

# KB Home Reports 2009 Fourth Quarter and Full Year Financial Results

LOS ANGELES, Jan 12, 2010 (BUSINESS WIRE) -- KB Home (NYSE: KBH), one of America's premier homebuilders, today reported financial results for its fourth quarter and fiscal year ended November 30, 2009. Results include:

- Revenues totaled \$674.6 million in the fourth quarter of 2009, down 27% from \$919.0 million in the fourth quarter of 2008, primarily due to lower housing revenues that were partly offset by higher revenues from land sales. Fourth quarter housing revenues of \$618.7 million decreased 32% from \$908.5 million in the prior year's fourth quarter, as the number of homes delivered fell 22% on a year-over-year basis to 3,042 and the average selling price declined 12% over the same period to \$203,400.
- The Company reported net income of \$100.7 million, or \$1.31 per diluted share, in the fourth quarter of 2009, including an income tax benefit of \$191.7 million. On a pretax basis, the Company posted a loss of \$91.0 million for the quarter, mainly due to noncash charges of \$77.2 million for inventory and joint venture impairments and the abandonment of land option contracts. In the fourth quarter of 2008, the Company reported a net loss of \$307.3 million, or \$3.96 per diluted share. The Company posted a total pretax loss in the fourth quarter of 2008 of \$293.0 million, largely due to noncash charges of \$265.9 million for inventory and joint venture impairments and land option contract abandonments, and \$43.4 million for goodwill impairment.
- The \$191.7 million income tax benefit recorded in the fourth quarter of 2009 was primarily related to recently enacted tax legislation that extended the permitted carryback period for offsetting certain net operating losses against earnings from two years to five years. As a result, the Company filed for a federal tax refund of \$190.7 million which is expected to be received during the first quarter of 2010.
- The Company generated positive operating cash flows of \$236.7 million during the fourth quarter of 2009, and ended the year with \$1.29 billion of cash and cash equivalents and restricted cash. The Company's debt balance at November 30, 2009 was \$1.82 billion, down \$121.2 million from \$1.94 billion at fiscal year-end 2008. The reduction was largely due to the redemption of public debt during 2009. The Company ended fiscal 2009 with no cash borrowings outstanding under its unsecured revolving credit facility. Its ratio of debt to total capital was 72.0% at November 30, 2009, compared to 70.0% a year ago. The Company's ratio of net debt to total capital was 42.9% at November 30, 2009, compared to 45.4% a year ago, largely due to the substantial cash balance at the end of fiscal 2009.
- Company-wide net orders increased 12% to 1,446 in the fourth quarter of 2009 from 1,296 in the year-earlier quarter, primarily due to a decrease in the Company's cancellation rate. As a percentage of gross orders, the Company's fourth quarter cancellation rate improved to 31% in 2009, compared to 46% in 2008. The Company's backlog at November 30, 2009 totaled 2,126 homes, representing potential future housing revenues of approximately \$422.5 million. At November 30, 2008, the Company's backlog totaled 2,269 homes, representing potential future housing revenues of approximately \$521.4 million.
- For the year ended November 30, 2009, the Company delivered 8,488 homes at an average price of \$207,100, compared to 12,438 homes delivered at an average price of \$236,400 in the prior fiscal year. Total revenues of \$1.82 billion for the year declined from \$3.03 billion in fiscal 2008. The Company generated a net loss of \$101.8 million, or \$1.33 per diluted share, in fiscal 2009. In fiscal 2008, the Company reported a net loss of \$976.1 million, or \$12.59 per diluted share.
- Effective December 28, 2009, the Company voluntarily reduced the aggregate commitment under its unsecured revolving credit facility from \$650.0 million to \$200.0 million. The decrease in the commitment will reduce the fees related to the facility.

"KB Home's 2009 fiscal year culminated with a solid fourth quarter performance," said Jeffrey Mezger, president and chief executive officer. "We substantially reduced our pretax loss from the prior year, expanded our housing gross margin for the fifth straight quarter, and generated positive operating cash flows that increased our cash balance at year end, further strengthening our overall financial position. In addition, we view the growth in our fourth quarter net orders as evidence that we are continuing to attract and meet the demands of today's homebuyers, particularly those in our core first-time buyer segment."

"From a broader perspective," noted Mezger, "we believe our focus on transforming our product line, executing on our key strategic initiatives, and adhering to the disciplines of our core business model steadily produced positive momentum in our operating performance in 2009 as we generated improved year-over-year pretax results in each quarter, despite prolonged recessionary economic conditions."

"Looking forward into 2010," continued Mezger, "there are indications that housing market conditions may be stabilizing in some regions, reflecting, among other things, relatively high levels of affordability. This is tempered, however, and could ultimately be undermined, by persistent economic weakness and unemployment, changes in federal government monetary and fiscal policies and programs, and by the impact of rising foreclosures and mortgage loan delinquencies. Recognizing that further volatility and uncertain times may lie ahead, we will continue refining and executing on the strategic initiatives that have helped us to navigate the housing market downturn, maintain our financial condition, and position our business to capitalize on future growth opportunities."

Company-wide revenues of \$674.6 million in the fourth quarter of 2009 decreased 27% from \$919.0 million in the fourth quarter of 2008, due to lower housing revenues, partly offset by higher land sale revenues. Housing revenues in the 2009 fourth quarter totaled \$618.7 million, down 32% from \$908.5 million in the year-earlier period, while land sale revenues rose to \$52.7 million from \$7.1 million in the fourth quarter of 2008. The decline in fourth quarter housing revenues reflected a 22% year-over-year decrease in the number of homes delivered and a 12% year-over-year decrease in the average selling price. The Company delivered 3,042 homes at an average selling price of \$203,400 in the 2009 fourth quarter, compared to 3,912 homes delivered at an average selling price of \$232,200 in the prior year period.

The Company's homebuilding business narrowed its operating loss by \$160.0 million, or 66%, to \$81.5 million in the fourth quarter of 2009 from \$241.5 million in the fourth quarter of 2008. The improvement was largely due to lower pretax, noncash charges for inventory impairments and the abandonment of land option contracts the Company no longer plans to pursue. These charges totaled \$76.7 million in the 2009 fourth quarter compared to \$205.7 million in the year-earlier quarter. The Company's fourth quarter housing gross margin improved by 15.4 percentage points to positive 6.8% in 2009 from negative 8.6% in 2008. The Company's housing gross margin, excluding inventory impairment and abandonment charges, was 19.0% and 13.9% in the fourth quarters of 2009 and 2008, respectively.

Company-wide land sales in the fourth quarter of 2009 generated a loss of \$38.0 million, including \$.7 million of inventory impairment charges related to planned future land sales. This compares to a profit of \$1.1 million in the fourth quarter of 2008, including inventory impairment charges of \$1.0 million. The 2009 fourth quarter loss reflected the opportunistic sale of certain non-strategic land assets to generate cash and further strengthen the Company's financial position.

Selling, general and administrative expenses decreased 30% to \$85.4 million in the fourth quarter of 2009 from \$121.1 million in the year-earlier period. As a percentage of housing revenues, selling, general and administrative expenses were 13.8% in the fourth quarter of 2009, compared to 13.3% in the fourth quarter of 2008.

The Company's equity in loss of unconsolidated joint ventures was \$1.8 million in the fourth quarter of 2009, including \$.5 million of impairment charges. This compares to a loss of \$61.2 million in the fourth quarter of 2008, which included \$60.2 million of impairment charges.

Financial services operations, which include the Company's equity interest in an unconsolidated mortgage banking joint venture, reported pretax income of \$7.5 million in the current quarter, compared to pretax income of \$6.9 million in the prior year's fourth quarter.

The Company posted a pretax loss of \$91.0 million in the fourth quarter of 2009, representing a 69% improvement from the \$293.0 million pretax loss reported in the fourth quarter of 2008. Net income for the 2009 fourth quarter totaled \$100.7 million, or \$1.31 per diluted share, including an income tax benefit of \$191.7 million primarily due to recently enacted tax legislation that allowed for an extended carryback of net operating losses generated in 2009. In the fourth quarter of 2008, the Company reported a net loss of \$307.3 million, or \$3.96 per diluted share, including an after-tax valuation allowance charge of \$98.9 million.

Net orders increased to 1,446 in the fourth quarter of 2009, up 12% from 1,296 in the year-earlier period, primarily reflecting the Company's lower cancellation rate. The Company's cancellation rate as a percentage of gross orders improved to 31% in the fourth quarter of 2009 from 46% in the fourth quarter of 2008. As a percentage of beginning backlog, the cancellation rate was 17% in the current quarter, compared to 23% in the year-earlier quarter. The Company's backlog at the end of the 2009 fourth quarter decreased 6% to 2,126 homes from 2,269 homes at the end of the fourth quarter of 2008. At November 30, 2009, potential future housing revenues in backlog totaled \$422.5 million, a 19% decrease from potential future housing revenues of \$521.4 million at November 30, 2008, reflecting the impact of the lower number of homes in backlog and a lower average selling price.

For the year ended November 30, 2009, Company-wide revenues totaled \$1.82 billion, down 40% from \$3.03 billion in the prior year. The decrease was mainly due to lower housing revenues, which fell 40% to \$1.76 billion in fiscal 2009 from \$2.94 billion in fiscal 2008. The number of homes delivered in fiscal 2009 decreased 32% year-over-year to 8,488, and the average selling price declined 12% year-over-year to \$207,100. The Company posted a net loss of \$101.8 million, or \$1.33 per diluted share, for the year ended November 30, 2009, including pretax, noncash charges of \$206.7 million for inventory and joint venture impairments and land option contract abandonments. The net loss also included an income tax benefit of \$209.4 million. In fiscal 2008, the Company generated a net loss of \$976.1 million, or \$12.59 per diluted share, including pretax, noncash charges of \$748.6 million for inventory and joint venture impairments and land option contract abandonments, and \$68.0 million for goodwill impairments. The net loss for fiscal 2008 also included a \$355.9 million after-tax valuation charge against the net deferred tax assets generated during the year.

The Conference Call on the Fourth Quarter 2009 earnings will be broadcast live TODAY at 8:30 a.m. Pacific Standard Time, 11:30 a.m. Eastern Standard Time. To listen, please go to the Investor Relations section of the Company's website at [kbhome.com](http://kbhome.com).