the applicable Program or Award Agreement.

(b) Notwithstanding Section 11.3(a), the Committee, in its sole discretion and subject to such terms and conditions as it may impose, may permit a Holder to transfer an Award other than an Incentive Stock Option to any one or more Permitted Transferees, subject to any state, federal, local or foreign tax and securities laws applicable to transferable Awards.

(c) A Holder may, in the manner determined by the Committee, designate a Permitted Transferee to exercise the rights of the Holder as his or her beneficiary and to receive any distribution with respect to any Award upon the Holder's death. Such person shall be subject to all terms and conditions of the Plan and any Program or Award Agreement applicable to the Holder, except to the extent the Plan, the Program, the Award Agreement or applicable law otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Holder is married and resides in a community property state, a designation of a person other than the Holder's spouse as his or her beneficiary with respect to more than 50% of the Holder's interest in the Award shall not be effective without the prior written or electronic consent of the Holder's spouse. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Holder at any time provided the change or revocation is filed with the Committee prior to the Holder's death. If no beneficiary has been designated in this manner or the beneficiary does not survive the Holder, the rights of the Holder shall be exercisable by the Holder's executor or administrator.

#### 11.4 *Conditions to Issuance of Shares.*

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates or make any book entries evidencing Shares pursuant to the exercise or

vesting of any Award, unless and until the Board or the Committee has determined, with advice of counsel, that the issuance of such Shares is in compliance with all applicable laws and regulations and, if applicable, the requirements of any Securities Exchange, and the Shares are covered by an effective registration statement or applicable exemption from registration. In addition to the terms and conditions provided herein, the Board or the Committee may require that a Holder make such reasonable covenants, agreements, and representations as the Board or the Committee, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

(b) All certificates evidencing Shares delivered pursuant to the Plan and all Shares issued pursuant to book entry procedures are subject to any stop-transfer orders and other restrictions as the Committee or the Company Stock Administrator deems necessary or advisable to comply with applicable laws and regulations and the rules of any Securities Exchange.

(c) The Company Stock Administrator shall have the right to require any Holder to comply with any timing or other restrictions with respect to the settlement, vesting, distribution or exercise of any Award, including a window-period limitation, as may be imposed in the sole discretion of the Company Stock Administrator, or because of any other requirement arising from compliance with any applicable laws or regulations, as determined by the Company Stock Administrator, in its sole discretion.

(d) No fractional Shares shall be issued and the Company Stock Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding.

(e) Notwithstanding any other provision of the Plan, unless otherwise determined by the Company Stock Administrator or required by any applicable laws or regulations, the Company shall not deliver to any Holder certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded in the books of the Company (or, as applicable, its transfer agent or the Company Stock Administrator).

**11.5 Forfeiture Provisions.** Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Committee shall have the right to provide, in the terms or conditions of Programs or Awards made under the Plan or in any policy with respect to the recovery or recoupment of compensation or benefits in the event of financial restatements or the occurrence of other events that are inconsistent with the payment of compensation, as determined by the Committee, or to require a Holder to agree by separate written or electronic instrument, that: (a)(i) any proceeds, gains or other economic benefit actually or constructively received by the Holder upon any receipt or exercise of the Award, or upon the receipt or resale of any Shares underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (b)(i) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, (ii) the Holder at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Committee, (iii) the Holder incurs a Termination of Service for “cause” (as such term is defined in the sole discretion of the Committee, or as set forth in a written agreement relating to such Award between the Company and the Holder) or (iv) the Company’s financial results are restated and such proceeds, gains or other economic benefit actually or constructively received by the Holder would have been lower had they been calculated based on such restated results.

**11.6 Prohibition on Repricing.** Except as provided in Section 13.2, the Committee shall not, without the approval of the stockholders of the Company, (i) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its exercise price, or (ii) cancel any outstanding Option or Stock Appreciation Right in exchange for cash or another Award that has a lower exercise price or that provides additional value to the Holder.

11.7 *Permitted Replacement Awards.* The Committee shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding Award (or any award granted under another Company plan, subject to the terms of such other plan) to increase the exercise price or to cancel and replace an Award (or any award granted under another Company plan, subject to the terms of such other plan) with the grant of an Award having an exercise price that is greater than or equal to the original price per share and/or having vesting schedule and term equal to the remaining vesting schedule and term of the Award (or award granted under another Company plan) being replaced.

## **ARTICLE 12. ADMINISTRATION**

12.1 *Committee.* The Committee shall administer the Plan (except as otherwise permitted herein) and shall consist solely of two or more Non-Employee Directors appointed by and holding office at the pleasure of the Board, each of whom is intended to qualify as a “non-employee director” as defined by Rule 16b-3 of the Exchange Act or any successor rule and an “independent director” under the rules of any Securities Exchange; *provided*, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee.

12.2 *Duties and Powers of Committee.* It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions, subject to the Committee’s power to delegate duties under Section 12.6. The Committee shall have the power to interpret the Plan, the Program and any Award Agreement, and to adopt such rules for the administration, interpretation and application of the Plan as are not inconsistent therewith, to interpret, amend or revoke any such rules and to amend any Program or Award Agreement in any manner not inconsistent with the Plan; *provided* that the rights of the Holder of an Award that is the subject of any such Program or Award Agreement are not affected adversely by such amendment, unless the consent of the Holder is obtained or such amendment is otherwise permitted under Section 13.9. Any such Award under the Plan need not be the same with respect to each Holder. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act or the rules of any Securities Exchange require otherwise.

12.3 *Action by the Committee.* Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee for purposes of the Plan. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company’s independent certified public accountants, or any compensation consultant, attorney or other professional retained by the Company to assist in the administration of the Plan.

12.4 *Authority of Committee.* Subject to any specific designation in the Plan or any applicable Program, the Committee has the exclusive power, authority and sole discretion to:

- (a) Designate Eligible Individuals to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Eligible Individual;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to: the exercise price, grant price, or purchase price; any Performance Criteria; any restrictions or limitations on the Award; any schedule for vesting; lapse of forfeiture restrictions or restrictions on the exercisability of an Award and accelerations or waivers thereof; and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;

(e) Determine whether, to what extent, and pursuant to what circumstances (i) an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, other Awards, or other property (subject to the requirements of Section 409A of the Code), or (ii) an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Holder;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan, any Program or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

**12.5 *Decisions Binding.*** The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Program, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

**12.6 *Delegation of Authority.*** The Board or Committee may from time to time delegate (a) to a committee of one or more members of the Board the authority to grant or amend Awards and (b) to a committee of one or more members of the Board or to one or more officers of the Company the authority to take administrative actions pursuant to Article 12; *provided* that any delegation of authority shall only be permitted to the extent it is permissible under applicable securities laws, the rules of any applicable Securities Exchange and any Company policy governing the grant of equity-based awards. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation, and the Board may at any time rescind the authority so delegated or appoint a new delegate. At all times, the delegatee appointed under this Section 12.6 shall serve in such capacity at the pleasure of the Board and the Committee.

### **ARTICLE 13. MISCELLANEOUS PROVISIONS**

**13.1 *Amendment, Suspension or Termination of the Plan.*** Except as otherwise provided in this Section 13.1, the Plan and any Award Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board or the Committee. However, without approval of the Company's stockholders, no action of the Committee may, except as provided in Section 13.2, (i) increase the limits imposed in Section 3.1 on the maximum number of Shares that may be issued under the Plan, (ii) take any action described in Section 11.6 above, (iii) materially modify the requirements for eligibility to participate in the Plan, (iv) materially increase the benefits accruing to participants in the Plan, or (v) take any other action that requires the approval of the Company's stockholders under the rules of any applicable Securities Exchange. Except as provided in Section 13.9, no amendment, suspension or termination of the Plan shall, without the consent of the

Holder, adversely affect the rights of the Holder under any Award theretofore granted to such Holder, unless the Award itself otherwise expressly so provides.

*13.2 Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.*

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the Shares or the Share price other than an Equity Restructuring, the Committee shall make equitable adjustments, if any, to reflect such change with respect to (i) the aggregate number and kind of securities that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 on the maximum number and kind of securities that may be issued under the Plan, adjustments of the Award Limit, and adjustments of the manner in which securities subject to Full Value Awards will be counted); (ii) the number and kind of securities (or other property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iv) the grant or exercise price per share for any outstanding Awards under the Plan.

(b) In the event of any transaction or event described in Section 13.2(a) or any unusual or nonrecurring transactions or events affecting the Company, any Affiliate of the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Holder's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Holder's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13.2 the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Holder's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion having an aggregate value not exceeding the amount that could have been attained upon the exercise of such Award or realization of the Holder's rights had such Award been currently exercisable or payable or fully vested;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of securities (or other property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Program or Award Agreement; and/or

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 13.2(a) and 13.2(b):

(i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, shall be equitably adjusted; and/or

(ii) The number and kind of securities that may be issued under the Plan pursuant to new Awards shall be equitably adjusted.

(d) The Committee may, in its sole discretion, include such further provisions and limitations in any Award, Program, Award Agreement or certificate or book-entry evidencing Shares, as it may deem equitable and in the best interests of the Company that are not inconsistent with the provisions of the Plan.

(e) No adjustment or action described in this Section 13.2 or in any other provision of the Plan, any applicable Program or the Award Agreement shall be authorized to the extent that such adjustment or action would cause such Award to violate the requirements of Section 409A of the Code. No adjustment or action described in this Section 13.2 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code, unless the Committee determines that Options granted under the Plan are not to qualify as "incentive stock options". Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action could result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Committee determines that the Award is not to comply with such exemptive conditions.

(f) The existence of the Plan, any Program, any Award Agreement and any Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(g) In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the Shares or the Share price, including any Equity Restructuring, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of thirty (30) days prior to the consummation of any such transaction.

(h) Without limiting the generality of the foregoing, the vesting of an Award will not automatically accelerate upon the occurrence of a Change of Ownership; *provided, however*, the Committee may determine that upon the occurrence of a Change of Ownership, (i) the acquirer or surviving entity shall be required to assume an Award or substitute a comparable award with respect to the equity of the acquirer or surviving entity, (ii) the vesting of all or any portion of the Award will accelerate to the time immediately prior to the consummation of the Change of Ownership, or, in the case of an Option or Stock Appreciation Right, all or any portion of the Award shall become immediately exercisable so that the Holder will have the opportunity to exercise the Award (or portion thereof) immediately prior to consummation of the Change of Ownership, and/or (iii) all or any portion of the Award, including any unvested portion should the Committee so determine, shall be purchased for (x) in

the case of an Option or Stock Appreciation Right, cash in an amount equal to the excess of the aggregate Fair Market Value of the Shares subject to the Award to be purchased over the aggregate exercise price for such Shares, net of tax withholding, and (y) in the case of any other Award, such consideration as the Committee may in good faith determine to be equitable under the circumstances; *provided, further*, that any determination of the Committee in this regard shall comply with Sections 409A and 424 of the Code.

13.3 *No Stockholder Rights*. Except as otherwise provided herein, a Holder shall have none of the rights of a stockholder with respect to Shares subject to any Award until the Holder becomes the record owner of such Shares.

13.4 *Paperless Administration*. In the event that the Company Stock Administrator establishes, for the Company or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Holder may be permitted through the use of such an automated system.

13.5 *Effect of Plan upon Other Compensation Plans*. The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Affiliate, except as described in Section 3.1(a) above with respect to the Company's 2010 Equity Incentive Plan. Nothing in the Plan shall be construed to limit the right of the Company or any Affiliate: (a) to establish any other forms of incentives or compensation for Employees, Directors or Consultants of the Company or any Affiliate, or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including without limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

13.6 *Compliance with Laws*. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of Shares and the payment of money under the Plan or under Awards granted or awarded under the Plan are subject to compliance with all applicable laws and regulations, the rules of any Securities Exchange, and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan, any Program and any Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

13.7 *Titles and Headings, References to Sections of the Code, the Securities Act or Exchange Act*. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code, the Securities Act or the Exchange Act shall include any amendment or successor thereto.

13.8 *Governing Law*. The Plan, any Program and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

13.9 *Section 409A*.

(a) To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Program pursuant to which such Award is granted and the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan, the Program and any Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding any provision of the Plan or



the applicable Program or Award Agreement to the contrary, in the event that following the Original Effective Date the Committee determines that any Award may be subject to Section 409A of the Code, the Committee may adopt such amendments to the Plan and the applicable Program and Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

(b) If, at the time of a Holder's "separation from service" (within the meaning of Section 409A of the Code), (i) such Holder is a "specified employee" (within the meaning of Section 409A of the Code as determined annually by the Committee in accordance with the methodology specified by resolution of the Board or the Committee and in accordance with Section 1.409A-1(i) of the Treasury Regulations) and (ii) the Committee shall make a good-faith determination that an amount payable pursuant to an Option or Award constitutes "deferred compensation" (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to preserve the tax treatment intended for such payment or to avoid additional tax, interest, or penalties under Section 409A of the Code, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it on the first business day after such six-month period. Such amount shall be paid without interest, unless otherwise determined by the Committee, in its sole discretion, or as otherwise provided in any applicable agreement between the Company and the relevant Holder.

(c) The Holder shall be solely responsible and liable for the satisfaction of all taxes, interest, and penalties that may be imposed on such Holder or for such Holder's account in connection with any Award (including any taxes, interest, and penalties under Section 409A of the Code), and neither the Company nor its Affiliates shall have any obligation to reimburse, indemnify or otherwise hold such Holder harmless from any or all of such taxes, interest, or penalties.

13.10 *No Rights to Awards.* No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Holders or any other persons uniformly.

13.11 *Unfunded Status of Awards.* The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Holder pursuant to an Award, nothing contained in the Plan or any Program or Award Agreement shall give the Holder any rights that are greater than those of a general creditor of the Company or any Affiliate.

13.12 *Indemnification.* To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.13 *Term.* The ability to grant new awards under this Plan shall terminate on the tenth (10th) anniversary of the Amended Effective Date.

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## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey T. Mezger, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 July 7, 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 quarterly report on Form 10-Q 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 July 7, 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 Quarterly Report of KB Home (the "Company") on Form 10-Q for the period ended May 31, 2023 (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 July 7, 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 Quarterly Report of KB Home (the "Company") on Form 10-Q for the period ended May 31, 2023 (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 July 7, 2023

/s/ JEFF J. KAMINSKI  
Jeff J. Kaminski  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)