ORGANOVO HOLDINGS, INC.
Form 8-K/A
March 30, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of Earliest Event Reported): February 8, 2012

ORGANOVO HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-54621**	**27-1488943**
(State or other jurisdiction	**(Commission**	**(I.R.S. Employer**

of incorporation)	File Number)	Identification No.)

5871 Oberlin Drive, Suite 150,

San Diego, CA	92121
(Address of principal executive offices)	(Zip Code)

(858) 550-9994

(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This current report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to anticipated future events, future results of operations or future financial performance. These forward-looking statements include, but are not limited to, statements relating to our ability to raise sufficient capital to finance our planned operations, market acceptance of our technology and product offerings, our ability to attract and retain key personnel, our ability to protect our intellectual property, and estimates of our cash expenditures for the next 12 to 36 months. In some cases, you can identify forward-looking statements by terminology such as may, might, will, should, intends, expects, plans, goals, projects, anticipates, believes, estimates, predicts, potential, or co these terms or other comparable terminology.

These forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties and other factors which may cause our (or our industry s) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. The Risk Factors section of this current report sets forth detailed risks, uncertainties and cautionary statements regarding our business and these forward-looking statements.

We cannot guarantee future results, levels of activity or performance. You should not place undue reliance on these forward-looking statements, which speak only as of the date that they were made. These cautionary statements should be considered with any written or oral forward-looking statements that we may issue in the future. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to reflect actual results, later events or circumstances or to reflect the occurrence of unanticipated events.

EXPLANATORY NOTE

On February 13, 2012, Organovo Holdings, Inc. (the **Company**) filed with the Securites and Exchange Commission (the **SEC**) its original Current Report on Form 8-K (the **Original Form 8-K**) to report certain events, described in detail therein, including, among other things (1) the completion of a reverse merger transaction, (2) the Company s consummation of a private placement of units of the Company s securities at $1.00 per unit, (3) the conversion of $1,500,000 in outstanding bridge notes into units of the Company s securities at $1.00 per unit and (4) certain related items and transactions.

The purpose of this Amendment No. 1 to Current Report on Form 8-K/A (the **Amended Form 8-K**) is to respond to comments received from the U.S. Securities and Exchange Commission s Division of Corporation Finance in its letter dated March 13, 2012, regarding the Original Form 8-K. In addition, this Amended Form 8-K includes the audited financial statements for Organovo, Inc. for the fiscal years ended December 31, 2011 and 2010.

On December 28, 2011, Real Estate Restoration and Rental, Inc., a Nevada corporation (**RERR**), entered into an Agreement and Plan of Merger pursuant to which RERR merged with its newly formed, wholly owned subsidiary, Organovo Holdings, Inc. (**Merger Sub**), a Nevada corporation (the **RERR Merger**). Upon the consummation of the RERR Merger, the separate existence of Merger Sub ceased and RERR, the surviving corporation in the RERR Merger, became known as Organovo Holdings, Inc. (**Holdings-Nevada**).

As permitted by Chapter 92A.180 of Nevada Revised Statutes, the sole purpose of the RERR Merger was to effect a change of RERR s name. Upon the filing of Articles of Merger with the Secretary of State of Nevada on December 28, 2011 to effect the RERR Merger, RERR s articles of incorporation were deemed amended to reflect the change in RERR s corporate name.

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On January 30, 2012, Holdings-Nevada entered into an Agreement and Plan of Merger pursuant to which Holdings-Nevada merged with and into its newly formed, wholly owned subsidiary, Organovo Holdings, Inc. (**Holdings-Delaware** or **Pubco**), a Delaware corporation (the **Reincorporation Merger**). Upon the consummation of the Reincorporation Merger, the separate existence of Holdings-Nevada ceased and Holdings-Delaware was the surviving corporation in the Reincorporation Merger. The sole purpose of the Reincorporation Merger was to change the domicile of Pubco from Nevada to Delaware.

On February 8, 2012, Organovo Acquisition Corp. (**Acquisition Corp.**), a wholly-owned subsidiary of Pubco, merged (the **Merger**) with and into Organovo, Inc., a Delaware corporation (**Organovo**). Organovo was the surviving corporation of that Merger. As a result of the Merger, Pubco acquired the business of Organovo, and will continue the existing business operations of Organovo.

As used in this Current Report, the terms the **Company** , we , **us** , and **our** refer to Holdings-Delaware and its wholly-owned subsidiary Organovo, after giving effect to the Merger, unless otherwise stated or the context clearly indicates otherwise. The term **Pubco** refers to Holdings-Delaware, before giving effect to the Merger; the term **RERR** refers to Real Estate Restoration and Rental, Inc., before giving effect to the Merger; and the term **Organovo** refers to Organovo, Inc., before giving effect to the Merger.

This Current Report contains summaries of the material terms of various agreements executed in connection with the transactions described herein. The summaries of these agreements are subject to, and are qualified in their entirety by, reference to these agreements, all of which are incorporated herein by reference.

This Current Report is being filed in connection with a series of transactions consummated by the Company and certain related events and actions taken by the Company.

This Current Report responds to the following items on Form 8-K:

Item 1.01 Entry into a Material Definitive Agreement

Item 2.01 Completion of Acquisition or Disposition of Assets

Item 3.02 Unregistered Sales of Equity Securities

Item 4.01 Changes in Registrant s Certifying Accountant

Item 5.01 Changes in Control of Registrant

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers; Compensatory Arrangements of Certain Officers

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year

Item 5.06 Change in Shell Company Status

Item 9.01 Financial Statements and Exhibits

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Item 1.01. Entry into a Material Definitive Agreement

On February 8, 2012, we entered into an Agreement and Plan of Merger and Reorganization, which we refer to in this Current Report as the **Merger Agreement**, and completed the Merger. For a description of the Merger and the material agreements entered into in connection with the Merger, please see the disclosures set forth in Item 2.01 to this Current Report, which disclosures are incorporated into this item by reference.

Item 2.01. Completion of Acquisition or Disposition of Assets

THE MERGER AND RELATED TRANSACTIONS

The Merger

On February 8, 2012 (which we refer to as the **Closing Date**), Pubco, Organovo and Acquisition Corp. entered into the Merger Agreement and completed the Merger. Before their entry into the Merger Agreement, no material relationship existed between Pubco (or its Acquisition Corp. subsidiary) and Organovo. A copy of the Merger Agreement is attached as Exhibit 2.1 to this Current Report and is incorporated herein by reference.

Pursuant to the Merger Agreement, on the Closing Date, Acquisition Corp., a wholly-owned subsidiary of Pubco, merged with and into Organovo, with Organovo remaining as the surviving entity. Pubco acquired the business of Organovo pursuant to the Merger and will continue the existing business operations of Organovo.

Simultaneously with the Merger, on the Closing Date all of the issued and outstanding shares of Organovo common stock converted, on a 1 for 1 basis, into shares of the Company s common stock, par value $0.001 per share (**Common Stock**). Also on the Closing Date, all of the issued and outstanding options to purchase shares of Organovo common stock, all of the issued and outstanding Bridge Warrants (as defined below) to purchase shares of Organovo Common Stock and other outstanding warrants to purchase Oganovo Common Stock converted, respectively, into options (the **New Options**), new bridge warrants (the **New Bridge Warrants**) and new warrants (the New Warrants) to purchase shares of the Company Common Stock. The New Bridge Warrants, the New Warrants and New Bridge Options were converted on a 1 for 1 basis. The New Options will be administered under Organovo s 2008 Equity Incentive Plan (the **2008 Plan**), which the Company assumed and adopted on the Closing Date in connection with the Merger.

Specifically, on the Closing Date, (i) 22,445,254 shares of Common Stock were issued to former Organovo stockholders; (ii) New Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan were issued to optionees pursuant to the assumption of the 2008 Plan; (iii) New Warrants to purchase 1,309,750 shares of Common Stock at $1.00 per share were issued to holders of Organovo warrants; and (iv) New Bridge Warrants to purchase 1,500,000 shares of Common Stock at $1.00 per share were issued to Bridge Investors (as defined below).

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Additionally, warrants to purchase 100,000 shares of Common Stock at $1.00 per share were issued to a former noteholder of Organovo in connection with the repayment at the Closing Date of a promissory note in the principal amount of $100,000.

The Merger Agreement contains customary representations, warranties and covenants of Pubco, Organovo, and, as applicable, Acquisition Corp., for like transactions. Breaches of representations and warranties are secured by customary indemnification provisions.

The Merger will be treated as a recapitalization of the Company for financial accounting purposes. The historical financial statements of Pubco before the Merger will be replaced with the historical financial statements of Organovo before the Merger in all future filings with the Securities and Exchange Commission (the **SEC**).

Following the Closing Date, our board of directors consists of four members. In keeping with the foregoing, on the Closing Date, Deborah Lovig and James Coker, the directors of Pubco before the Merger, appointed Keith Murphy, Robert Baltera, Jr., Andras Forgacs and Adam K. Stern to fill vacancies on the board of directors, and Ms. Lovig and Mr. Coker resigned their positions as directors. Also on the Closing Date, Ms. Lovig and Mr. Coker, the officers of Pubco, resigned and new executive officers designated by Organovo were appointed. Our officers and directors as of the Closing Date are identified in this Current Report under the heading Directors and Executive Officers.

Before the Merger, Pubco s board of directors and stockholders adopted the 2012 Equity Incentive Plan (the **2012 Plan**). The 2012 Plan provides for the issuance of up to 6,553,986 shares of Common Stock to executive officers, directors, advisory board members and employees. In addition, we assumed and adopted the 2008 Plan, and as described above option holders under that plan were granted New Options to purchase Common Stock. No further options will be granted under the 2008 Plan. The parties have taken all actions necessary to ensure that the Merger is treated as a tax free exchange under Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Offering

Concurrently with the closing of the Merger and in contemplation of the Merger, we completed the initial closing of a private offering (the **Offering**) of our securities (**Units**), at a price of $1.00 per Unit. Each Unit consists of one share of Common Stock and a warrant to purchase one share of Common Stock. The warrants (the **Investor Warrants**) are exercisable for a period of five years at an exercise price of $1.00 per share of Common Stock. On the Closing Date, the investors in the Offering collectively purchased 6,525,887 Units for total cash consideration of $6,525,887, which included the conversion of $1,500,000 of principal and $25,379 of accrued interest on outstanding Bridge Notes (as defined below).

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The sale of Units (including the Common Stock, the Investor Warrants and the Common Stock underlying the Investor Warrants) in the Offering was exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated by the SEC. In the Offering, no general solicitation was made by us or any person acting on our behalf. The Units were sold pursuant to transfer restrictions, and the certificates for shares of Common Stock and Investor Warrants underlying the Units sold in the Offering contain appropriate legends stating that such securities are not registered under the Securities Act and may not be offered or sold absent registration or an exemption from registration.

We paid the **Placement Agent**, Spencer Trask Ventures, Inc. (the **Placement Agent**), a commission of 10% of the funds raised in the Offering (excluding funds from the conversion of the Bridge Notes). In addition, the Placement Agent received a non-accountable expense allowance equal to 3% of the proceeds raised in the Offering (excluding funds from the conversion of the Bridge Notes) as well as warrants to purchase a number of shares of Common Stock equal to 20% the shares underlying the Units sold to investors in the Offering (the **Placement Agent Warrants**). As a result of the foregoing arrangement, at the initial closing of the Offering, the Placement Agent was paid commissions and expenses of $650,065 and was issued Placement Agent Warrants to purchase (i) 2,000,200 shares of Common Stock at an exercise price of $1.00 per share based on the number of Units purchased in the Offering (excluding Units issued upon conversion of the Bridge Notes) and (ii) 610,155 shares of Common Stock at an exercise price of $1.00 per share based upon the $1,500,000 principal amount of Bridge Notes issued in the Bridge Financing (as defined below), plus $25,379 in interest thereon.

The forms of the Investor Warrant and Placement Agent Warrant, issued in the Offering are filed as Exhibits 4.4 and 4.5(i), respectively, to this Current Report and are incorporated herein by reference.

Bridge Financing

Prior to the commencement of the Offering, Organovo completed a Bridge Financing wherein it sold $1,500,000 in principal amount of its 6% convertible promissory notes due March 31, 2012 (the **Bridge Notes**) and 1,500,000 common stock purchase warrants (the **Bridge Warrants**) to accredited investors (the **Bridge Financing**). The principal and interest on the Bridge Notes converted into 1,525,387 Units in the Offering. The Bridge Warrants converted into 1,500,000 New Bridge Warrants, each exercisable at a price of $1.00 per share of Common Stock. Holders of the New Bridge Warrants received the same registration rights with respect to the shares of Common Stock issuable upon exercise of such New Bridge Warrants as the investors in the Offering. As consideration for locating investors to participate in the Bridge Financing, the Placement Agent received as compensation for its services (i) a sales commission of 10% of the amount raised, or $150,000, (ii) a 3% non-accountable expense allowance, or $45,000 and (iii) Organovo warrants that automatically converted, at the initial closing of the Offering, into warrants to purchase 610,155 shares of Pubco Common Stock at a price of $1.00 per Share.

The forms of Bridge Warrant, New Warrant, Selling Agent Warrant and Exchange Warrant are filed as Exhibits 4.1, 4.6, 4.5(ii) and 4.5(iii), respectively, to this Current Report and are incorporated herein by reference.

Subsequent Closings

On February 29, 2012 ,we held the second closing (the **Second Closing**) of the Offering, at which we issued an additional 1,806,100 Units, for total gross proceeds of $1,806,100. We paid the a commission of 10% of the funds raised at the Second Closing to the Placement Agent. In addition, the Placement Agent received a non-accountable expense allowance equal to 3% of the proceeds raised at the Second Closing as well as warrants to purchase a number of shares of Common Stock equal to 20% of the shares underlying the Units sold to investors at the Second Closing. As a result of the foregoing arrangement, at the Second Closing, the Placement Agent was paid commissions and expenses of $234,793 and was issued warrants to purchase 722,400 shares of Common Stock at an exercise price of $1.00 per share.

On March 16, 2012, we completed the final closing (the **Final Closing**) of the Offering, at which we issued an additional 6,916,000 Units, for total gross proceeds of $6,916,000. At the Final Closing, we paid the Placement Agent and its selected dealers commissions of $691,600, and expenses of $207,480 and we issued Placement Agent Warrants to purchase 2,766,400 shares of Common Stock at an exercise price of $1.00 per share.

The sale of Units (including the Common Stock, the Investor Warrants and the Common Stock underlying the Investor Warrants) in the Second and Final Closings of the Offering were exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated by the SEC. In the Offering, no general solicitation was made by us or any person acting on our behalf. The Units were sold pursuant to transfer restrictions, and the certificates for shares of Common Stock and Investor Warrants underlying the Units sold in the Offering contain appropriate legends stating that such securities are not registered under the Securities Act and may not be offered or sold absent registration or an exemption from registration.

For all three closings of the Offering, we raised total gross proceeds of $15,247,959 and total net proceeds of $11,593,065 (or $12,811,897, including the conversion of the bridge promissory notes referred to above). We issued an aggregate of 15,247,987 shares of common stock and Investor Warrants for 16,747,987 shares of common stock (including 1,500,000 warrants to former holders of the Bridge Notes) exercisable at $1.00 per share. The Placement Agent and its selected dealers were paid total cash commissions of $1,372,260 and the Placement Agent was paid an expense allowance of $411,678 and was issued Placement Agent Warrants to purchase 6,099,195 shares of Common Stock at an exercise price of $1.00 per share (including 610,155 warrants issued in connection with issuance of the Bridge Notes and subsequently exchanged for Placement Agent Warrants in the Merger).

The Merger, the Offering (including the Subsequent Closings), the Bridge Financing and the related transactions are collectively referred to in this Current Report as the **Transactions**.

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Recapitalizations

Organovo Recapitalization

Prior to the first closing of the Bridge Offering, Organovo amended its Certificate of Incorporation to increase its authorized capital stock from 100,000 shares of common stock to 75,000,000 shares of common stock. Immediately following this amendment, Organovo effected a forward stock split. Following the stock split and the subsequent conversion of outstanding unsecured promissory notes in the aggregate principal amount of $3,030,000, plus accrued interest, there were 22,445,254 shares of common stock and 1,309,750 warrants to purchase common stock (exercisable at a price of $1.00 per share) outstanding immediately prior to the first closing of the Bridge Offering, as well as options to purchase 896,256 shares of common stock granted under the 2008 Plan. An unsecured promissory note in the principal amount of $100,000 remained outstanding. This note was repaid at the Closing Date, at which time the former noteholder was issued warrants to purchase 100,000 shares of our Common Stock at an exercise price of $1.00 per share.

Pubco Recapitalization

In addition to the transactions described under the heading Explanatory Note, above, in connection with the RERR Merger, RERR undertook a 10.5913504 for 1 forward split. Also, following the Reincorporation Merger the Pubco board of directors incorporated its wholly owned subsidiary Organovo Split Corp., a company organized under the laws of Delaware (**PSOS**). Pubco split-off ownership of PSOS to its executive officers, directors and their affiliates (the **Split-Off Shareholders**), who are significant shareholders of Pubco. The 5,000,000 (pre-split) shares of Pubco owned by the Split-Off Shareholders and 1,236,000 (pre-split) shares of Pubco owned by certain other shareholders were cancelled, so that at the closing of the Merger, prior to the issuance of shares to Organovo Shareholders in the Merger and without giving effect to the Units being offered and sold in the Offering, there were 6,000,000 shares of Common Stock issued and outstanding, 2,326,973 shares of which were owned by certain affiliates of the Placement Agent.

Registration Rights

All of the securities issued in connection with the Transactions are restricted securities, and as such are subject to all applicable restrictions specified by federal and state securities laws.

On the Closing Date, we entered into a registration rights agreement with the investors in the Offering. Under the terms of the registration rights agreement, we have committed to file a registration statement covering the resale of the Common Stock underlying the Units and the Common Stock that is issuable on exercise of the Investor Warrants and the New Bridge Warrants (but not the Common Stock that is issuable upon exercise of the Placement Agent Warrants issued as compensation to the Placement Agent in the Offering or in the Bridge Financing) within 90 days from the Final Closing date (the **Filing Deadline**), and shall use commercially reasonable efforts to cause the registration statement to become effective no later than 180 days after it is filed (the **Effective Deadline**).

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We have agreed to use reasonable efforts to maintain the effectiveness of the registration statement through the one year anniversary of the date the registration statement is declared effective by the SEC, or until Rule 144 of the Securities Act is available to investors in the Offering with respect to all of their shares, whichever is earlier. We will be liable for monetary penalties equal to one-half of one percent (0.5%) of such holder s investment in the Offering on every thirty (30) day anniversary of such Filing Deadline or Effectiveness Deadline failure until such failure is cured. The payment amount shall be prorated for partial thirty (30) day periods. The maximum aggregate amount of payments to be made by us as the result of such failures, whether by reason of a Filing Deadline failure, Effectiveness Deadline failure or any combination thereof, shall be an amount equal to 6% of each holder s investment amount. Notwithstanding the foregoing, no payments shall be owed with respect to any period during which all of the holder s registrable securities may be sold by such holder under Rule 144 or pursuant to another exemption from registration.

Moreover, no such payments shall be due and payable with respect to any registrable securities we are unable to register due to limits imposed by the SEC s interpretation of Rule 415 under the Securities Act. The holders of any registrable securities removed from the Registration Statement as a result of a Rule 415 or other comment from the SEC shall have piggyback registration rights for the shares of Common Stock or Common Stock underlying such warrants with respect to any registration statement filed by us following the effectiveness of the Registration Statement which would permit the inclusion of these shares. The form of the registration rights agreement will be filed as an exhibit to an amendment to this Current Report following the final closing of the Offering.

Split-Off Agreement

On the Closing Date, Pubco split off its wholly-owned subsidiary PSOS. The split-off was accomplished through the sale of all outstanding shares of PSOS. In connection with the Split-Off, 5,000,000 (pre-split) shares of Common Stock held by the Split-Off Shareholders were surrendered and cancelled without further consideration, other than the shares of PSOS. An additional 1,236,000 (pre-split) shares of Common Stock were cancelled by certain shareholders of Pubco for no or nominal consideration (the **Share Cancellation**). The 566,500 shares of Common Stock remaining after the Split-Off and Share Cancellation were forward-split on a 10.5913504 for 1 basis. The assets and liabilities of Pubco were transferred to the Split-Off Shareholders in the Split-Off. Pubco executed a split off agreement with the Split-Off Shareholders, a copy of which is attached as Exhibit 10.9 to this Current Report and is incorporated herein by reference.

Lock-up Agreements

In connection with the Merger, each of the officers, directors and holders of 5% or more of our Common Stock and certain employees and affiliates of the Placement Agent have agreed to lock-up and not sell or otherwise transfer or hypothecate any of their shares for a term equal to the earlier of (i) twelve (12) months from the Closing Date of the Merger; or (ii) six (6) months following the effective date of the Registration Statement registering the shares of Common Stock included in the Units as well as the shares of Common Stock issuable upon exercise of the Investor Warrants and the Bridge Warrants.

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Current Ownership

As of March 16, 2012, after giving effect to the Transactions, the Units sold in the Offering, the options granted under the 2008 Plan (which we assumed), and the issuance of (i) Placement Agent Warrants to the Placement Agent in connection with the Offering and the Bridge Offering, (ii) New Warrants to a former holder of an Organovo promissory note, (iii) New Warrants to former holders of Organovo warrants and (iv) New Bridge Warrants, our issued and outstanding securities on the closing of the Transactions is as follows:

43,693,241 shares of Common Stock;

No shares of preferred stock;

Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan;

Investor Warrants to purchase 15,247,987 shares of Common Stock at $1.00 per share issued to the investors in the Offering;

New Warrants to purchase 100,000 shares of Common Stock at $1.00 per share issued to a former holder of an Organovo promissory note;

New Warrants to purchase 1,309,750 shares of Common Stock at a price of $1.00 per share issued in exchange for warrants held by Organovo warrant holders;

Placement Agent Warrants to purchase 5,489,040 shares of Common Stock at a price of $1.00 per share issued to the Placement Agent in connection with the Offering;

New Bridge Warrants issued to Bridge Investors to purchase 1,500,000 shares of Common Stock at $1.00 per share; and

Placement Agent Warrants to purchase 610,155 shares of Common Stock at a price of $1.00 per share issued to the Placement Agent in exchange for warrants issued in connection with the Bridge Financing.

Accounting Treatment; Change of Control

The Merger is being accounted for as a reverse merger, and Organovo is deemed to be the acquirer in the reverse merger. Consequently, the assets and liabilities and the historical operations that will be reflected in the financial statements prior to the Merger will be those of Organovo, and the consolidated financial statements after completion of the Merger will include the assets and liabilities of Organovo, historical operations of Organovo and operations of Organovo from the Closing Date of the Merger. Except as described in the previous paragraphs, no arrangements or understandings exist among present or former controlling stockholders with respect to the election of members of our board of directors and, to our knowledge, no other arrangements exist that might result in a change of control of the Company. Further, as a result of the issuance of the shares of Common Stock pursuant to the Merger, a change in control of the Company occurred as of the date of consummation of the Merger.

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DESCRIPTION OF BUSINESS

Immediately following the Merger, the business of Organovo became our business.

We have developed and are commercializing a platform technology for the generation of three-dimensional (3D) human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs. We intend to introduce a paradigm shift in the approach to the generation of three-dimensional human tissues, by creation of constructs in 3D that have the potential to replicate native human biology. We can improve on previous technologies by moving away from monolayer 2D cell cultures and by enabling all or part of the tissues we create to be constructed solely of cells. We believe our expertise in printing small-diameter, fully cellular human blood vessels *in vitro* provides a strong foundation upon which other tissues can be built to replicate human biology and human disease. We believe that our broad and exclusive commercial rights to patented and patent-pending 3D bioprinting technology, combined with strengths in engineering and biology, put us in an ideal position to provide a wide array of products for use in research, drug discovery and regenerative medicine therapies.

Our foundational proprietary technology derives from research led by Dr. Gabor Forgacs, a Professor of Biophysics at the University of Missouri. We have a broad portfolio of intellectual property rights covering principles, enabling instrumentation applications and methods of cell based printing, including exclusive licenses to certain patented and patent pending technologies from the University of Missouri-Columbia and Clemson University, and outright ownership of six pending patent applications (the patents and patent rights described in this paragraph are sometimes collectively referred to as the **Intellectual Property Rights**). See **Intellectual Property**.

We believe that our portfolio of Intellectual Property Rights provides a strong and defensible market position for the commercialization of 3D bioprinting technology.

We believe we have the potential to build and maintain a sustainable business by leveraging our core technology platform across a variety of applications. As part of our business strategy we intend to pursue collaboration agreements with drug development companies that will allow us to further develop our 3D bioprinting technology and the potential uses of the cellular structures and tissues that can be produced with our technology. We also plan to develop research products with our 3D bioprinting technology that can be offered to third parties involved in drug discovery. We currently have collaborative research agreements currently in effect with Pfizer, Inc. (**Pfizer**) and United Therapeutic Corporation (**Unither**). We have also secured four federal grants in the aggregate amount of approximately $665,000 including Small Business Research Innovation grants and developed the NovoGen MMX Bioprinter (our first-generation 3D bioprinter) within two and one half years of opening our first facilities. We believe these corporate achievements provide strong validation for the commercial viability of our technology.

The Technology

Our technology is centered around a core 3D bioprinting method, represented by our bioprinting instrument, the NovoGen MMX Bioprinter. The 3D bioprinting technology enables a wide array of tissue compositions and architectures to be created, using combinations of cellular bio-ink (building blocks comprised solely of cells), hydrogel (building blocks comprised of biocompatible gels), or hybrid bio-ink (building blocks comprised of a mixture of cells and material such as hydrogel). A key distinguishing feature of our bioprinting platform is the ability to generate three-dimensional constructs that have all or some of their components comprised entirely of cells. The fully-cellular feature of our technology enables architecturally- and compositionally-defined 3D human tissues to be generated for *in vitro* use in drug discovery and development to potentially replicate the functional biology of a solid, fully cellular tissue. Furthermore, fully cellular constructs may offer specific advantages for regenerative medicine applications where bioactive cells are required and three-dimensional configuration is necessary, such as augmenting or replacing functional mass in tissues and organs that have sustained acute or chronic damage.

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We plan to develop research products with our 3D bioprinting technology that can be offered to third parties involved in drug discovery. We intend to deliver the following products to the market:

Three-dimensional models of human tissue for utilization in traditional absorption, distribution, metabolism, excretion (ADME) / toxicology (TOX) / and drug metabolism and pharmacokinetics (DMPK) testing in drug development.

Specific models of human biology or pathophysiology, in the form of three-dimensional human tissues, and for use in drug discovery, development, and delivery.

Three-dimensional human tissues for use as therapeutic regenerative medicine products, such as blood vessels for bypass grafting, nerve grafts for nerve damage repair and cardiac patches for treatment of heart disease.

3D bioprinters for use in medical research.

A portfolio of consumables for use in 3D bioprinting.

As part of our business strategy we intend to pursue collaboration agreements with drug development companies that will allow us to further develop our 3D bioprinting technology and the potential uses of the cellular structures and tissues that can be produced with our technology. We currently have a collaborative research agreement with Pfizer to develop specific three-dimensional tissue models. We are engaged in the development of specific 3D human tissues to aid Pfizer in discovery of successful therapies in two areas of interest. In addition, in October 2011, we entered into a research agreement with Unither to establish and conduct a research program to discover treatments for pulmonary hypertension using our NovoGen MMX Bioprinter technology. We believe these relationships provide validation of the value of our 3D bioprinting technology and demonstrate our ability to produce revenue.

Market Opportunity

We believe that our bioprinting technology is uniquely positioned to provide three-dimensional human tissues for use in drug discovery and development as well as a broad array of tissues suitable for therapeutic use in regenerative medicine applications. While there are rapid-prototyping printers currently available that build three-dimensional structures out of polymers (often used for prototyping of plastic parts for tools or devices), these instruments are not specifically designed or intended for use with purely cellular inks in building biologic tissues and we do not believe that the firms working on these instruments have the required biology expertise to create tissues using these instruments at this time. There are multiple markets addressable by our technology platform:

1) Specialized Models for Drug Discovery and Development: The NovoGen MMX Bioprinter can produce highly specialized three-dimensional human tissues that can be utilized to model a specific tissue physiology or pathophysiology. Our bioprinting technology has demonstrated the ability to create human blood vessel constructs, and to create fully human tissue containing capillary structures. These capabilities are anticipated to broaden the scope and scale of 3D tissues that can be generated, and to facilitate the development of disease models in such areas as cardiovascular disease, oncology, and fibrosis.

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2) Biological Research Tools: Absorption, distribution, metabolism, excretion (ADME) testing is used to determine which factors enhance or inhibit how a potential drug compound reaches the blood stream. Distribution of a compound can be affected by binding to plasma proteins; age, genetics, and other factors can influence metabolism of a compound; and the presence of certain disease states can have effects on excretion of a compound. Many companies perform ADME studies utilizing various cell-based assays or automated bioanalytical techniques. Drug metabolism and pharmacokinetics (DMPK) testing is a subset of ADME. Determining the DMPK properties of a drug helps the drug developer to understand its safety and efficacy. Toxicology (TOX) testing is a further requirement to determine the detrimental effects of a particular drug on specific tissues. We believe that the NovoGen MMX Bioprinter is positioned to deliver highly differentiated products for use in traditional cell-based ADME / TOX / DMPK studies. Products in this arena may replace or complement traditional cell-based assays that typically employ primary hepatocytes, intestinal cell lines, renal epithelial cells and cell lines grown in a traditional two-dimensional format. Importantly, the combination of tissue-like three-dimensionality and human cellular components is believed to provide an advantage over non-human animal systems toward predicting *in vivo* human outcomes.

3) Regenerative Medicine: The field of regenerative medicine is advancing via multiple strategic approaches in development and practice, including cell therapies and scaffold-based products (+/- cells). The architectural precision and flexibility of our technology may facilitate the optimization, development, and clinical use of three-dimensional tissue constructs. Importantly, our technology offers a next-generation strategy whereby three-dimensional structures can be generated without the use of scaffolding or biomaterial components. The ultimate goal is to enable fully cellular constructs to be generated in a configuration compatible with surgical modes of delivery, thereby enabling restoration of significant functional mass to a damaged tissue or organ.

We believe that our technology can capitalize, via strategic partnerships, on additional market opportunities in the provision of enabling tools for drug discovery and development as well as the discovery and development of therapeutic implants that augment or replace damaged tissues and organs. There are multiple short- and long-term revenue opportunities for us in these areas, including direct sales of 3D human tissue constructs for drug screening and development, licensing fees for commercial access to our technology, and royalties from product enablement, particularly in the area of therapeutic products for regenerative medicine.

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Background on Bioprinting

The formation of bio-ink the cell-based building blocks that can be dispensed by our bioprinter relies on the demonstrated principle that groups of individual cells will self-assemble to generate aggregates, through the actions of cell surface proteins that bind to each other and form junctions between cells. Furthermore, if two or more compatible self-assembled aggregates are placed in close proximity, under the proper conditions they will fuse to generate larger, more complex structures via physical properties analogous to those that drive fusion of liquid droplets. The concept of tissue liquidity originated in studies of developmental biology, where it was noted that developing tissues have liquid-like properties that enable individual cellular components to pattern each other, migrate, organize, and differentiate. As development progresses, tissues transition from a dynamic viscous liquid state to a more static semi-solid state, largely driven by the compartmentalized organization of cellular components and production within the organized tissue of extracellular matrix proteins that provide the mature tissue with the biomechanical properties required for tissue-specific function.

Figure 1 demonstrates self-assembly and tissue liquidity using cellular aggregates generated from developing chicken heart tissue, showing that two adjacent aggregates will fuse over time and generate a larger cellular structure. This basic behavior can be leveraged to form more complex structures whereby aggregates are arranged in a specific geometry that can recapitulate shapes and architectures commonly found in tissues and organs, including tubes and multi-layered structures.

Figure 2 shows that the phenomenon of aggregate fusion in embryonic tissue can be extended to adult-derived cultured mammalian cells, as demonstrated by the fusion of adult hamster ovary epithelial cell aggregates to form toroid (ring) structures when placed into that geometry and held for about 120 hours.

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The NovoGen MMX Bioprinter

Our NovoGen MMX Bioprinter is an automated device that enables the fabrication of three-dimensional (3D) living tissues comprised of mammalian cells. A custom graphic user interface (GUI) facilitates the 3D design and execution of scripts that direct precision movement of the dispensing heads to deposit cellular building blocks (bio-ink) or supporting hydrogel. The unit fits easily into a standard biosafety cabinet, eliminating the need to purchase ancillary equipment or make facility modifications to maintain sterility of bioprinted tissues during the printing process. The speed and precision of this instrument enables the production of small-scale tissue models for drug discovery as well as various drug absorption and toxicology assays. The NovoGen MMX Bioprinter (Figure 3) went from in-licensing and initial design to commercial production in less than two years.

We are currently using a third party manufacturer, Invetech Pty., of Melbourne, Australia, to manufacture our NovoGen MMX Bioprinter. Under our manufacturing and supply agreement with Invetech, Invetech has agreed to manufacture our bioprinters for a certain budgeted cost, which cost decreases as we increase the number of bioprinters manufactured. Either party can terminate the manufacturing and supply agreement at any time. Although Invetech is currently a sole source manufacturer for our bioprinters, we believe we can locate a number of other third party manufacturers with the requisite expertise to manufacturer our bioprinters without significant delays or costs should Invetech elect to terminate their agreement with us.

The first step in bioprinting is preparation of the bio-ink aggregates, which are typically generated in spherical or cylindrical format. Bio-ink can be generated from a wide variety of cell types, including cell lines, primary cells, stromal cells, epithelial cells, endothelial cells, and progenitor cells. Bio-ink production begins with the creation of a thick cell paste comprised of a slurry of cells and containing any other components required to be part of the final tissue composition. The cell paste is into spherical aggregates, cylindrical bio ink, or another building block form. After a maturation period the bio-ink is loaded into the bioprinter, which then dispenses the building blocks in the geometry specified by the user, with a bio-inert hydrogel serving as a physical support for the bioprinted tissue as well as occupying any negative space included in the design.

The NovoGen MMX Bioprinter has proved to be a powerful enabling tool for the design, optimization, and fabrication of viable 3D human tissues, based on our internal product discovery and development efforts as well as the experience of our corporate partners and customers. Continuing use of the NovoGen MMX Bioprinter in the pursuit of multiple drug discovery and therapeutic applications has provided key insights that will be utilized in the evolution of the bioprinter platform. We believe that purpose-driven improvements and added product features, combined with new capabilities enabled by additional in-licensed intellectual property, will enhance our ability to deliver commercially viable outputs for corporate partners in drug development and implantable therapeutics.

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The NovoGen MMX Bioprinter has won the following awards and accolades:

2010 International Society for Biofabrication Meeting - Special Award

2010 TIME Magazine 50 Best Inventions of 2010

2011 Australian Engineering Innovation Award, sponsored by the Australian government

Organovo was also celebrated as Dealmaker of the Year 2011 - Firm by the Fermanian Business and Economic Institute and included in MIT Technology Review s 2012 TR50 List of the World s Most Innovative Companies.

In 2011 and early 2012 we provided, or will provide, NovoGen MMX Bioprinters for use by the following institutions, among others, for research purposes: Harvard Medical School, Wake Forest University, and the Sanford Consortium for Regenerative Medicine (SCRM). The SCRM is a new institution which opened in November, 2011, comprised of faculty from the Salk Institute, The Scripps Research Institute, the University of California, San Diego, Sanford-Burnham Medical Research Institute, and La Jolla Allergy and Immunology Institute. We believe that the use of our bioprinting platform by major research institutions will increase the value of the platform and create future opportunities for intellectual property licensing.

Specific Applications for 3D Human Tissues

Our bioprinting technology and surrounding intellectual property and commercial rights serve as a platform for product generation across multiple markets that employ cell- and tissue-based products and services. The core capability of our technology is the production of human tissues with the potential to recapitulate human biology. Once generated, these *in vivo*- like human tissues may be suitable for a variety of applications such as research tools, specialized models of tissue pathobiology, and implantable therapeutics for tissue engineering and regenerative medicine (Figure 4). Importantly, the basic fabrication and maturation protocols that generate functional micro-scale tissues for *in vitro* use will serve as a foundation for the design and manufacture of larger-scale tissues intended for therapeutic use to augment or replace damaged or degenerating organs.

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Collaborative Agreements

As part of our business strategy, we intend to pursue collaboration agreements with drug development companies that will allow us to further develop our bioprinter technology and the potential uses of the cellular structures and tissues that can be produced with our bioprinter technology. Under these collaboration agreements, we and the drug development company will conduct research to pursue drug discovery utilizing the three dimensional cellular structures developed with our bioprinter technology. Currently, drug therapy research and testing generally involves testing drug candidates and therapies on monolayer two dimensional cell cultures that attempt to mimic damaged or degenerating tissues. We believe the use of our technology, which creates three dimensional cellular structures, will enhance and facilitate drug discovery.

Our collaboration agreements typically provide for the parties to mutually develop a research plan and timeline. Each collaboration partner is required to provide the other party reports describing the applicable party s progress under such research plan. Our collaborative agreements generally have a term of the later of one to three years, or the completion by us of the applicable research plan. The agreements provide for certain upfront payments and milestone payments throughout the term related to our research and development obligations under the agreement. In addition, the collaboration agreements provide for a future licensing arrangement between the parties, with royalties payable to us, if the drug development company is successful in identifying a drug candidate or therapy utilizing our bioprinter technology. These agreements also provide customary mutual indemnities and contain standard representations and warranties.

Our first two collaboration agreements are with Pfizer, Inc. (**Pfizer**) and United Therapeutics Corporation (**Unither**). In December 2010, we entered into a collaborative research agreement with Pfizer to develop tissue based drug discovery assays in two therapeutic areas utilizing our NovoGen MMX Bioprinter technology. To date, Pfizer has paid us all amounts due under the agreement and we anticipate completing the research plan by March 2012. We anticipate that the agreement will be extended past March 2012; although we can give no assurance that it will in fact be so extended. In October 2011, we entered into a research agreement with Unither to establish and conduct a research program to discover treatments for pulmonary hypertension using our NovoGen MMX Bioprinter technology, which remains in effect until the later of 30 months from its commencement or our completion of the contracted research. Additionally, under the research agreement with Unither, we granted Unither an option to acquire from us a worldwide, royalty-bearing license in certain intellectual property created under the research agreement solely for use in the treatment or prevention of pulmonary hypertension and all other lung diseases. The license would provide for certain milestone payments and minimum annual royalties and sales-based royalties.

Federal Grants

We have received five federally funded grants to date. In August, 2009 and August, 2010 we received grants from National Heart, Lung, and Blood Institute, a division of the Department of Health and Human Services, to fund our research in connection with building and testing multi-layered fully biological blood vessel substitutes and bioprinting with specialized adult stem cells derived from adipose (fat) tissue. The total amount of these grants was $267,625. In October, 2010 we received two grants from the federal government relating to our projects titled Biological 3D Bioprinted Blood Vessel and NovoGen 3D Bioprinter Development. The total amount of these grants was $397,287. In March 2012, we received a $290,053 grant from the National Institutes of Health to support the development of functional human liver tissue utilizing our bioprinting technology.

Competition

We are subject to significant competition from pharmaceutical, biotechnology, and diagnostic companies; academic and research institutions; and government or other publicly-funded agencies that are pursuing the development of research tools and therapeutic products that otherwise address the needs of our potential customers.

We believe our future success will depend, in large part, on our ability to maintain a competitive position in our field. Biopharmaceutical technologies have undergone and are expected to continue to undergo rapid and significant change. We or our competitors may make rapid technological developments which may cause our research tools or therapeutic products to become obsolete before we recover the expenses incurred. The introduction of less expensive or more effective therapeutic discovery and development technologies, including technologies that may be unrelated to our field, may also make our technology less valuable or obsolete. We may not be able to make the necessary enhancements to our technologies or research tools to compete successfully with newly emerging technologies. The failure to maintain a competitive position in the biopharmaceutical field may result in decreased revenues.

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We are a platform technology company dedicated to the development and production of 3D human tissues that service both the drug development and regenerative medicine industries. To our knowledge, there are no other companies with a similar platform technology or marketed products.

Set forth below is a discussion of competitive factors for each of the broad markets in which we intend to utilize our technology:

Highly Specialized Models for Drug Discovery: This aspect of our business is driven by leveraging our technology as a high-end partnered service that enables a customer to discover or optimally formulate a pharmacologic product that delivers a specific therapeutic effect, or avoids a particular side effect. In addition to revenue generated from the tissue production work, additional revenues are possible in the form of up-front license fees, milestone payments, know-how payments, and royalties. We can provide the customer access to tissues as a service or can produce and supply the tissues to customers; both options are designed to generate continuing revenue. Competition in this area arises mainly from two sources, traditional cell-based *in vitro* culture approaches and traditional i *n vivo* animal models and testing.

We believe that an important factor distinguishing our approach from that of our competitors is our ability to build models that are composed of human cells and have a 3D tissue-like configuration (i.e., able to generate results that are not subject to inherent limitations of 2D monolayer culture). We acknowledge, however, that there are some areas of research for which the existing methods (2D cell culture and/or animal studies) are adequate and 3D *in vitro* human tissues are not sufficiently advantageous.

Tools for Research and Drug Development: We intend to employ our technology to provide an array of broadly-applicable enabling tools and assays to the drug research markets. Examples of products in this segment of the business include future pipeline efforts in the development of 3D human tissue models that service the ADME/TOX/DMPK markets as alternatives or supplements to traditional cell-based assays and animal studies, and the NovoGen MMX Bioprinter instrument.

Competition in the bioprinter arena has been limited to date. We believe that we have a first mover advantage in being the first and only company to offer a purely cellular bioprinting system commercially, which does not rely on the presence of foreign, non-native polymer in the final tissue construct. Some academic groups have internally created inkjet bioprinting systems, but these systems have not been developed commercially to date and are unlikely to adapt as well to a commercial model.

Regenerative Medicine: This aspect of our business involves application of our 3D bioprinting technology to generate 3D human tissues suitable for implantation *in vivo* to augment or replace damaged or degenerating tissues. The majority of these efforts will be undertaken as partnered projects with leading therapeutic companies seeking to develop a tissue engineering / regenerative medicine product for a specific application. Near-term revenues would come from the funding of development work and, in some cases, licensing fees for access to our platform technologies. We expect longer-term revenues may arise from shared profits and royalties or other forms of income from successful clinical and commercial development of the tissue products. There are many companies pursuing the discovery, development, and commercialization of tissue-engineered products for a variety of applications, including but not limited to Organogenesis, Advanced BioHealing (recently acquired by Shire), Tengion, Genzyme (a subsidiary of Sanofi), HumaCyte and Cytograft Tissue Engineering. These companies represent potential competition for us but can also be potential partners. For any tissue-engineered / regenerative medicine product where three-dimensionality is desired, our platform has a unique ability to enable generation of prototypes, optimization of prototypes and protocols, and production of the tissue.

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Intellectual Property

Our success depends in large part on our ability to obtain and enforce patents, maintain protection of trade secrets and operate without infringing the proprietary rights of third parties. We hold exclusive licenses to one U.S. patent, three U.S. patent applications and multiple corresponding international patent applications. We have filed six U.S. patent applications and corresponding international patent applications regarding our technology and its various uses in areas of tissue creation and utilization in drug discovery, including filings for specific tissue types.

In March, 2009, we obtained a world-wide exclusive license to a suite of intellectual property owned or licensed by the University of Missouri-Columbia (**MU**) covering the following two patent applications:

Self-Assembling Cell Aggregates and Methods of Making Engineered Tissue Using the Same (US 10/590,446); and

Self-Assembling Multicellular Bodies and Methods of Producing a Three-Dimensional Biological Structure Using the Same (PCT/US2009/48530) (the **MU 2009 License Agreement**).

In addition, in March, 2010, we obtained a world-wide exclusive license to additional intellectual property from MU, including a patent application covering the composition and method of manufacture of a nerve conduit (the **MU 2010 License Agreement** , and together with the MU 2009 License Agreement, the **MU License Agreements**). The patent application licensed to us under the MU 2009 License Agreement, entitled Self-Assembling Multicellular Bodies and Methods of Producing a Three-Dimensional Biological Structure Using the Same (Serial No. 12/491,228), of which an issue notification has been mailed by the U.S. Patent and Trademark Office assigning a projected U.S. Patent No. of 8,143,055, is expected to expire in June 2029. The remaining two patent applications licensed under the MU License Agreements are still under review at the U.S. Patent and Trademark Office.

Each of the MU License Agreements required us to make an upfront payment ranging from $5,000 to $25,000. They also require us to pay royalties ranging from 1% to 3% of net sales depending on the level of net sales reached and certain minimum annual royalties ranging from $5,000 to $25,000. Additionally, the MU 2010 License Agreement requires us to pay a minimum royalty of $12,500 if no net sales are achieved after five years from the effective date. Additionally, we are required to pay 20% of all revenue derived from any sublicense we grant under any of the MU License Agreements. The MU License Agreements terminate upon the last to expire licensed patents and may be terminated upon breach of either party, subject to standard cure provisions.

Dr. Gabor Forgacs, one of our Founders and Scientific Advisors, is the common inventor of all of these works (the **Forgacs Intellectual Property**). The Forgacs Intellectual Property is the result of years of research by Dr. Gabor Forgacs, the George H. Vineyard Professor of Biophysics at the University of Missouri-Columbia and his collaborators and research teams. Dr. Forgacs is a sought after expert in biofabrication with a long record of peer-reviewed publications. The Forgacs Intellectual Property derives from work done in the labs of Dr. Forgacs and his collaborators, including the work done under a $5,000,000 Frontiers In Biological Research grant that Dr. Forgacs and his collaborators received from the National Science Foundation.

The Forgacs Intellectual Property provides us with intellectual property rights to create cellular aggregates, to use cellular aggregates to create engineered tissue, and to employ cellular aggregates to create engineered tissue with no scaffold present. The intellectual property rights derived from the Forgacs Intellectual Property also enables us to utilize our NovoGen MMX Bioprinter to create engineered tissues, and provides us with rights to specific compositions with utility in the creation of nerve conduit.

In May, 2011, we obtained an exclusive license (the **CURF License Agreement**) to a patent entitled Ink Jet Printing of Viable Cells (US 7,051,654) from the Clemson University Research Foundation (**CURF Patent**). The Clemson University Research Foundation had been granted certains rights allowing it to offer exclusive rights to the CURF Patent. The CURF Patent provides us with the intellectual property rights to methods of using ink-jet printer technology to dispense cells, and to create matrices of bioprinted cells on gel materials. This patent is expected to expire in May 2024.

The CURF License Agreement requires us to make an upfront payment of $32,500, payable in four quarterly payments with the last payment due in April 2012. Additionally, the CURF License Agreement requires us to pay royalties ranging from 1.5% to 3% of net sales depending on the level of net sales reached and minimum annual royalties ranging from $20,000 to $40,000. Additionally, we are required to pay 40% of all revenue derived from any sublicense we grant under the CURF License Agreement. The CURF License Agreement terminates upon the last to expire licensed patents and may be terminated upon breach of either party, subject to standard cure provisions.

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Under our license arrangements, we have full control and authority over the development and commercialization of any licensed products, including clinical trials, manufacturing, marketing, and regulatory filings. We were required to submit and have submitted plans for commercialization of all technologies and are required to make efforts to pursue commercial development of the technology. We are required to make payments on an annual basis after commercialization to maintain the license rights.

We currently have U.S. patent applications pending to protect our proprietary methods and processes and have also filed, and intend to file, corresponding foreign patent applications. We believe that protection of the proprietary nature of our products and technologies is essential to our business. Accordingly, we have adopted and will continue a vigorous program to secure and maintain protection of our proprietary methods and processes. We file patent applications with respect to novel technology, and improvements thereof that are important to our business. We also rely upon trade secrets, unpatented know-how, continuing technological innovation and the pursuit of licensing opportunities to develop and maintain our competitive position. There can be no assurance that others will not independently develop substantially equivalent proprietary technology or that we can meaningfully protect our proprietary position.

Regulatory Considerations

We are not aware of any current FDA regulatory requirements for sales of research tools, such as bioprinters and bioprinted tissues, into a research setting. However, pharmaceutical industry corporate customers with whom we will enter into partnerships will face regulatory review of the research data they generate using our platform and research tools. Good Laboratory Practice (GLP) data is required in the development of any human therapeutic, and our platform has been designed to support compliance with GLP, although no independent testing has been performed to date to confirm this compliance. All product contact surfaces are sterilizable or disposable. GLP considerations around areas such as data integrity are the sole responsibility of the customer without regard to specifics of the research tool used.

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Therapeutic tissues and other regenerative medicine products are subject to an extensive and uncertain regulatory approval process by the Food and Drug Administration (FDA) and comparable agencies in other countries. The regulation of new products is extensive, and the required process of laboratory testing and human studies is lengthy and expensive. The burden of these regulations will fall on our collaborating partners, or may be shared with us, to the extent that we are developing proprietary products that are the result of a collaboration effort. The burden of these regulations will fall on us to the extent we are developing proprietary products on our own. We may not be able to obtain FDA approvals for those products in a timely manner, or at all. We may encounter significant delays or excessive costs in our efforts to secure necessary approvals or licenses. Even if we obtain FDA regulatory approvals, the FDA extensively regulates manufacturing, labeling, distributing, marketing, promotion and advertising after product approval. Moreover, several of our product development areas may involve relatively new technology and have not been the subject of extensive product testing in humans. The regulatory requirements governing these products and related clinical procedures remain uncertain and the products themselves may be subject to substantial review by foreign governmental regulatory authorities that could prevent or delay approval in those countries. Regulatory requirements ultimately imposed on our products could limit our ability to test, manufacture and, ultimately, commercialize our products and thereby could adversely affect our financial condition and results of operations.

As constructs move into clinical and commercial settings, use of a validated and Good Tissue Practices (*GTP*) Quality system will be required. Suitable design and documentation for clinical use of the bioprinter will be a part of future phases of printer design programs.

Employees

We currently have twenty-three employees, of whom sixteen are employed full time. We also engage consultants and temporary employees from time to time to provide services that relate to our bioprinting business and technology as well as for general administrative and accounting services.

Legal Proceedings

From time to time we may be named in claims arising in the ordinary course of business. Currently, no legal proceedings, government actions, administrative actions, investigations or claims are pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business and financial condition.

We anticipate that we will expend significant financial and managerial resources in the defense of our intellectual property rights in the future if we believe that our rights have been violated. We also anticipate that we will expend significant financial and managerial resources to defend against claims that our products and services infringe upon the intellectual property rights of third parties.

Available Information

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the **Exchange Act**). Reports filed with the SEC pursuant to the Exchange Act, including annual and quarterly reports, and other reports we file, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Investors may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Investors can request copies of these documents upon payment of a duplicating fee by writing to the SEC. The reports we file with the SEC are also available on the SEC s website (http://www.sec.gov).

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RISK FACTORS AND SPECIAL CONSIDERATIONS

This Report contains forward-looking statements.

Information provided in this Current Report may contain forward-looking statements which reflect management s current view with respect to future events, the viability or efficacy of our products and our future performance. Such forward-looking statements may include projections with respect to market size and acceptance, revenues and earnings, marketing and sales strategies and business operations, as well as efficacy of our products.

We operate in a highly competitive and highly regulated business environment. Our business can be expected to be affected by government regulation, economic, political and social conditions, business response to new and existing products and services, technological developments and the ability to obtain and maintain patent and/or other intellectual property protection for our products and intellectual property. Our actual results could differ materially from management s expectations because of changes both within and outside of our control. Due to such uncertainties and the risk factors set forth in this Current Report, prospective investors are cautioned not to place undue reliance upon such forward-looking statements.

Risks related to our Business and our Industry

We have a limited operating history and a history of operating losses, and expect to incur significant additional operating losses.

We were incorporated in 2007, opened our laboratories in San Diego in January, 2009 and have only a limited operating history. Therefore, there is limited historical financial information upon which to base an evaluation of our performance. Our prospects must be considered in light of the uncertainties, risks, expenses, and difficulties frequently encountered by companies in their early stages of operations. We have generated operating losses since we began operations, including $1,338,694 and $3,964,610 for the year ended December 31, 2010 and 2011, respectively, and as of December 31, 2011 we had an accumulated operating loss of $6,272,904 We expect to incur substantial additional operating expenses over the next several years as our research, development, and commercial activities increase. The amount of future losses and when, if ever, we will achieve profitability are uncertain. Our ability to generate revenue and achieve profitability will depend on, among other things, entering into customer relationships with strategic partners, successful completion of the preclinical and clinical development of our partners product candidates; obtaining necessary regulatory approvals by our partners or us from the FDA and international regulatory agencies; successful manufacturing, sales, and marketing arrangements; and raising sufficient funds to finance our activities. We might not succeed at any of these undertakings. If we are unsuccessful at some or all of these undertakings, our business, prospects, and results of operations may be materially adversely affected.

We may need to secure additional financing.

We may require additional funds for our anticipated operations and if we are not successful in securing additional financing, we may be required to delay significantly, reduce the scope of or eliminate one or more of our research or development programs, downsize our general and administrative infrastructure, or seek alternative measures to avoid insolvency, including arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies, product candidates or products.

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We are an early-stage company with an unproven business strategy and may never achieve commercialization of our research tools and therapeutic products or profitability.

Our strategy of using our research tools for the collaborative development of therapeutic products is unproven. Our success will depend upon our ability to enter into additional collaboration agreements on favorable terms, to determine which research tools and therapeutic products have potential value, and to select an appropriate commercialization strategy for each research tool and potential therapeutic product we or our collaborators choose to pursue. If we are not successful in implementing our strategy to commercialize our research tools and potential therapeutic products, we may never achieve, maintain or increase profitability.

Our success and our collaborators ability to sell therapeutic products will depend to a large extent upon reimbursement from health care insurance companies.

Our success may depend, in part, on the extent to which reimbursement for the costs of therapeutic products and related treatments will be available from third-party payers such as government health administration authorities, private health insurers, managed care programs, and other organizations. Over the past decade, the cost of health care has risen significantly, and there have been numerous proposals by legislators, regulators, and third-party health care payers to curb these costs. Some of these proposals have involved limitations on the amount of reimbursement for certain products. Similar federal or state health care legislation may be adopted in the future and any products that we or our collaborators seek to commercialize may not be considered cost-effective. Adequate third-party insurance coverage may not be available for us or our collaborative partners to establish and maintain price levels that are sufficient for realization of an appropriate return on investment in product development.

Our research tools are new and unproven and may not allow us or our collaborators to develop successful commercial products

Our research tools involve new and unproven approaches. We have not proven that our research tools will enable us or our collaborators to identify therapeutic products with commercial potential, or to develop or commercialize such therapeutic products. Even if we or our collaborators are successful in identifying therapeutic products based on discoveries made using our research tools, we or our collaborators may not be able to discover or develop commercially viable products. To date, no one has developed or commercialized any therapeutic or other life science product based on our research tools. If our research tools do not assist in the discovery and development of such therapeutic products, our current and potential collaborators may lose confidence in us and our research tools and our business may suffer as a result.

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If our collaborators, licensees and customers do not successfully develop or commercialize therapeutic or other life science products using our research tools, we may not generate revenues from those customers. In addition, we may experience unforeseen technical complications, unrecognized defects and limitations in the productions of our research tools. These complications could materially delay or limit the use of those tools, substantially increase the anticipated cost of manufacturing them or prevent us from implementing research projects at high efficiency levels.

Our products and services represent new and rapidly evolving technologies.

Our proprietary tissue creation technology, drug discovery and research tools depend on new, rapidly evolving technologies. In addition, the process of developing new technologies and products is complex, and if we are unable to develop enhancements to, and new features for, our existing products or acceptable new products that keep pace with technological developments or industry standards, our products may become obsolete, less marketable and less competitive.

The commercialization of therapeutic or other life science products developed using our research tools is subject to a variety of risks .

Development of therapeutic and other life science products based on our or our collaborators use of our technologies will be subject to risks of failure inherent in their development or commercial viability. These risks include the possibility that any such products will:

- fail to be found through the use of research tools;
- be found to be toxic;
- be found to be ineffective;
- fail to receive necessary regulatory approvals;
- be difficult or impossible to manufacture on a large scale;
- be economically infeasible to market;
- fail to be developed prior to the successful marketing of similar products by competitors; or
- be impossible to market because they infringe the proprietary rights of third parties or compete with superior products marketed by third parties.

We expect that our drug discovery collaborative partners or other clients that utilize our research tools will be required to submit their research for regulatory review in order to proceed with human testing of drug candidates. This review by the FDA and other regulatory agencies may result in timeline setbacks or complete rejection of an application to begin human studies, such as an Investigative New Drug (IND) application. Should our collaborative partners or other clients face such setbacks, we would be at risk of not being paid if there were agreed upon milestone and royalty payments. The risks of non-approval for our partners or other clients will include the inherent risks of unfavorable regulator opinion of a drug candidate s safety or efficacy, as well as the risk that the data generated by our platform technology is not found to be suitable to support the safety or efficacy of the drug. In addition, our platform technology is subject to the requirements of Good Laboratory Practice (GLP) to provide suitable data for INDs and other regulatory filings; no regulatory review of data from this platform has yet been conducted and there is no guarantee that our technology will be acceptable under GLP.

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If we are unable to enter into or maintain strategic collaborations with third parties, we may have difficulty selling our research tools and therapeutic products and we may not generate sufficient revenue to achieve or maintain profitability.

Since we do not currently possess the resources necessary to develop, obtain approvals for or commercialize potential therapeutic products based on our technology, we must enter into collaborative arrangements to develop and commercialize these products. If we are not able to enter into these arrangements or implement our strategy to develop and commercialize therapeutic and other life science products based upon our research tools, we may not generate sufficient revenues to achieve or maintain profitability. Additionally, we may not be able to negotiate future collaborative arrangements on acceptable terms, if at all.

We cannot control our collaborators allocation of resources or the amount of time that our collaborators devote to developing our programs or potential products, which may have a material adverse effect on our business.

We have collaborative research agreements with Pfizer and Unither, and will seek to enter into additional collaborations. Our agreements with our collaborators typically allow them significant discretion in electing whether to pursue product development, regulatory approval, manufacturing and marketing of the products they may develop with the help of our technology. We cannot control the amount and timing of resources our collaborators may devote to our programs or potential products. As a result, we cannot be certain that our collaborators will choose to develop and commercialize these products or that we will realize any milestone payments, royalties and other payments to which we may become entitled. In addition, if a partner is involved in a business combination, such as a merger or acquisition, or if a partner changes its business focus, its performance pursuant to its agreement with us may suffer and, as a result, we may not generate any revenues from royalty, milestone and similar provisions that may be included in our collaborative agreement with that partner.

Any termination or breach by or conflict with our collaborators or licensees could harm our business .

If we or any of our collaborators or licensees fail to renew or terminate any of our collaboration or license agreements or if either party fails to satisfy its obligations under any of our collaboration or license agreements or complete them in a timely manner, we could lose significant sources of revenue, which could result in volatility in our future revenue.

In addition, our agreements with our collaborators and licensees may have provisions that give rise to disputes regarding the rights and obligations of the parties. These and other possible disagreements could lead to termination of the agreement or delays in collaborative research, development, supply or commercialization of certain products, or could require or result in litigation or arbitration. Moreover, disagreements could arise with our collaborators over rights to our intellectual property or our rights to share in any of the future revenues of products developed by our collaborators. These kinds of disagreements could result in costly and time-consuming litigation. Any such conflicts with our collaborators could reduce our ability to obtain future collaboration agreements and could have a negative impact on our relationship with existing collaborators, adversely affecting our business and revenues. Finally, any of our collaborations or license agreements may prove to be unsuccessful.

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Our collaborators could develop competing research, reducing the available pool of potential collaborators and increasing competition, which may adversely affect our business and revenues.

Our collaborators and potential collaborators could develop research tools similar to our own, reducing our pool of possible collaborative parties and increasing competition. Any of these developments could harm our product and technology development efforts, which could seriously harm our business. In addition, we may pursue opportunities in fields that could conflict with those of our collaborators. Developing products that compete with our collaborators or potential collaborators products could preclude us from entering into future collaborations with our collaborators or potential collaborators. Any of these developments could harm our product development efforts and could adversely affect our business and revenues.

If restrictions on reimbursements and health care reform limit our collaborators actual or potential financial returns on therapeutic products that they develop based on our platform technology, our collaborators may reduce or terminate their collaborations with us .

Our collaborators abilities to commercialize therapeutic and other life science products that are developed through the research tools or services that we provide may depend in part on the extent to which coverage and adequate payments for these products will be available from government payors, such as Medicare and Medicaid, private health insurers, including managed care organizations, and other third-party payors. These payors are increasingly challenging the price of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved therapeutic and other life science products, and coverage and adequate payments may not be available for these products.

In recent years, officials have made numerous proposals to change the health care system in the U.S. These proposals included measures to limit or eliminate payments for some medical procedures and treatments or subject the pricing of pharmaceuticals and other medical products to government control. Government and other third-party payors increasingly attempt to contain health care costs by limiting both coverage and the level of payments of newly approved health care products. In some cases, they may also refuse to provide any coverage of uses of approved products for disease indications other than those for which the FDA has granted marketing approval. Governments may adopt future legislative proposals and federal, state or private payors for healthcare goods and services may take action to limit their payments for goods and services. Any of these events could limit our ability to form collaborations or collaborators and our ability to commercialize therapeutic products successfully.

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We and our collaborators are subject to extensive and uncertain regulatory requirements, which could adversely affect our ability to obtain regulatory approval in a timely manner, or at all, for products that we identify or develop

Therapeutic and other life science products are subject to an extensive and uncertain regulatory approval process by the Food and Drug Administration (FDA) and comparable agencies in other countries. The regulation of new products is extensive, and the required process of laboratory testing and human studies is lengthy and expensive. The burden of these regulations will fall on our collaborating partners, or may be shared with us, to the extent that we are developing proprietary products that are the result of a collaboration effort. The burden of these regulations will fall on us to the extent we are developing proprietary products on our own. We may not be able to obtain FDA approvals for those products in a timely manner, or at all. We may encounter significant delays or excessive costs in our efforts to secure necessary approvals or licenses. Even if we obtain FDA regulatory approvals, the FDA extensively regulates manufacturing, labeling, distributing, marketing, promotion and advertising after product approval. Moreover, several of our product development areas may involve relatively new technology and have not been the subject of extensive product testing in humans. The regulatory requirements governing these products and related clinical procedures remain uncertain and the products themselves may be subject to substantial review by foreign governmental regulatory authorities that could prevent or delay approval in those countries. Regulatory requirements ultimately imposed on our products could limit our ability to test, manufacture and, ultimately, commercialize our products and thereby could adversely affect our financial condition and results of operations.

Our business depends upon the success of our research tools as alternatives to current research tools .

Our success depends on commercial acceptance of our research tools. We believe that adoption of our research tools by our current and future collaborators will be essential for commercial acceptance of our research tools. We cannot assure you that our research tools will be adopted, or if adopted, that they will be broadly accepted by pharmaceutical, biotechnology and diagnostic companies or various academic institutions.

We believe that recommendations by health care professionals and health care payors will be essential for commercial acceptance of our collaborators or our products. We cannot assure you that the products we or our collaborators develop will achieve commercial acceptance among patients, physicians or third-party payors. Failure to achieve commercial acceptance would materially adversely affect our business, financial condition and results of operations.

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We face intense competition which could result in reduced acceptance and demand for our research tools and products.

The biotechnology industry is subject to intense competition and rapid and significant technological change. We have many potential competitors, including major drug companies, specialized biotechnology firms, academic institutions, government agencies and private and public research institutions. Many of these competitors have significantly greater financial and technical resources, experience and expertise in research and development, preclinical testing, designing and implementing clinical trials; regulatory processes and approvals; production and manufacturing; and sales and marketing of approved products than we have. Principal competitive factors in our industry include the quality and breadth of an organization s technology; management of the organization and the execution of the organization s strategy; the skill and experience of an organization s employees and its ability to recruit and retain skilled and experienced employees; an organization s intellectual property portfolio; the range of capabilities, from target identification and validation to drug and device discovery and development to manufacturing and marketing; and the availability of substantial capital resources to fund discovery, development and commercialization activities.

Large and established companies compete in the biotech market. In particular, these companies have greater experience and expertise than we have in securing government contracts and grants to support their research and development efforts, conducting testing and clinical trials, obtaining regulatory approvals to market products, manufacturing such products on a broad scale and marketing approved products than we have.

Smaller or early-stage companies and research institutions may also prove to be significant competitors, particularly through collaborative arrangements with large and established biotech or other companies, or the obtaining of substantial private financing. We will also face competition from these parties in recruiting and retaining qualified scientific and management personnel.

In order to effectively compete, we will have to make substantial investments in development, testing, manufacturing and sales and marketing or partner with one or more established companies. There is no assurance that we or our collaborators will be successful in commercializing and gaining significant market share for any of products developed in part through use of our technology. Our technologies, products and services also may be rendered obsolete or noncompetitive as a result of products and services introduced by our competitors.

We may have product liability exposure from the sale of our research tools and therapeutic products or the services we provide.

We may have exposure to claims for product liability. Product liability coverage is expensive and sometimes difficult to obtain. Given our operations to date, we currently do not maintain any product liability insurance coverage. At such point that we determine it is prudent to obtain this insurance, we may not be able to obtain or maintain insurance at a reasonable cost. There can be no assurance that existing insurance coverage will extend to other products in the future. Any product liability insurance coverage may not be sufficient to satisfy all liabilities resulting from product liability claims. A successful claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable items, if at all. Even if a claim is not successful, defending such a claim would be time-consuming and expensive, may damage our reputation in the marketplace, and would likely divert management s attention.

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The near and long-term viability of our products and services will depend on our ability to successfully establish strategic relationships.

The near and long-term viability of our products and services will depend in part on our ability to successfully establish new strategic collaborations with biotechnology companies, pharmaceutical companies, universities, hospitals, insurance companies and government agencies. Establishing strategic collaborations is difficult and time-consuming. Potential collaborators may reject collaborations based upon their assessment of our financial, regulatory or intellectual property position. If we fail to establish a sufficient number of collaborations on acceptable terms, we may not be able to commercialize our products or generate sufficient revenue to fund further research and development efforts.

Even if we establish new collaborations, these relationships may never result in the successful development or commercialization of any product or service candidates for several reasons both within and outside of our control.

Although our current focus is on providing drug discovery services and research tools in the research setting, we may develop tissue therapeutic products and seek approval to sell them as medical care. Before we could begin commercial manufacturing of any of our product candidates, we or our manufacturers must pass a pre-approval inspection by the FDA and comply with the FDA s current Good Manufacturing Practices. If our manufacturers fail to comply with these requirements, our product candidates would not be approved. If our collaborators fail to comply with these requirements after approval, we would be subject to possible regulatory action and may be limited in the jurisdictions in which we are permitted to sell products.

We will be dependent on third-party research organizations to conduct some of our future laboratory testing, animal and human studies.

We will be dependent on third-party research organizations to conduct some of our laboratory testing, animal and human studies with respect to therapeutic tissues and other life science products that we may develop in the future. If we are unable to obtain any necessary testing services on acceptable terms, we may not complete our product development efforts in a timely manner. If we rely on third parties for laboratory testing and/or animal and human studies, we may lose some control over these activities and become too dependent upon these parties. These third parties may not complete testing activities on schedule or when we so request. We may not be able to secure and maintain suitable research organizations to conduct our laboratory testing and/or animal and human studies. We are responsible for confirming that each of our clinical trials is conducted in accordance with our general plan and protocol. Moreover, the FDA and foreign regulatory agencies require us to comply with regulations and standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the trial participants are adequately protected. Our reliance on third parties does not relieve us of these responsibilities and requirements. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if the third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our pre-clinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for our future product candidates.

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We may require access to a constant, steady, reliable supply of products.

To the extent that we develop products for sale, we may be required to complete clinical trials before we can offer such products for sale. Commercialization of products will require access to, or development of, facilities to manufacture a sufficient supply of our product candidates. If we are unable to manufacture our products in commercial quantities, then we will need to rely on third parties. These third-party manufacturers must also receive FDA approval before they can produce clinical material or commercial products. Our products may be in competition with other products for access to these facilities and may be subject to delays in manufacture if third parties give other products greater priority. In addition, we may not be able to enter into any necessary third-party manufacturing arrangements on acceptable terms, or on a timely basis. Furthermore, we would likely have to enter into a technical transfer agreement and share our know-how with the third party manufacturer.

We may rely on third-party suppliers for some our materials.

We may rely on third-party suppliers and vendors for some of the materials we require in our drug discovery and research tool businesses as well as for the manufacture of any product candidates that we may develop in the future. Any significant problem experienced by one of our suppliers could result in a delay or interruption in the supply of materials to us until such supplier resolves the problem or an alternative source of supply is located. Any delay or interruption could negatively affect our operations.

Violation of government regulations or quality programs could harm demand for our products or services, and the evolving nature of government regulations could have an adverse impact on our business .

To the extent that our collaborators or customers use our products in the manufacturing or testing processes for their drug and medical device products, such end-products or services may be regulated by the FDA under Quality System Regulations (QSR) or the Centers for Medicare & Medicaid Services (CMS) under Clinical Laboratory Improvement Amendments of 1988 (CLIA 88) regulations. The customer is ultimately responsible for QSR, CLIA 88 and other compliance requirements for their products; however, we may agree to comply with certain requirements, and, if we fail to do so, we could lose sales and customers and be exposed to product liability claims.

Products that are intended for the diagnosis or treatment of disease are subject to government regulation. Our drug discovery and research tool offerings are currently intended for research or investigational uses. Research uses are not subject to FDA or premarket approval or other regulatory requirements. Investigational uses are not subject to FDA premarket approval or most regulatory requirements, but are subject to limited regulatory controls for entities conducting investigational studies.

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As we continue to adapt and develop parts of our product line in the future, including tissue-based products in the field of regenerative medicine, the manufacture and marketing of our products will become subject to government regulation in the United States and other countries. In the United States and most foreign countries, we will be required to complete rigorous preclinical testing and extensive human clinical trials that demonstrate the safety and efficacy of a product in order to apply for regulatory approval to market the product.

The steps required by the FDA before our proposed products may be marketed in the United States include performance of preclinical (animal and laboratory) tests; submissions to the FDA of an IDE (Investigational Device Exemption), NDA (New Drug Application), or BLA (Biologic License Application) which must become effective before human clinical trials may commence; performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the product in the intended target population; performance of a consistent and reproducible manufacturing process intended for commercial use; Pre-Market Approval Application (**PMA**); and FDA approval of the PMA before any commercial sale or shipment of the product.

The processes are expensive and can take many years to complete, and we may not be able to demonstrate the safety and efficacy of our products to the satisfaction of such regulatory authorities. The start of clinical trials can be delayed or take longer than anticipated for many and varied reasons, many of which are outside of our control. Safety concerns may emerge that could lengthen the ongoing trials or require additional trials to be conducted. Regulatory authorities may also require additional testing, and we may be required to demonstrate that our proposed products represent an improved form of treatment over existing therapies, which we may be unable to do without conducting further clinical studies. Moreover, if the FDA grants regulatory approval of a product, the approval may be limited to specific indications or limited with respect to our distribution. Expanded or additional indications for approved devices or drugs may not be approved, which could limit our revenues. Foreign regulatory authorities may apply similar limitations or may refuse to grant any approval. Consequently, even if we believe that preclinical and clinical data are sufficient to support regulatory approval for our product candidates, the FDA and foreign regulatory authorities may not ultimately grant approval for commercial sale in any jurisdiction. If our products are not approved, our ability to generate revenues will be limited and our business will be adversely affected.

Even if a product gains regulatory approval, such approval is likely to limit the indicated uses for which it may be marketed, and the product and the manufacturer of the product will be subject to continuing regulatory review, including adverse event reporting requirements and the FDA s general prohibition against promoting products for unapproved uses. Failure to comply with any post-approval requirements can, among other things, result in warning letters, product seizures, recalls, substantial fines, injunctions, suspensions or revocations of marketing licenses, operating restrictions and criminal prosecutions. Any of these enforcement actions, any unanticipated changes in existing regulatory requirements or the adoption of new requirements, or any safety issues that arise with any approved products, could adversely affect our ability to market products and generate revenues and thus adversely affect our ability to continue our business.

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We also may be restricted or prohibited from marketing or manufacturing a product, even after obtaining product approval, if previously unknown problems with the product or our manufacture are subsequently discovered and we cannot provide assurance that newly discovered or developed safety issues will not arise following any regulatory approval. With the use of any treatment by a wide patient population, serious adverse events may occur from time to time that initially do not appear to relate to the treatment itself, and only if the specific event occurs with some regularity over a period of time does the treatment become suspect as having a causal relationship to the adverse event. Any safety issues could cause us to suspend or cease marketing of our approved products, possibly subject us to substantial liabilities, and adversely affect our ability to generate revenues.

We are subject to various environmental, health and safety laws.

We are subject to various laws and regulations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals, emissions and wastewater discharges, and the use and disposal of hazardous or potentially hazardous substances used in connection with our research, including infectious disease agents. We also cannot accurately predict the extent of regulations that might result from any future legislative or administrative action. Any of these laws or regulations could cause us to incur additional expense or restrict our operations. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or production efforts.

We will depend on our patent portfolio, our licensed technology and other trade secrets in the conduct of our business and must ensure that we do not violate the patent or intellectual rights of others.

Our success in large part depends on our ability to maintain the proprietary nature of our technology and other trade secrets. To do so, we and our licensors must prosecute and maintain existing patents, obtain new patents and pursue trade secret and other intellectual property protection. We also must operate without infringing the proprietary rights of third parties or allowing third parties infringe our rights. Our research, development and commercialization activities, including any product candidates or products resulting from these activities, may infringe or be claimed to infringe patents owned by third parties and as to which we do not hold licenses or other rights. There may be rights that we are not aware of, including applications that have been filed but not published that, when issued, could be asserted against us. These third parties could bring claims against us that would cause us to incur substantial expenses and, if successful, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or sales of the product or biologic treatment candidate that is the subject of the suit.

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In addition, competitors may infringe our patents or the patents of our collaborators or licensors. As a result, we may be required to file infringement claims to counter infringement for unauthorized use. This can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent owned by us is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover our technology. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at the risk of not issuing.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

A significant portion of our sales are dependent upon our customers capital spending policies and research and development budgets, and government funding of research and development programs at universities and other organizations, which are each subject to significant and unexpected decrease.

Our prospective customers include pharmaceutical and biotechnology companies, academic institutions, government laboratories, and private research foundations. Fluctuations in the research and development budgets at these organizations could have a significant effect on the demand for our products and services. Research and development budgets fluctuate due to changes in available resources, patent expirations, mergers of pharmaceutical and biotechnology companies, spending priorities, general economic conditions, and institutional and governmental budgetary policies, including but not limited to reductions in grants for research by educational institutions. In addition, our business could be seriously damaged by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies, academic institutions, government laboratories, or private foundations.

The timing and amount of revenues from customers that rely on government funding of research may vary significantly due to factors that can be difficult to forecast. Research funding for life science research has increased more slowly during the past several years compared to the previous years and has declined in some countries, and some grants have been frozen for extended periods of time or otherwise become unavailable to various institutions, sometimes without advance notice. Government funding of research and development is subject to the political process, which is inherently fluid and unpredictable. Other programs, such as homeland security or defense, or general efforts to reduce the federal budget deficit could be viewed by the United States government as a higher priority. These budgetary pressures may result in reduced allocations to government agencies that fund research and development activities. Past proposals to reduce budget deficits have included reduced National Institute of Health and other research and development allocations. Any shift away from the funding of life sciences research and development or delays surrounding the approval of government budget proposals may cause our customers to delay or forego purchases of our products or services, which could seriously damage our business.

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Risks Related to Our Common Stock and Liquidity Risks

Our securities are a Penny Stock and subject to specific rules governing their sale to investors

The SEC has adopted Rule 15g-9 which establishes the definition of a penny stock, for the purposes relevant to our Common Stock, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require that a broker or dealer approve a person s account for transactions in penny stocks; and the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person s account for transactions in penny stocks, the broker or dealer must obtain financial information and investment experience objectives of the person; and make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form sets forth the basis on which the broker or dealer made the suitability determination; and that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the penny stock rules. This may make it more difficult for investors sell shares of our common stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

There is no recent trading activity in our Common Stock and there is no assurance that an active market will develop in the future.

There is no recent trading activity in our Common Stock. Further, although our Common Stock is currently quoted on the OTCQB, trading of our Common Stock may be extremely sporadic. For example, several days may pass before any shares may be traded. As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations of the price of our Common Stock. There can be no assurance that a more active market for our Common Stock will develop, or if one should develop, there is no assurance that it will be sustained. This severely limits the liquidity of our Common Stock, and would likely have a material adverse effect on the market price of our Common Stock and on our ability to raise additional capital.

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Because we became public by means of a reverse merger we may not be able to attract the attention of brokerage firms.

Additional risks may exist since we became public through a reverse merger. Securities analysts of brokerage firms may not provide coverage of us since there is little incentive to brokerage firms to recommend the purchase of our Common Stock. No assurance can be given that brokerage firms will want to conduct any secondary offerings on our behalf in the future.

Compliance with the reporting requirements of federal securities laws can be expensive.

We are a public reporting company in the United States, and accordingly, subject to the information and reporting requirements of the Exchange Act and other federal securities laws, and the compliance obligations of the Sarbanes-Oxley Act. The costs of preparing and filing annual and quarterly reports and other information with the SEC and furnishing audited reports to stockholders are substantial. In addition, we will incur substantial expenses in connection with the preparation of the Registration Statement and related documents with respect to the registration of resales of the Common Stock sold in the Offering.

Applicable regulatory requirements, including those contained in and issued under the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract qualified officers and directors, which could adversely affect the management of its business and its ability to obtain or retain listing of our Common Stock.

We may be unable to attract and retain those qualified officers, directors and members of board committees required to provide for effective management because of the rules and regulations that govern publicly held companies, including, but not limited to, certifications by principal executive officers. The enactment of the Sarbanes-Oxley Act has resulted in the issuance of a series of related rules and regulations and the strengthening of existing rules and regulations by the SEC, as well as the adoption of new and more stringent rules by the stock exchanges. The perceived increased personal risk associated with these changes may deter qualified individuals from accepting roles as directors and executive officers.

Further, some of these changes heighten the requirements for board or committee membership, particularly with respect to an individual s independence from the corporation and level of experience in finance and accounting matters. We may have difficulty attracting and retaining directors with the requisite qualifications. If we are unable to attract and retain qualified officers and directors, the management of our business and our ability to obtain or retain listing of our shares of Common Stock on any stock exchange (assuming we elect to seek and are successful in obtaining such listing) could be adversely affected.

We may have undisclosed liabilities and any such liabilities could harm our revenues, business, prospects, financial condition and results of operations.

Even though our pre-merger assets and liabilities were transferred to the Split-Off Shareholders in the Split-Off, there can be no assurance that we will not be liable for any or all of such liabilities. Any such liabilities that survived the Merger could harm our revenues, business, prospects, financial condition and results of operations upon our acceptance of responsibility for such liabilities.

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The transfer of the operating assets and liabilities to PSOS, coupled with the Split-Off of PSOS, will result in taxable income to us in an amount equal to the difference between the fair market value of the assets transferred and the pre-merger tax basis of the assets. Any gain recognized, to the extent not offset by our net operating loss carryforward, if any, will be subject to federal income tax at regular corporate income tax rates.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or detect fraud. Consequently, investors could lose confidence in our financial reporting and this may decrease the trading price of our stock.

We must maintain effective internal controls to provide reliable financial reports and detect fraud. We have been assessing our internal controls to identify areas that need improvement. We are in the process of implementing changes to internal controls, but have not yet completed implementing these changes. Failure to implement these changes to our internal controls or any others that it identifies as necessary to maintain an effective system of internal controls could harm our operating results and cause investors to lose confidence in our reported financial information. Any such loss of confidence would have a negative effect on the trading price of our stock.

The price of our Common Stock may become volatile, which could lead to losses by investors and costly securities litigation.

The trading price of our Common Stock is likely to be highly volatile and could fluctuate in response to factors such as:

actual or anticipated variations in our operating results;

announcements of developments by us or our competitors;

the timing of IDE and/or NDA approval, the completion and/or results of our clinical trials

regulatory actions regarding our products

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

adoption of new accounting standards affecting the our industry;

additions or departures of key personnel;

introduction of new products by us or our competitors;

sales of the our Common Stock or other securities in the open market; and

other events or factors, many of which are beyond our control.

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The stock market is subject to significant price and volume fluctuations. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been initiated against such a company. Litigation initiated against us, whether or not successful, could result in substantial costs and diversion of our management s attention and resources, which could harm our business and financial condition.

Investors may experience dilution of their ownership interests because of the future issuance of additional shares of our Common Stock.

In the future, we may issue additional authorized but previously unissued equity securities, resulting in the dilution of the ownership interests of our present stockholders. We may also issue additional shares of our Common Stock or other securities that are convertible into or exercisable for our Common Stock in connection with hiring or retaining employees, future acquisitions, future sales of our securities for capital raising purposes, or for other business purposes. The future issuance of any such additional shares of Common Stock may create downward pressure on the trading price of our Common Stock. There can be no assurance that the we will not be required to issue additional shares, warrants or other convertible securities in the future in conjunction with any capital raising efforts, including at a price (or exercise prices) below the price at which shares of our Common Stock is currently quoted on the OTCQB.

Our Common Stock is controlled by insiders

Our officers and directors beneficially own approximately 21% of our outstanding shares of Common Stock. Such concentrated control may adversely affect the price of our Common Stock. Investors who acquire our Common Stock may have no effective voice in the management of our operations. Sales by our insiders or affiliates, along with any other market transactions, could affect the market price of our Common Stock.

We do not intend to pay dividends for the foreseeable future.

We have paid no dividends on our Common Stock to date and it is not anticipated that any dividends will be paid to holders of our Common Stock in the foreseeable future. While our future dividend policy will be based on the operating results and capital needs of our business, it is currently anticipated that any earnings will be retained to finance our future expansion and for the implementation of our business plan. As an investor, you should take note of the fact that a lack of a dividend can further affect the market value of our stock, and could significantly affect the value of any investment.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management s discussion and analysis should be read in conjunction with Organovo s historical financial statements and the related notes. This management s discussion and analysis contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this Current Report. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled Risk Factors included elsewhere in this Current Report. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Current Report.

As the result of the Transactions and the change in our business and operations from a shell company to a biotechnology company, a discussion of the past financial results of Pubco is not pertinent, and the financial results of Organovo, the accounting acquirer, are considered our financial results on a historical and going-forward basis.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis of our financial condition and results of operations are based on Organovo s financial statements, which Organovo has prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires Organovo to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, Organovo evaluates such estimates and judgments, including those described in greater detail below. Organovo bases its estimates on historical experience and on various other factors that Organovo believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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Critical Accounting Policies

Our financial statements, which appear at Item 9.01(a) have been prepared in accordance with accounting principles generally accepted in the United States, which require that we make certain assumptions and estimates and, in connection therewith, adopt certain accounting policies. Our significant accounting policies are set forth in Note 1 to our financial statements. Of those policies, we believe that the policies discussed below may involve a higher degree of judgment and may be more critical to an accurate reflection of our financial condition and results of operations.

Revenue Recognition

The Company s revenues are derived from the sale of bioprinter related products and services, NIH and U.S. Treasury Department Grants, collaboration agreements, and license agreements.

The Company recognizes revenue when the following criteria have been met: (i) persuasive evidence of an arrangement exists; (ii) services have been rendered or product has been delivered; (iii) price to the customer is fixed and determinable; and (iv) collection of the underlying receivable is reasonably assured.

Billings to customers or payments received from customers are included in deferred revenue on the balance sheet until all revenue recognition criteria are met. As of December 31, 2011 and 2010, the Company had approximately $152,500 and $107,000 in deferred revenue related to its collaborative research programs. The Company expects to recognize all revenues deferred at December 31, 2011 in the second quarter 2012.

Product Revenue

The Company recognizes product revenue at the time of shipment to the customer, provided all other revenue recognition criteria have been met. The Company recognizes product revenues upon shipment to distributors, provided that (i) the price is substantially fixed or determinable at the time of sale; (ii) the distributor s obligation to pay the Company is not contingent upon resale of the products; (iii) title and risk of loss passes to the distributor at time of shipment; (iv) the distributor has economic substance apart from that provided by the Company; (v) the Company has no significant obligation to the distributor to bring about resale of the products; and (vi) future returns can be reasonably estimated. For any sales that do not meet all of the above criteria, revenue is deferred until all such criteria have been met. The Company s collaboration revenue consists of license and collaboration agreements that contain multiple elements, including non-refundable upfront fees, payments for reimbursement of third-party research costs, payments for ongoing research, payments associated with achieving specific development milestones and royalties based on specified percentages of net product sales, if any. The Company considers a variety of factors in determining the appropriate method of revenue recognition under these arrangements, such as whether the elements are separable, whether there are determinable fair values and whether there is a unique earnings process associated with each element of a contract.

Collaborative and License Revenue

The Company recognizes revenue from research funding under collaboration agreements when earned on a proportional performance basis as research hours are incurred. The Company performs services as specified in each respective agreement on a best-efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed, or payments received, in advance of the services being performed and recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract.

In December 2010, the Company entered into a 12 month research contract agreement with a third party, whereby the Company was engaged to perform research and development services on a fixed-fee basis for approximately $600,000. Based on proportional performance criteria, the Company recognized approximately $450,000 in revenue related to the contract during 2011, and expects to recognize the remaining $150,000 in revenue during 2012.

In October 2011, the Company entered into a research contract agreement with a third party, whereby the Company will perform research and development services on a fixed-fee basis for $1,365,000. The agreement included an initial payment to the Company of approximately $239,000, with remaining payments expected to occur over a 21-month period. At December 31, 2011, the Company recorded approximately $239,000 in revenue related to the research contract in recognition of the proportional performance achieved by the Company during the fourth quarter 2011.

Revenue Arrangements with Multiple Deliverables

The Company occasionally enters into revenue arrangements that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. For multiple deliverable agreements, consideration is allocated at the inception of the agreement to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using VSOE of selling price or third-party evidence

of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, the Company uses its best estimate of the selling price for the deliverable.

The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect the Company s results of operations.

NIH and U.S. Treasury Grant Revenues

During 2010, the U.S. Treasury awarded the Company two one-time grants totaling approximately $397,300 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The grants cover reimbursement for qualifying expenses incurred by the Company in 2010 and 2009. The proceeds from these grants are classified in Revenues Grants in the 2010 statement of operations.

During 2010 and 2009, the NHLBI, a division of the NIH, awarded the Company two research grants totaling approximately $267,600. Revenues from the NIH grants are based upon internal and subcontractor costs incurred that are specifically covered by the grant, and where applicable, an additional facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors and as the Company incurs internal expenses that are related to the grant. Revenue recognized under these grants for the years ended December 31, 2011 and 2010 was approximately $56,900 and $131,100, respectively.

Allowance for Doubtful Accounts

When needed we maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is reviewed quarterly and is estimated based on the aging of account balances, collection history and known trends with current customers and in the economy in general. As a result of this review, the allowance is adjusted on a specific identification basis. An increase to the allowance for doubtful accounts results in a corresponding charge to sales, marketing and administrative expense. Historically our customer base is relatively concentrated and so we are subject to risk of concentration with any one particular customer. That risk is mitigated by the fact that payments from our collaborative agreements are typically prepaid, and our grant revenues are typically paid by units of the U.S. government. To-date we have fully collected all receivables. As a result our current and historic allowance is zero.

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When we begin to sell commercial product we expect to establish a reserve for estimated sales returns that are recorded as a reduction to revenue. That reserve will be maintained to account for future return of products sold in the current period. The reserve will be reviewed quarterly and will be estimated based on an analysis of our historical experience related to product returns.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks.

The Company reviews the terms of convertible debt and equity instruments it issues to determine whether there are embedded derivative instruments, including an embedded conversion option that is required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, the Company may issue freestanding warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

Derivative instruments are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the convertible debt or equity instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds allocated to the convertible host instruments are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the convertible instruments themselves, usually resulting in those instruments being recorded at a discount from their face value.

Fair Value Measurements

Financial assets and liabilities are measured at fair value, which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company used Level 3 inputs for its valuation methodology for the warrant derivative liabilities. The estimated fair values were determined using a Monte Carlo option pricing model based on various assumptions (see Note 4). The Company s derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to fair value of derivative liabilities.

Stock-Based Compensation

For purposes of calculating stock-based compensation, we estimate the fair value of stock options using a Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected volatility is based on the historical volatility of our common stock over the most recent period commensurate with the estimated expected term of the stock options. The expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options. The dividend yield assumption is based on our history and expectation of no dividend payouts. If factors change and we employ different assumptions, stock-based compensation

expense may differ significantly from what we have recorded in the past. If there is a difference between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, specifically with respect to anticipated forfeitures, we may change the input factors used in determining stock-based compensation costs for future grants. These changes, if any, may materially impact our results of operations in the period such changes are made.

Results of Operations

Overview

Organovo was founded in Delaware in April 2007. Activities since the Company s inception through 2010 were devoted primarily to developing a platform technology for the generation of three-dimensional (3D) human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs.

As of December 31, 2011, the Company had devoted substantially all of its efforts to product development, raising capital and building infrastructure. The Company did not, as of that date, realize significant revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

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Comparison of the twelve months ended December 31, 2011 and 2010

Revenues

2011 total revenues of $968,513 increased $365,101, or 61%, over 2010 revenues of $603,412. That increase was due to a $613,088 increase in collaborative agreement revenues, and a $223,500 increase in product revenues, partially offset by a $471,487 reduction in grant revenues. While grant revenues are expected to continue through 2012 they are expected to represent a declining portion of total revenues as the Company focuses efforts on collaborative agreements and continued development of research tools.

Cost of Goods Sold, Gross Profit and Gross Profit Margin

Cost of goods sold (COGS) consists of purchased goods, and inventory-related costs. The Company did not have product revenues in 2010 and consequently did not have COGS. 2011 COGS of $133,607 were approximately 60% of product related revenues and 14% of total revenues.

Operating Expenses

Overview

Operating expenses increased approximately $1,343,259, or 75%, in 2011 over 2010, from $1,781,630 in 2010 to $3,124,889 in 2011. Most significantly, the Company invested in building its executive, research, and development staff, increasing payroll related expenses by $736,239 or 102% over 2010, from $720,759 to $1,456,998. Payroll related expenses accounted for approximately 55% of total year-to-year increase in operating expenses. General corporate expenses grew from $131,362 in 2010 to $421,063 in 2011, an increase of $289,700, or 221%, representing 22% of total operating expense growth. 85% of that expense increase was the result of increased legal activity, primarily focused on intellectual property (patent) protection. In addition, the Company utilized the services of outside consultants and research services to meet short-term spikes in scientific and professional service demands. Outsourcing those services to meet short-term demands increased Company expenses by $261,213, from $540,458 in 2010 to $801,671 in 2011, accounting for 19% of the total operating expense increases. The Company did not engage an independent accounting firm in 2010 but did so in 2011 to audit the 2009 and 2010 financials. As a result overall operating expenses increased by $24,688 in 2011 over the prior year.

Research and Development Expenses

2011 research and development expenses increased by $216,002, or 18%, over 2010 expenses of $1,203,716 as the Company increased its research staff to accommodate its obligations under certain collaborative research agreements and to expand product development efforts in preparation for research-derived revenues. Full-time research and development staffing increased from four scientists and engineers at the 12 months ended December 31, 2010 to seven in in 2011. In addition, the Company outsourced certain research related activities in response to short-term demand spikes that increased expenses nearly $90,000 over prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses grew from $577,914 in 2010 to $1,705,171 in 2011, an increase of $1,127,257 or 195%. Most notably the Company invested in its general and administrative staff, building needed infrastructure to meet the needs of operating in a publicly traded environment. Salaries, fringes and payroll related expenses increased by approximately $686,000, or 61% of the total increase. Legal expenses increased $244,861from $114,099 in 2010 to $358,960 in 2011. 78% of the legal expense increases were related to our patent related legal activities as we work diligently to secure additional patent protection in select markets. In 2011 we secured a short-term lease on office space near our main facility to accommodate our staff increases and need for additional meeting space. Rent expense grew from $107,481 in 2010 to $145, 218 for the year ended December 31, 2011, an increase of approximately $38,000. During 2011 we engaged an independent accounting firm to audit our 2009 and 2010 financial statements, adding approximately $25,000 in administrative expense that was not incurred in the prior year.

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Interest Expense

Interest expense increased by $1,906,016 from $160,873 in 2010 to $2,066,889 in 2011. The 2011 interest expense was primarily related to non-cash components including:

1) Accretion of debt discounts to interest expense of approximately $1.2 million

2) Amortization of deferred financing costs of approximately $119,500

3) Fair value of warrants issued in connection with the exchange agreement of approximately $527.6K

In the fourth quarter of 2011, the Company exchanged all outstanding convertible promissory notes for common stock equity, except for one $100,000 note, the principal and accrued but unpaid interest thereon to be paid at the close of a qualified equity financing. Following the exchange of earlier notes for equity, the Company completed a Bridge Financing, in which it sold $1,500,000 in principal amount of 6% promissory notes due March 31, 2012. Those notes will automatically convert to equity, including accrued but unpaid interest, upon the first close of a qualified equity financing.

Financial Condition, Liquidity and Capital Resources

Since its inception, the Company has primarily devoted its efforts to research and development, business planning, raising capital, recruiting management and technical staff, and acquiring operating assets. Accordingly, the Company is considered to be in the development stage.

Since inception, the Company incurred negative cash flows from operations. As of December 31, 2010, the Company had cash and cash equivalents of $285,308 and an accumulated deficit of $2,308,294. The Company also had negative cash flow from operations of $820,096 during the year ended December 31, 2010. At December 31, 2011, the Company had cash of $339,607 and an accumulated deficit of $6,691,556.

At December 31, 2011 we had total current assets of $1,030,205 and current liabilities of $1,975,748, resulting in a working capital deficit of $945,543. At December 31, 2010, we had total current assets of $424,116 and current liabilities of $1,173,258, resulting in a working capital deficit of $749,142.

Net cash used by operating activities for the year ended December 31, 2011 was $1,914,358. The Company raised $2,542,000 in gross proceeds from the issuance of convertible notes payable, and $968,513 in revenue during the year.

Net cash used by operating activities for the year ended December 31, 2010 was $820,096. In the year ended December 31, 2010, the Company raised $992,500 in cash from the sale of convertible notes, $25,000 in cash in exchange for a note from a related party, and $603,412 in cash receipts, collaborative research agreements, and government grants.

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The Company has financed its operations primarily through the sale of convertible notes, and through revenue derived from grants or collaborative research agreements. The Company expects to cover its anticipated operating expenses through cash on hand, through additional financing from existing and prospective investors, and from revenue derived from collaborative research agreements.

The Company will need additional capital to further fund product development and commercialization of its human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs.

Subsequent to December 31, 2011, during February and March 2012, the Company received gross proceeds of $15,247,987 from the private placement of equity securities. On February 8, February 29, and March 16, 2012, the Company completed the first, second and final closings, respectively, of the private placement offering. In these three closings, the Company issued 6,525,887 Units, 1,806,100 Units, and 6,916,000 units, respectively, to accredited investors at a price of $1.00 per Unit, including the conversion of $1,500,000 of principal and $25,379 of accrued interest under certain bridge promissory notes issued in 2011. The first closing was conducted simultaneously with the completion of the Company s merger (the Merger) with Organovo, Inc. Each Unit consisted of one share of common stock of the Company, $0.001 par value per share and a 5 year warrant to purchase one share of Common Stock at $1.00 per share. Total net proceeds were $11,593,065 (or $12,811,897, including the conversion of the bridge promissory notes referred to above). The Company issued 15,247,987 shares and 16,747,987 warrants (including 1,500,000 warrants to former holders of the bridge promissory notes). The Placement Agent and its selected dealers were paid total cash commissions of $1,372,260 and the Placement Agent was paid an expense allowance of $411,678 and was issued Placement Agent Warrants to purchase 6,099,195 shares of Common Stock at an exercise price of $1.00 per share (including 610,155 warrants issued in connection with issuance of the bridge promissory notes and subsequently exchanged for new warrants in the Merger). In addition, the Company generated approximately $270,000 in revenue in January, 2012.

On February 8, 2012, Organovo Acquisition Corp. (Acquisition Corp.), a wholly-owned subsidiary of Pubco, merged (the Merger) with and into Organovo, Inc., a Delaware corporation (Organovo). Organovo was the surviving corporation of that Merger. As a result of the Merger, Pubco acquired the business of Organovo, and will continue the existing business operations of Organovo as a wholly-owned subsidiary.

Simultaneously with the Merger, on the Closing Date, all of the issued and outstanding shares of Organovo common stock converted, on a 1 for 1 basis, into shares of the Company s common stock, par value $0.001 per share (Common Stock). Also on the Closing Date, all of the issued and outstanding options to purchase shares of Organovo common stock, all of the issued and outstanding Bridge Warrants (as defined below) to purchase shares of Organovo Common Stock, and other outstanding warrants to purchase Organovo Common Stock converted, respectively, into options (the New Options), new bridge warrants (the New Bridge Warrants) and new warrants (the New Warrants) to purchase shares of Common Stock. The New Bridge Warrants, the New Warrants and New Bridge Options were converted on a 1 for 1 basis. The New Options will be administered under Organovo s 2008 Equity Incentive Plan (the 2008 Plan), which the Company assumed and adopted on the Closing Date in connection with the Merger.

Specifically, on the Closing Date, (i) 22,445,254 shares of Common Stock were issued to former Organovo stockholders; (ii) New Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan were issued to optionees pursuant to the assumption of the 2008 Plan; (iii) New Warrants to purchase 1,309,750 shares of Common Stock at $1.00 per share were issued to holders of Organovo warrants; and (iv) New Bridge Warrants to purchase 1,500,000 shares of Common Stock at $1.00 per share were issued to Bridge Investors (as defined below).

Additionally, New Warrants to purchase 100,000 shares of Common Stock at $1.00 per share were issued to a former noteholder of Organovo in connection with the repayment at the Closing Date of a promissory note in the principal amount of $100,000.

As of March 16, 2012, the Company had 43,693,241 total issued and outstanding shares of Common Stock, and five year warrants for the opportunity to purchase an additional 24,256,932 shares of Common Stock at $1.00 per share. If all warrants were exercised on a cash basis, the Company would realize an additional $24,256,932 in gross proceeds.

The Merger will be treated as a recapitalization of the Company for financial accounting purposes. The historical financial statements of Pubco before the Merger will be replaced with the historical financial statements of Organovo before the Merger in all future filings with the SEC.

Before the Merger, Pubco s board of directors and stockholders adopted the 2012 Equity Incentive Plan (the 2012 Plan). The 2012 Plan provides for the issuance of up to 6,553,986 shares, or approximately 15% of our outstanding Common Stock, to executive officers, directors, advisory board members and employees. In addition, we assumed and adopted the 2008 Plan, and as described above option holders under that plan were granted New Options to purchase Common Stock. No further options will be granted under the 2008 Plan. The parties have taken all actions necessary to ensure that the Merger is treated as a tax free exchange under Section 368(a) of the Internal Revenue Code of 1986, as amended. In aggregate issued and outstanding common stock, shares underlying outstanding warrants, and shares reserved for the 2012 incentive plan total

74,504,159 shares of common stock.

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DESCRIPTION OF PROPERTY

We lease office and laboratory space in two locations in San Diego. Our primary office, including administrative and laboratory space, is located at the Oberlin Science Center, 5871 Oberlin Drive, San Diego, CA 92121. We also lease additional office space at 5897 Oberlin Drive, San Diego, CA 92121. Our current monthly base rent for our primary facility is $11,486 and our currently monthly base rent for our additional office space is $1,112. These two leased premises are sufficient to meet the immediate needs of our business, research and operations, however we expect to increase our business space within the next twelve months to accommodate additional resources required to further develop our business and technology platform. Subsequent to December 31, 2011, we entered into a lease agreement with our current landlord on a facility currently undergoing renovation, which we expect to occupy in July or August 2012. The new facility will house all of our operations under one roof, replacing the two facilities we now rent at a new base rate of $38,848. The new facility provides approximately three times our existing space and is expected to meet our business, research and operational needs for at least two years. The new facility will be delivered turnkey , thereby minimizing our need to utilize capital to fund tenant improvements to the laboratory or office spaces.

SECURITY OWNERSHIP OF CERTAIN STOCKHOLDERS AND MANAGEMENT

The following tables set forth certain information regarding the beneficial ownership of our Common Stock as of March 16, 2012 by (i) each person who, to our knowledge, owns more than 5% of the Common Stock; (ii) each of our directors and executive officers; and (iii) all of our executive officers and directors as a group. Unless otherwise indicated in the footnotes to the following tables, each person named in the table has sole voting and investment power and that person s address is c/o Organovo Holdings, Inc., 5871

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Oberlin Drive, Suite 150, San Diego, CA 92121. Shares of Common Stock subject to options or warrants currently exercisable or exercisable within 60 days of March 16, 2012 are deemed outstanding for computing the share ownership and percentage of the person holding such options and warrants, but are not deemed outstanding for computing the percentage of any other person. Applicable percentages are based on 43,693,241 shares of common stock outstanding as of March 16, 2012.

Title of class	Name and address of Beneficial Owner	No. Shares of Common Stock Beneficially Owned	Percent of Common Stock Outstanding
Common Stock, par value - $0.001 per share	Keith Murphy (1)	6,311,092 (2)	14.4%
Common Stock, par value $0.001 per share	Gabor Forgacs	6,057,741 (3)	13.9%
Common Stock, par value $0.001 per share	Andras Forgacs (1)	766,588	1.8%
Common Stock, par value $0.001 per share	Robert Baltera, Jr. (1)	126,392 (4)	0.3%
Common Stock, par value $0.001 per share	Barry D. Michaels (1)	20,000 (8)	<0.1%
Common Stock, par value $0.001 per share	Sharon Collins Presnell (1)	224,064 (9)	0.5%
Common Stock, par value $0.001 per share	Adam K. Stern (1)(5) c/o Spencer Trask Ventures 750 Third Avenue New York, NY 10017	1,763,354	4.0%
Common Stock, par value $0.001 per share	Kevin Kimberlin (6) 1700 East Putnam Avenue Suite 401 Greenwich, CT 06870	3,212,824	7.0%

All directors and executive officers as a group (6 persons)	9,211,490 (7)	20.8%

(1) Executive officer and/or director.
(2) 255,255 of these shares are held by Equity Trust Co., Custodian FBO Keith Murphy IRA. Includes warrants to purchase 30,000 shares of Common Stock at an exercise price of $1.00 per share.
(3) Includes warrants to purchase 3,750 shares of Common Stock at an exercise price of $1.00 per share.

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(4) 18,114 of these shares vested in or before October, 2011. Includes warrants to purchase 28,000 shares of Common Stock at an exercise price of $1.00 per share.

(5) Represents (i) 584,284 shares owned by Adam Stern, (ii) 360,000 shares underlying warrants owned by Adam Stern; (iii) 476,611 shares owned by ST Neuroscience Partners, LLC; (i v) 211,827 shares owned by Pavilion Capital Partners, LLC; and (v) 132,392 shares owned by Piper Venture Partners, LLC. Does not include shares underlying warrants held by the Placement Agent or its affiliates issued in connection with the Bridge Financing or the Offering.

(6) Represents (i) 1,082,489 shares held by Spencer Trask Investment Partners, LLP and (ii) 2,130,335 shares underlying warrants owned by the Placement Agent issued in connection with the Bridge Financing or the Offering.

(7) Includes warrants to purchase 428,000 shares of Common Stock at an exercise price of $1.00 per share. Does not include shares underlying warrants issued to the Placement Agent in connection with the Bridge Financing or the Offering.

(8) Includes warrants to purchase 10,000 shares of Common Stock at an exercise price of $1.00 per share.

(9) Stock option shares that will vest within 60 days of March 16, 2012. 672,192 additional shares are subject to future vesting. 224,064 shares will vest on the first, second, third, and fourth anniversary of Dr. Presnell s hire, May 4, 2011.

Changes in Control

We are not aware of any or a party to arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change of control.

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DIRECTORS AND EXECUTIVE OFFICERS

The following persons are our executive officers, non-executive officers and directors and hold the positions set forth opposite their name as of March 16, 2012.

Name	Age	Position(s)
Keith Murphy	40	Chairman of the Board, Chief Executive Officer, and President
Sharon Collins Presnell	43	Executive Vice President of Research and Development
Barry D. Michaels	62	Chief Financial Officer
Robert Baltera, Jr.	46	Director
Andras Forgacs	35	Director
Adam K. Stern	47	Director

Keith Murphy, Chairman of the Board, Chief Executive Officer, and President, is one of our founders and joined us in July 2007. Mr. Murphy was formerly an employee of biotechnology company Alkermes, Inc., where he worked from July, 1993 to July, 1997 and played a role on the development team for their first approved product, Nutropin (hGH) Depot. He moved to Amgen, Inc. in August, 1997 and developed several other novel formulation and device products. He has over 18 years of experience in biotechnology, including serving in Product Strategy and Director of Process Development roles at Amgen through July, 2007. He was previously Global Operations Leader for the largest development program in Amgen s history, osteoporosis/bone cancer drug Prolia/Xgeva (denosumab). He holds a BS in Chemical Engineering from MIT, and is an alumnus of the UCLA Anderson School of Management.

Mr. Murphy s previous experience in the biotechnology field and his educational experience qualify him to be a member of our Board of Directors.

Dr. Sharon Collins Presnell , **Executive Vice President of Research and Development,** joined us in May, 2011. Dr. Presnell has over 15 years of experience in the leadership of product-focused R&D. As an Assistant Professor at the University of North Carolina from 1998 to 2001 Dr. Presnell s research in liver and prostate biology and carcinogenesis produced cell- and tissue-based technologies that were outlicensed for industrial applications. She joined Becton Dickinson & Co. (BD) in July, 2001 and played a key role in the early discovery and development of BD s Discovery Platform and FACS CAP tools for the optimization of *in vitro* culture environments and flow cytometry-based characterization of cells. In her role at BD, she grew and led a large multi-disciplinary team to establish feasibility for the Discovery Platform and FACS CAP in multiple therapeutic areas, including diabetes, and stewarded both technologies through revenue-generating commercial partnerships.
Dr. Presnell joined Tengion, Inc. in February, 2007 as the Senior Vice President of Regenerative Medicine Research, a position that she held until joining us in May 2011. At Tengion, Dr. Presnell was directly involved in the discovery and early development of Tengion s Neo-Kidney Augment technology. Dr. Presnell holds a Ph.D. in Pathology from the Medical College of Virginia.

Barry D. Michaels, Chief Financial Officer, joined us in August, 2011. Mr. Michaels was the Chief Financial Officer of Cardima, Inc., a publicly-traded medical device company (NASDAQ: CRDM), from July, 2003 through June, 2005, and thereafter a consultant to the company through January, 2008. Mr. Michaels has been an independent consultant to medical device and technology companies since 1997, and has more than 30 years of combined industry experience. Since January, 2008 and prior to joining us, Mr. Michaels s devoted his time to his consulting practice. In addition to his consulting practice, Mr. Michaels served as Chief Financial Officer of Lipid Sciences (NASDAQ: LIPD), a biotechnology company, from May, 2001 through January, 2003. Prior to joining Lipid Sciences, Mr. Michaels served as the Chief Financial Officer of IntraTherapeutics, Inc., an endovascular company, from March, 2000 until its acquisition by Sulzer Medica in May, 2001. Mr. Michaels received an MBA in finance from San Diego State University and is a graduate of the Executive Program at the University of California, Los Angeles.

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Robert Baltera, Jr., Director, joined us as a director in October, 2009. Most recently, Mr. Baltera was the Chief Executive Officer of Amira Pharmaceuticals, a position he held from July, 2007 through September, 2011. Amira was sold to Bristol-Myers Squibb in September, 2011 for $325 million in cash upfront, plus additional milestone payments of up to $150 million. Mr. Baltera is a seasoned pharmaceutical industry executive who has acquired a wealth of business and product management experience during his 17 years with biotech pioneer Amgen, beginning November, 1990. In his role leading Amira Pharmaceuticals, he was instrumental in focusing the company s development efforts, strengthening and developing its pipeline and forging key collaborations with partners such as GlaxoSmithKline. Before becoming Amira s CEO, he held a number of senior management positions at Amgen, the last being vice president of corporate and contract manufacturing. He served as Amgen s team leader responsible for the approval of Kineret in rheumatoid arthritis. Mr. Baltera has an MBA from the Anderson School at UCLA and earned his bachelor s degree in microbiology and a master s degree in genetics from The Pennsylvania State University.

Mr. Baltera s previous experience in the biotechnology field and his educational experience qualify him to be a member of our Board of Directors.

Andras Forgacs , **Director,** is one of our founders and joined us as a director in April, 2007. Mr. Forgacs has served as a Managing Director at Richmond Global, an international technology-focused venture fund, since July, 2008. In his role at Richmond, Mr. Forgacs focuses on the day-to-day management of the fund and the sourcing of new investment opportunities. Prior to joining Richmond, beginning in November, 2005, he was a consultant in the New York office of McKinsey & Company advising global financial institutions, healthcare/pharmaceutical companies and private equity/venture capital firms. Mr. Forgacs began his career with Citigroup as an investment banker in the Financial Strategy Group in July, 1999, and helped found the client-facing E-commerce Group. Mr. Forgacs is a Kauffman Fellow with the Center for Venture Education and a Term Member with the Council on Foreign Relations. He holds an MBA from the Wharton School of Business and a Bachelor of Arts with honors from Harvard University. Mr. Forgacs is the son of Gabor Forgacs,Ph.D.,who developed Organovo s breakthrough organ printing technology while leading a team of top regenerative medicine scientists from multiple universities, with the backing of a $5MM National Science Foundation Grant. Dr. Forgacs was one of the founders of the Company.

Mr. Forgacs previous experience with start-up companies in the equity/venture capital field and his educational experience qualify him to be a member of our Board of Directors.

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Adam K. Stern , **Director,** Senior Managing Director of Spencer Trask Ventures, has over 20 years of venture capital and investment banking experience focusing primarily on the technology and life science sectors of the capital markets. He currently manages the structured finance group of Spencer Trask Ventures, Inc. Mr. Stern joined Spencer Trask Ventures in September 1997 from Josephthal & Co., members of the New York Stock Exchange, where he served as Senior Vice President and Managing Director of Private Equity Marketing and held increasingly responsible positions from 1989 to 1997. He has been a licensed securities broker since 1987 and a General Securities Principal since 1991. Mr. Stern currently sits on the boards of various private companies and one public company, InVivo Therapeutics Holdings Corp. (OTCBB:NVIV). Mr. Stern holds a Bachelor of Arts degree with honors from The University of South Florida in Tampa.

Mr. Stern s experience as a board member of privately held and publicly traded companies qualifies him to be a member of our Board of Directors. Additionally, his 20 years of venture capital and investment banking focusing on technology and life science sectors will be an asset to the Board of the Directors if we attempt to raise capital in the future.

Family Relationships

Andras Forgacs is the son of Gabor Forgacs, who developed Organovo s breakthrough organ printing technology while leading a team of top regenerative medicine scientists from multiple universities, with the backing of a $5MM National Science Foundation Grant. Dr. Forgacs was one of the founders of the Company.

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Board of Directors and Corporate Governance

Our Board of Directors currently consists of four (4) members. On the Closing of the Merger, Deborah Lovig and James Coker, the members of the Board of Directors of Pubco, resigned, and simultaneously therewith, a new Board of Directors was appointed. Our Board consists of three (3) members who were former directors of Organovo and Adam K. Stern, who was appointed at the Closing of the Merger at the request of the Placement Agent.

Board Independence and Committees

We are not currently listed on any national securities exchange or in an inter-dealer quotation system that has a requirement that the Board of Directors be independent. However, in evaluating the independence of our members and the composition of the committees of our Board of Directors, our Board utilizes the definition of independence as that term is defined by applicable listing standards of the Nasdaq Stock Market and SEC rules, including the rules relating to the independence standards of an audit committee and the non-employee director definition of Rule 16b-3 promulgated under the Exchange Act.

Our Board of Directors expects to continue to evaluate its independence standards and whether and to what extent the composition of the Board and its committees meets those standards. We ultimately intend to appoint such persons to our Board and committees of our Board as are expected to be required to meet the corporate governance requirements imposed by a national securities exchange. Therefore, we intend that a majority of our directors will be independent directors of which at least one director will qualify as an audit committee financial expert, within the meaning of Item 407(d)(5) of Regulation S-K, as promulgated by the SEC.

Additionally, our Board of Directors is expected to appoint an audit committee, governance committee and compensation committee and to adopt charters relative to each such committee.

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We believe that Robert Baltera is an independent director as that term is defined by SEC rules, including the rules relating to the independence standards of an audit committee and the non-employee director definition of Rule 16b-3 promulgated under the Exchange Act.

Code of Ethics

We have not adopted a written code of ethics. We intend to adopt a written code of ethics in the future.

Indemnification Agreements

Our Board has approved a form of indemnification agreement for our directors and executive officers (**Indemnification Agreement**). Following Board approval, we entered into Indemnification Agreements with each of our current directors and executive officers.

The Indemnification Agreement provides for indemnification against expenses, judgments, fines and penalties actually and reasonably incurred by an indemnitee in connection with threatened, pending or completed actions, suits or other proceedings, subject to certain limitations. The Indemnification Agreement also provides for the advancement of expenses in connection with a proceeding prior to a final, nonappealable judgment or other adjudication, provided that the indemnitee provides an undertaking to repay to us any amounts advanced if the indemnitee is ultimately found not to be entitled to indemnification by us. The Indemnification Agreement sets forth procedures for making and responding to a request for indemnification or advancement of expenses, as well as dispute resolution procedures that will apply to any dispute between us and an indemnitee arising under the Indemnification Agreement.

The foregoing description is qualified in its entirety by reference to the form of Indemnification Agreement attached to this Report as Exhibit 10.17.

Classified Board

Our Board of Directors is divided into three classes (each, a **Class**). The term of office of the initial Class I director (Mr. Murphy) shall expire at the first regularly-scheduled annual meeting of the stockholders following January 30, 2012, which was the date of our reincorporation in Delaware (the **Effective Date**), the term of office of the initial Class II directors (Messrs. Forgacs and Stern) shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III director (Mr. Baltera) shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first regularly-scheduled annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term expires at such annual meeting shall be elected to hold office for a three year term.

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Scientific And Business Advisory Boards

Gabor Forgacs, Scientific Founder PhD University of Missouri and Clarkson University

Dr, Forgacs, is one of our founders. Dr. Forgacs is the Executive and Scientific Director of the Shipley Center for Innovation at Clarkson University and the George H. Vineyard Professor of Biological Physics at the University of Missouri. Dr. Forgacs has been with the University of Missouri since 1999 and has been with Clarkson University since 2011. He developed Organovo s breakthrough bioprinting technology while leading a team of regenerative medicine scientists from multiple universities, with the backing of a $5 million National Science Foundation Grant. Dr. Forgacs is the author of more than 150 peer reviewed journal articles and the textbook Biological Physics of the Developing Embryo, (with Stuart Newman), published by Cambridge University Press. He holds a Ph.D. in theoretical physics from the Roland Eotvos University, Budapest, Hungary. He moved to the United States in the 1980 s from the Institute of Physics of the French Atomic Energy Agency in Saclay to accept a professorship at Clarkson University. Dr. Forgacs is the father of Andras Forgacs.

Gordana Vunjak-Novakovic, PhD - Columbia

Dr. Vunjak-Novakovic is the Mikati Foundation Professor of Biomedical Engineering and Medicine at Columbia University, where she directs the Laboratory for Stem Cells and Tissue Engineering, the Bioreactor Core of the NIH Tissue Engineering Center, the Stem Cell Imaging Core and the Craniofacial Regeneration Center. Prof. Vunjak-Novakovic has authored books as well as numerous book chapters, journal articles and issued, licensed and pending patents in the biomedical field. She is a Fellow of the American Institute for Medical and Biological Engineering.

Glenn Prestwich, PhD University of Utah

Dr. Glenn D. Prestwich is Presidential Professor of Medicinal Chemistry and Special Presidential Assistant for Faculty Entrepreneurism at the University of Utah, where he leads the Entrepreneurial Faculty Scholars program. His university research includes the study of biomaterials for tissue repair and tissue engineering and biological reagents. He co-founded multiple companies, including Carbylan BioSurgery, Inc. (medical devices), Sentrx Animal Care, Inc. (veterinary wound care), and Glycosan BioSystems, Inc. (cell therapy and research tools). He received the Governor s Medal for Science and Technology for 2006, the 1998 Paul Dawson Biotechnology Award and the 2008 Volwiler Research Award of the AACP, the 2010 University of Utah Distinguished Scholarly and Creative Research Award, and the 2010 Rooster Prize of the International Society for Hyaluronan Science.

David Mooney, PhD Harvard University

Prof. David Mooney is a scientific author and a leader in the research of signaling mechanisms of tissue development. He studies the mechanisms by which chemical (for example, specific cell adhesion molecules) or mechanical signals (for example, cyclic strain) are sensed by cells and alter cells proliferation and specialization to either promote tissue growth or destruction.x This work assists in the understanding of cell behavior post-processing by the organ printing technology. Dr. Mooney is the Pinkas Family Professor of Bioengineering at Harvard University, a member of the National Academy of Engineering, and holds a PhD from the Massachusetts Institute of Technology.

Dr. K. Craig Kent, MD Columbia University/Weill Cornell Medical College

Dr. K. Craig Kent is the Chairman of the Department of Surgery at the University of Wisconsin School of Medicine and Public Health and previously served as Chief of the Division of Vascular Surgery at both Columbia University and Weill Cornell Medical College. Dr. Kent has authored or co-authored more than 300 manuscripts and chapters that have been published in peer-reviewed journals and textbooks on vascular disease. He is regularly invited to speak at local, national and international scientific meetings on a wide variety of vascular surgery topics. His National Institutes of Health (NIH)-funded basic science lab explores the mechanisms of failure for bypass grafts and angioplasty following vascular intervention. Dr. Kent served as the 2006-2007 president of the Society for Vascular Surgery. Dr. Kent was trained in general surgery at the University of California at San Francisco and completed his vascular surgery fellowship at Brigham and Women s Hospital-Harvard Medical School, where he was awarded the prestigious annual E.J. Wylie Traveling Fellowship.

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In March, 2008, we entered into consulting agreements with Dr. Glenn Prestwich, Prof. David Mooney, and Dr. K. Craig Kent, all of whom are members of our Scientific Advisory Board. In April, 2008, we entered into a consulting agreement with Prof. Gordana Vunjak-Novakovic, the fourth member of our Scientific Advisory Board. Per these agreements, we made restricted stock grants of 235,483 shares of our Common Stock to Dr. Prestwich and Prof. Vunjak-Novakovic and 117,741 shares of our Common Stock to Prof. Mooney and Dr. Kent. These grants vest in four annual equal installments with the first installment vesting on the one year anniversary of the member s appointment to our Scientific Advisory Board. In addition, we agreed to pay Prof. Mooney $14,000 per year and Dr. Kent $7,000 per year. Each of the consulting agreements has a four year term which may be terminated by either us or the Scientific Advisory Board member on thirty days notice.

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EXECUTIVE COMPENSATION

The following table sets forth information regarding each element of compensation that we paid or awarded to our named executive officers and for fiscal year ended December 31, 2011 and 2010.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Deferred Compensation ($)	All Other Compensation ($)	Total Compensation ($)
Keith Murphy Chairman, Chief Executive Officer, and President	2011	$ 217,711 [1,2]						[3]	$ 217,711
	2010	$ 46,538					$ 63,462 [4]	[5]	$ 110,000
Barry D. Michaels Chief Financial Officer	2011	$ 74,315						[6]	$ 74,315
Sharon Presnell Executive Vice-President of Research and Development	2011	$ 157,385						[7]	$ 157,385

Employment Arrangements with Officers and Directors

Keith Murphy, one of our founders, has served as our President and Chief Executive Office since July, 2007. The terms of Mr. Murphy s employment agreement, dated February 28, 2012, call for him to receive a base salary of $302,500 per year. The term of the employment agreement expires after one year from the effective date, and automatically renews thereafter, unless we provide Mr. Murphy advanced notice of nonrenewal. Mr. Murphy is also eligible to participate in our Annual Bonus Plan and other short-term incentive compensation plans established for our senior executives by our Board of Directors or the compensation committee. Mr. Murphy is also entitled to participate in our equity incentive awards plans.

Sharon Presnell became our Executive Vice President of Research and Development in May, 2011. The terms of Dr. Presnell s employment arrangement call for her to receive a base salary of $248,014 per year. Dr. Presnell is also eligible to receive an annual bonus, which is targeted at 30% of her base salary but which may be adjusted based on her individual performance and our performance as a whole. In addition, on October 14, 2011 we issued to Dr. Presnell options to purchase 896,256 shares of Common Stock under the 2008 Plan, which will vest in equal installments over four years from May 2011. If we terminate Dr. Presnell s employment without cause, we are required to pay her a severance of up to six months of her base salary (in effect immediately prior to the date of the termination of her employment) plus benefits.

1 Effective August 16, 2011 Mr. Murphy s annual base salary was increased to $220,000.
2 Mr. Murphy was paid an annual salary of $110,000 beginning March, 2009.
3 Excludes payments made for the reimbursement of medical insurance premiums and a personal computer used primarily for business in the aggregate of less than $10,000.
4 Base salary earned, but payment deferred to future periods.
5 Excludes payments made for the reimbursement of medical insurance premiums.
6 Excludes payments made for the reimbursement of medical insurance premiums in the aggregate of less than $10,000.
7 Excludes payments made for the reimbursement of medical insurance premiums in the aggregate of less than $10,000. Also excludes $24,681 in reimbursed relocation expenses that qualify under IRS guidelines as excludable from income.

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Barry Michaels became our Chief Financial Officer in August, 2011. The terms of Mr. Michaels employment arrangement call for him to receive a base salary of $230,022 per year. Mr. Michaels is also eligible to receive a bonus based on our and his attainment of certain goals and performance milestones. In addition, at the final closing of the Offering following the Closing Date of the Merger we intend to grant Mr. Michaels options to purchase up to 2% of our issued and outstanding Common Stock under the 2011 Plan, which will vest in equal installments over four years from August 2011. If we terminate Mr. Michaels employment without cause we are required to pay Mr. Michaels a severance of up to six months of his base salary (in effect immediately prior to the date of the termination of his employment) plus benefits.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes the equity awards made to our named executive officers that were outstanding at December 31, 2011.

Name	No. of Securities Underlying Unexercised Options (#) Exercisable	No. of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date	Number of shares or Units of stock that have not vested(#)	Market Value of shares or Units of stock that have not vested($)
Keith Murphy (1)					367,947	$ 57,422
Sharon Presnell (2)		896,256	$ 0.08	5/2021		
Barry Michaels						

(1) These shares vest in February 2012

(2) The options were granted on October 14, 2011, and vest in equal installments over four years from May 2011.

2012 Equity Incentive Plan

Our Board of Directors and stockholders adopted the 2012 Plan in January 2012. 6,553,986 shares of Common Stock are reserved for issuance under the 2012 Plan. If an incentive award granted under the 2012 Plan expires, terminates, is unexercised or is forfeited, or if any shares are surrendered to us in connection with an incentive award, the shares subject to such award and the surrendered shares will become available for further awards under the 2012 Plan. Additionally, shares used to pay the tax or exercise price of an award will become available for future grant or sale under the 2012 Plan. To the extent an award under the 2012 Plan is paid out in cash rather than shares, the cash payment will not result in reducing the number of shares available for issuance under the 2012 Plan. The maximum number of shares subject to awards that may be granted to any individual during any calendar year is 2,000,000 and the maximum aggregate amount of cash that may be paid in cash during any calendar year with respect to awards payable in cash is $2,000,000.

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The number and class of shares of our Common Stock subject to the 2012 Plan, the number and class of shares subject to any numerical limit in the 2012 Plan, and the number, price and class of shares subject to awards will be adjusted in the event of any change in our outstanding Common Stock by reason of any stock dividend, spin-off, split-up, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares or similar transaction.

Administration

It is expected that the compensation committee of the Board, or the Board in the absence of such a committee, will administer the 2012 Plan. Subject to the terms of the 2012 Plan, the compensation committee would have complete authority and discretion to determine the terms of awards under the 2012 Plan.

Grants

The 2012 Plan authorizes the grant to 2012 Plan participants of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, and other stock or cash awards intended to comply with Section 162(m) of the Internal Revenue Code (as amended, the **Code**) and stock appreciation rights, as described below:

Stock Options. Stock options entitle the participant, upon exercise, to purchase a specified number of shares of common stock at a specified price for a specified period of time. The Administrator may grant incentive and/or non-statutory stock options under the 2012 Plan. The exercise price for each stock option shall be determined by the Administrator but shall not be less than 100% of the fair market value of the common stock on the date of grant. The fair market value means, if the stock is listed on any established stock exchange or national market system, the closing sales price of the stock, or, if the common stock is regularly quoted by a recognized securities dealer, but the selling prices are not reported, the mean between the high bid and low asked prices for the common stock on the day of determination, or in the absence of an established market for the stock, or if the stock is not regularly quoted or does not have sufficient trades or bid prices which would reflect the stock s actual fair market value, the fair market value of the common stock will be determined in good faith by the Administrator upon the advice of a qualified valuation expert.

Any stock options granted in the form of an incentive stock option will be intended to comply with the requirements of Section 422 of the Code. Only options granted to employees qualify for incentive stock option treatment.

Each stock option shall expire at such time as the Administrator shall determine at the time of grant. No stock option shall be exercisable later than the tenth anniversary of its grant. A stock option may be exercised in whole or in installments. A stock option may not be exercisable for a fraction of a share. Shares of common stock purchased upon the exercise of a stock option must be paid for in full at the time of exercise in cash or such other consideration determined by the Administrator.

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Stock Appreciation Rights. A stock appreciation right (**SAR**) is the right to receive a payment equal to the excess of the fair market value of a specified number of shares of common stock on the date the SAR is exercised over the exercise price of the SAR. The exercise price for each SAR shall not be less than 100% of the fair market value of the common stock on the date of grant, and the term of an SAR shall be no more than ten years from the date of grant. At the discretion of the Administrator, the payment upon an SAR exercise may be in cash, in shares equivalent thereof, or in some combination thereof.

Upon exercise of an SAR, the participant shall be entitled to receive payment from Pubco in an amount determined by multiplying the excess of the fair market value of a share of common stock on the date of exercise over the exercise price of the SAR by the number of shares with respect to which the SAR is exercised.

Restricted Stock and Restricted Stock Units. Restricted stock and restricted stock units may be awarded or sold to participants under such terms and conditions as shall be established by the Administrator. Restricted stock and restricted stock units shall be subject to such restrictions as the Administrator determines, including a prohibition against sale, assignment, transfer, pledge or hypothecation, and a requirement that the participant forfeit such shares or units in the event of termination of employment. A restricted stock unit provides a participant the right to receive payment at a future date after the lapse of restrictions or achievement of performance criteria or other conditions determined by the Administrator.

Performance Stock. The Administrator shall designate the participants to whom long-term performance stock/units are to be awarded and determine the number of shares, the length of the performance period and the other vesting terms and conditions of each such award. Each award of performance stock/units shall entitle the participant to a payment in the form of shares/units of common stock upon the attainment of performance goals and other vesting terms and conditions specified by the Administrator. The Administrator may, in its discretion, make a cash payment equal to the fair market value of shares of common stock otherwise required to be issued to a participant pursuant to a Performance Stock Award.

All awards made under the 2012 Plan may be subject to vesting and other contingencies as determined by the Administrator and will be evidenced by agreements approved by the Administrator which set forth the terms and conditions of each award.

Duration, Amendment, and Termination

Unless sooner terminated by the Board, the 2012 Plan will terminate ten years after its adoption. The Board may amend, alter, suspend or terminate the 2012 Plan at any time or from time to time without stockholder approval or ratification, unless necessary and desirable to comply with applicable law. However, before an amendment may be made that would adversely affect a participant who has already been granted an award, the participant s consent must be obtained.

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2011 Director Compensation

The following table sets forth compensation earned and paid to each non-employee director for service as a director during 2011.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Robert Baltera, Jr. (1)		$2,898			$2,898
Andras Forgacs (2)					
Gabor Forgacs (3)					

(1) In October, 2009 we entered into a Memorandum of Understanding with Robert Baltera, Jr. in connection with his ongoing service as one of our directors. Pursuant to this arrangement we granted Mr. Baltera 36,228 shares of restricted Common Stock, which vest in four equal annual installments, commencing one year from the date of grant, provided Mr. Baltera remains a director on the applicable vesting date. In October 2011 we additionally granted Mr. Baltera 32,423 shares of restricted Common Stock, one quarter of which vested that month and the remainder of which will vest in three equal annual installments. Our arrangement with Mr. Baltera is terminable at will by either party.

(2) In February, 2008 we issued 60,365 shares of restricted Common Stock to Andras Forgacs as compensation for his services as a director. These shares vested to the extent of 25% of the original grant on the first anniversary of the grant date, and thereafter at the rate of 6.25% of the original grant on a quarterly basis, provided that Mr. Forgacs remains a director on the applicable vesting date.

(3) Gabor Forgacs resigned as a director effective February 8, 2012.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with Pubco Shareholders

Forward Split, Split-Off and Share Cancellation

RERR s common stock was forward-split on a 10.5913504 for 1 basis, with a record date of January 23, 2012 and an effective date of January 31, 2012. As a result of this stock split and the Reincorporation Merger, there were approximately 6,000,000 shares of the Pubco s common stock issued and outstanding before taking into account the issuance of shares of Common Stock to purchasers of Units in the Offering and in the Merger and after giving pro forma effect to the Split-Off, as discussed below.

Upon the closing of the Merger, Pubco transferred all of its operating assets and liabilities to PSOS and split-off PSOS through the sale of all of the outstanding capital stock of PSOS. In connection with the Split-Off, 5,000,000 shares of Common Stock held by the Split-Off Shareholders were surrendered and cancelled without further consideration, other than the receipt of PSOS shares. An additional 1,236,000 shares of common stock were cancelled by other shareholders of Pubco for no or nominal consideration.

Transactions with the Placement Agent and its Related Parties

We retained Spencer Trask Ventures, Inc. to serve as our placement agent (the Placement Agent) in connection with the Bridge Financing, the Merger and the Offering as described in this Current Report. Adam K. Stern, one of our directors, is a Senior Managing Director of the Placement Agent.

The Placement Agent acted as finder to Organovo in connection with our Bridge Financing, in which Organovo issued $1,500,000 of principal amount of Bridge Notes and Bridge Warrants to purchase an aggregate of 1,500,000 shares of Organovo s common stock at a price of $1.00 per share. The Placement Agent was issued warrants to purchase Organovo warrants that automatically converted into warrants to purchase 20% of the shares of Pubco Common Stock underlying the Units issued upon the conversion of the Bridge Notes in the Offering at a price of $1.00 per Share per share as compensation for acting as a finder in the Bridge Financing. These warrants were exchanged at the initial close of the Offering for warrants (which are identical to the Placement Agent Warrants discussed below) to purchase 610,155 shares of Common Stock at an exercise price of $1.00 per share.

Prior to the initial closing of the Offering, several related parties to the Placement Agent purchased an aggregate of 219,705 shares of Pubco s Common Stock (2,326,973 shares on a post stock split adjusted basis) from various shareholders of Pubco. The aggregate purchase price paid to such shareholders by the related parties for such shares was approximately $155,000. All of the foregoing shares of Common Stock are subject to a lock-up agreement. See Lock-ups below.

We engaged the Placement Agent as our exclusive placement agent in connection with the Offering. For its services, we paid the Placement Agent (i) a cash fee equal to 10% of the gross proceeds raised in the Offering and (ii) a non-accountable expense allowance equal to 3% of the gross proceeds raised in the Offering. In addition, we granted to the Placement Agent or its designees, for nominal consideration, five-year warrants (Placement Agent Warrants) to purchase shares of Common Stock at an exercise price of $1.00 per share. The placement agent and its selected dealers were paid total cash commissions of $1,372,260 and the Placement Agent was paid an expense allowance of $411,678 and was issued Placement Agent Warrants to purchase 6,099,195 shares of Common Stock (including 610,155 warrants issued in connection with issuance of the bridge promissory notes and subsequently exchanged for new warrants in the Merger). As of March 16, 2012, the Placement Agent held 1,082,489 shares of the Company s Common Stock and warrants to purchase 2,130,335 shares of the Company s Common Stock.

We have agreed to engage the Placement Agent as its warrant solicitation agent in the event the Investor Warrants are called for redemption and shall pay a warrant solicitation fee to the Placement Agent equal to five (5%) percent of the amount of funds solicited by the Placement Agent upon the exercise of the Investor Warrants following such redemption.

The Placement Agent was granted the right to designate one member to our Board of Directors and has designated Adam K. Stern to fill such Board seat.

The price of the Units was been determined following our discussions with the Placement Agent. Among the factors considered in the negotiations were our limited operating history, our history of losses, an assessment of our management and our proposed operations, our current financial condition, the prospects for the industry in which we operate, the prospects for the development of our business with the capital raised in the Offering and the general condition of the securities markets at the time of the Offering. The Offering price of the Units or the exercise price of the Investor Warrants did not necessarily bear any relationship to our assets, book value or results of operations or any other generally

accepted criterion of value.

As a result of these transactions, as of March 13, 2012, Mr. Stern reported holding 584,284 shares of Common Stock and warrants to purchase 360,000 shares of Common Stock. He also reported indirect beneficial ownership of 476,611 shares owned by ST Neuroscience Partners, LLC, 211,827 shares owned by Pavilion Capital Partners, LLC; and 132,392 shares owned by Piper Venture Partners, LLC.

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We have agreed to indemnify the Placement Agent and other broker-dealers who are FINRA members selected by the Placement Agent to offer and sell Units, to the fullest extent permitted by law for a period of four (4) years from the Closing of the Offering, against certain liabilities that may be incurred in connection with the Offering, including certain civil liabilities under the Securities Act, and, where such indemnification is not available, to contribute to the payments the Placement Agent may be required to make in respect of such liabilities. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to the Placement Agent, pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Lock-ups

Officers, directors and holders of 5% or more of our Common Stock have agreed to lock-up and not sell or otherwise transfer or hypothecate any of their shares for a term equal to the earlier of (i) twelve (12) months from the Closing Date of the Merger; or (ii) six (6) months following the effective date of the Registration Statement registering the shares of Common Stock that were sold in the Offering.

DESCRIPTION OF CAPITAL STOCK

Authorized Capital Stock

As of March 16, 2012, our authorized capital stock consisted of 150,000,000 shares of Common Stock, par value $0.001 per share, and 25,000,000 shares of preferred stock, par value $0.001 per share.

Issued and Outstanding Capital Stock

As of March 16, 2012, after giving effect to the Transactions, the Units sold in the Offering, the options granted under the 2008 Plan (that were exchanged for Pubco Options upon Pubco s assumption of options issued under the 2008 Plan), and the warrants issued to the Placement Agent in connection with the Offering, we have the following issued and outstanding securities:

43,693,241 shares of Common Stock;

No shares of preferred stock;

Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan;

Warrants to purchase 15,247,987 shares of Common Stock at $1.00 per share issued to the investors in the Offering;

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Warrants to purchase 100,000 shares of Common Stock at $1.00 per share issued to a former holder of an Organovo promissory note;

Warrants to purchase 1,309,750 shares of Common Stock at a price of $1.00 per share issued in exchange for warrants held by Organovo warrant holders;

5,489,040 warrants exercisable at a price of $1.00 per share issued to the Placement Agent in connection with the Offering;

Warrants issued to Bridge Investors to purchase 1,500,000 shares of Common Stock at $1.00 per share; and

610,155 warrants exercisable at a price of $1.00 per share issued to the Placement Agent in exchange for warrants issued in connection with the Bridge Financing.

Description of Common Stock

The holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of the stockholders, including the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all shares of Common Stock that are present in person or represented by proxy. Except as otherwise provided by law, amendments to the certificate of incorporation generally must be approved by a majority of the votes entitled to be cast by all outstanding shares of Common Stock. The certificate of incorporation does not provide for cumulative voting in the election of directors. The Common Stock holders will be entitled to such cash dividends as may be declared from time to time by the Board from funds available. Upon our liquidation, dissolution or winding up, the Common Stock holders will be entitled to receive pro rata all assets available for distribution to such holders.

Description of Preferred Stock

Our Preferred Stock, par value $0.001 per share, may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by our Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of any wholly unissued series of Preferred Stock, including without limitation authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

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Registration Rights Agreement

We are required to file within 90 days of the date of the final Closing of the Offering, a Registration Statement registering for resale all shares of Common Stock issued in the Offering, including Common Stock (i) included in the Units; and (ii) issuable upon exercise of the Investor Warrants; consistent with the terms and provisions of the Registration Rights Agreement. A form of the Registration Rights Agreement is filed as Exhibit 10.5 to this Current Report. The holders of any registrable securities removed from the Registration Statement a result of a Rule 415 or other comment from the SEC shall have piggyback registration rights for the shares of Common Stock or Common Stock underlying such warrants with respect to any registration statement filed by us following the effectiveness of the Registration Statement which would permit the inclusion of these shares. We have agreed to use its reasonable efforts to have the registration statement declared effective within 180 days of filing the registration statement.

If the Registration Statement is not filed on or before the filing deadline or not declared effective on or before the effectiveness deadline, we shall pay to each holder of registrable securities an amount in cash equal to one-half of one percent (0.5%) of such holder s investment herein or in the Bridge Financing on every thirty (30) day anniversary of such filing deadline or effectiveness deadline failure until such failure is cured. The payment amount shall be prorated for partial thirty (30) day periods. The maximum aggregate amount of payments to be made by as the result of such failures, whether by reason of a filing deadline failure, effectiveness deadline failure or any combination thereof, shall be an amount equal to 6% of each holder s investment amount. Notwithstanding the foregoing, no payments shall be owed with respect to any period during which all of the holder s registrable securities may be sold by such holder under Rule 144 or pursuant to another exemption from registration. Moreover, no such payments shall be due and payable with respect to any registrable securities we are unable to register due to limits imposed by the SEC s interpretation of Rule 415 under the Securities Act.

We have agreed to keep the Registration Statement evergreen for one (1) year from the date it is declared effective by the SEC or until Rule 144 of the Securities Act is available to Investors herein with respect to all of their shares, whichever is earlier.

Investor Warrants

After the consummation of the Merger and the simultaneous closing of the Offering, there were warrants issued to purchase 15,247,987 shares of Common Stock held by investors purchasing Units in the Offering (the Investor Warrants). Each Investor Warrant entitles the holder to purchase one share of Common Stock at a purchase price of $1.00 during the five (5) year period commencing on the issuance of the Investor Warrants. We may call the Investor Warrants at any time our Common Stock trades above $2.50 for twenty (20) consecutive days following the effectiveness of the Registration Statement covering the resale of the underlying Investor Warrant shares. The Investor Warrants can only be called if a Registration Statement registering the shares underlying the Investor Warrants is in effect at the time of the call.

The Investor Warrants, at the option of the holder, may be exercised by cash payment of the exercise price to us. The Investor Warrants may be exercised on a cashless basis commencing one year after issuance if no registration statement registering the shares underlying the Investor Warrants is then in effect. The Placement Agent shall receive a warrant solicitation fee equal to 5% of the funds solicited by the Placement Agent upon exercise of the Investor Warrants if we elect to call the Investor Warrants. The exercise price and number of shares of Common Stock issuable on exercise of the Investor Warrants may be adjusted in certain circumstances including a weighted average adjustment in the event of future issuances of our equity securities at a price less than the exercise price of the Investor Warrant, in the event of a stock dividend, or our recapitalization, reorganization, merger or consolidation.

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No fractional shares will be issued upon exercise of the Investor Warrants. If, upon exercise of the Investor Warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round up to the nearest whole number, the number of shares of Common Stock to be issued to the Investor Warrant holder.

Following consummation of the Merger and the simultaneous closing of the Offering, former warrant holders and a former noteholder of Organovo were issued warrants to purchase an aggregate of 1,409,750 shares of Common Stock. These warrants are similar to the Investor Warrants, except that they do not have a call provision or registration rights, and are exercisable on a cashless basis.

New Bridge Warrants

There are 1,500,000 warrants outstanding, all of which were issued in exchange for the Bridge Warrants at the Closing Date (the New Bridge Warrants). The New Bridge Warrants, which are exercisable at a price of $1.00 per share for a five year period, are substantially similar to the Investor Warrants. Holders of the New Bridge Warrants received the same registration rights with respect to the shares of Common Stock issuable upon exercise of the New Bridge Warrants as the investors in the Offering.

Placement Agent Warrants

The warrants issued to our Placement Agent in the Offering permit the Placement Agent or its designees, to purchase for a five-year period, 5,489,040 shares of Common Stock at an exercise price of $1.00 per share (the Placement Agent Warrants). Additionally, as compensation for the Bridge Financing, the Placement Agent was issued Organovo warrants that were subsequently exchanged for Placement Agent Warrants to purchase 610,155 shares of Common Stock at an exercise price of $1.00 per share. The Placement Agent Warrants have no registration rights and contain weighted average anti-dilution and immediate cashless exercise provisions.

Anti-Takeover Effects of Provisions of Delaware State Law

Anti-takeover provisions in our certificate of incorporation and Delaware law could make an acquisition more difficult and could prevent attempts by our stockholders to remove or replace current management.

Anti-takeover provisions of Delaware law and in our certificate of incorporation and our bylaws may discourage, delay or prevent a change in control of our company, even if a change in control would be beneficial to our stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. In particular, under our certificate of incorporation our board of directors may issue up to 25,000,000 shares of preferred stock with rights and privileges that might be senior to our common stock, without the consent of the holders of the common stock. Moreover, without any further vote or action on the part of the stockholders, the board of directors would have the authority to determine the price, rights, preferences, privileges, and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over, and harm the rights of, the holders of common stock. Although the issuance of this preferred stock would provide us with flexibility in connection with possible acquisitions and other corporate purposes, this issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock. Similarly, our authorized but unissued common stock is available for future issuance without stockholder approval.

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MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Prior to February 14, 2012, our Common Stock was available for trading in the over-the-counter market and was quoted on the OTCQB and the OTCBB under the symbol RERR. Effective February 14, 2012, our stock trades under the symbol ONVO and is quoted on the OTCQB. As of the December 31, 2011 and the Closing Date, there was no bid history for the ONVO Common Stock, because the Common Stock had never been traded.

Trades in our Common Stock may be subject to Rule 15g-9 of the Exchange Act, which imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, broker/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser s written agreement to the transaction before the sale.

The SEC also has rules that regulate broker/dealer practices in connection with transactions in penny stocks. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities listed on certain national exchanges, provided that the current price and volume information with respect to transactions in that security is provided by the applicable exchange or system). The penny stock rules require a broker/dealer, before effecting a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer s account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing before effecting the transaction, and must be given to the customer in writing before or with the customer s confirmation. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for shares of our Common Stock. As a result of these rules, investors may find it difficult to sell their shares.

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Holders

As of March 16, 2012, there are approximately 273 record holders of 43,693,241 shares of Common Stock. As of the date of this filing, 25,153,186 shares of Common Stock are issuable upon the exercise of outstanding warrants and options. The shares issued in connection with the Transactions, including the Common Stock issued to the former Organovo stockholders and investors in the Offering, are restricted securities, which may be sold or otherwise transferred only if such shares are first registered under the Securities Act or are exempt from the registration requirements. As discussed elsewhere in this Current Report, we have agreed to file a registration statement within 90 days of the final closing date, to register the shares of the Common Stock and shares of Common Stock issuable upon exercise of the Investor Warrants issued in the Offering and the shares of Common Stock issuable upon exercise of the New Bridge Warrants.

Dividend Policy

We have never declared or paid dividends. We do not intend to pay cash dividends on our Common Stock for the foreseeable future, but currently intend to retain any future earnings to fund the development and growth of our business. The payment of dividends if any, on our Common Stock will rest solely within the discretion of our board of directors and will depend, among other things, upon our earnings, capital requirements, financial condition, and other relevant factors.

LEGAL PROCEEDINGS

From time to time, the Company may be named in claims arising in the ordinary course of business. Currently, no legal proceedings or claims are pending against or involve the Company that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business and financial condition.

RECENT SALES OF UNREGISTERED SECURITIES

Sales by Organovo

From February 2008 through August 2011, Organovo sold unsecured convertible promissory notes in the aggregate principal amount of $3,130,000 in private placements to a limited number of accredited investors. Under their original terms, these notes generally were to convert into shares of Organovo common stock upon the occurrence of certain events or, if not so converted, into shares of Organovo preferred stock at maturity. In addition, Organovo agreed to issue common stock purchase warrants to the noteholders upon conversion. The note sales were exempt from the registration requirements of Federal and State securities laws pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D under the Securities Act. Prior to the closing of the Bridge Financing (as discussed below), $3,030,000 principal amount of these notes, plus accrued interest, were exchanged for an aggregate of 7,676,828 shares of Organovo common stock and 1,309,750 warrants to purchase Organovo common stock at an exercise price of $1.00 per share. One note, in the original principal amount of $100,000, plus accrued interest, was repaid from the proceeds of the Offering, at which time warrants to purchase 100,000 shares of Common Stock were issued to the holder.

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In October and November 2011, Organovo completed its Bridge Financing wherein it sold $1,500,000 of principal amount of Bridge Notes and 1,500,000 Bridge Warrants. Principal and accrued interest on the Bridge Notes were converted into Units in the Offering (as discussed below) and the Bridge Warrants were exchanged for 1,500,000 New Bridge Warrants to acquire 1,500,000 shares of our Common Stock at a price of $1.00 per share. The Placement Agent acted as a selling agent to Organovo in connection with the Bridge Financing and received as compensation for its services (i) a sales commission of 10% of the amount raised, or $150,000, (ii) a 3% non-accountable expense allowance, or $45,000 and (iii) Organovo warrants that converted upon the closing of the Merger into warrants to purchase 610,155 shares of our Common Stock at a price of $1.00 per share.

In February and March 2012, the Company received gross proceeds of $15,247,987 from the private placement of equity securities. On February 8, February 29, and March 16, 2012, the Company completed the first, second and final closings, respectively, of the private placement offering. In these three closings, 6,525,887 Units, 1,806,100 Units, and 6,916,000 Units, respectively, were sold to accredited investors at a price of $1.00 per Unit, including the conversion of $1,500,000 of principal and $25,379 of accrued interest under certain bridge promissory notes issued in 2011. The first closing was conducted simultaneously with the completion of the Company s merger (the Merger) with Organovo, Inc. The notes automatically converted into equity securities on February 8, 2012, as part of the private placement offering. Each Unit consisted of one share of common stock of the Company, $0.001 par value per share, and a 5 year warrant to purchase one share of Common Stock at $1.00 per share. Total net proceeds were $11,593,065.91 (or $12,811,897.11, including the conversion of the bridge promissory notes referred to above). The Company issued 15,247,987 shares and 16,747,987 warrants (including 1,500,000 warrants to former holders of the bridge promissory notes).

The transactions described above were exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder.

Sales by Our Predecessor, RERR

On January 30, 2012, we issued common stock to stockholders of Organovo Holdings, Inc., a Nevada corporation (formerly known as Real Estate Restoration and Rental, Inc.) and our sole stockholder, in connection with our reincorporation in Delaware. Such transaction was not a sale within the meaning of Section 2(3) of the Securities Act because it came within the exemption under Rule 145(a)(2) of the Securities Act.

Deborah Lovig, RERR s President, Chief Executive Officer, Chief Financial Officer and Director, purchased 5,000,000 (pre-split) shares of RERR common stock on December 19, 2009 for $100 in cash and $400 worth of services which she provided to RERR.

James Coker, RERR s Secretary and Director, purchased 80,000 shares of RERR common stock on March 17, 2010 and an additional 15,000 shares of RERR common stock on April 2, 2010, for a total of 95,000 shares, for $9,500.

In June, 2010, RERR completed the sale of a total of 1,802,500 shares of common stock to a number of investors, at a price of $0.10 per share, for aggregate offering proceeds of $180,250.

The transactions described above were exempt from registration under Section 4(2) of the Securities Act and/or Rule 506 of Regulation D thereunder.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Under Section 145 of the General Corporation Law of the State of Delaware, we may indemnify our directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act. Our certificate of incorporation provides that, pursuant to Delaware law, our directors shall not be liable for monetary damages for breach of the directors fiduciary duty of care to us and our stockholders. This provision does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director s duty of loyalty to us or our stockholders for acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director s responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

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Our bylaws provide for the indemnification of its directors to the fullest extent permitted by the Delaware General Corporation Law. Our bylaws further provide that our Board of Directors has discretion to indemnify our officers and other employees. We are required to advance, prior to the final disposition of any proceeding, promptly on request, all expenses incurred by any director or executive officer in connection with that proceeding on receipt of an undertaking by or on behalf of that director or executive officer to repay those amounts if it should be determined ultimately that he or she is not entitled to be indemnified under our bylaws or otherwise. We are not, however, required to advance any expenses in connection with any proceeding if a determination is reasonably and promptly made by our Board of Directors by a majority vote of a quorum of disinterested Board members that (i) the party seeking an advance acted in bad faith or deliberately breached his or her duty to us or to our stockholders and (ii) as a result of such actions by the party seeking an advance, it is more likely than not that it will ultimately be determined that such party is not entitled to indemnification pursuant to the applicable sections of our bylaws.

We have been advised that in the opinion of the SEC, insofar as indemnification for liabilities arising under the Securities Act may be permitted to its directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event a claim for indemnification against such liabilities (other than the our payment of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

PART F/S

Reference is made to the disclosure set forth under Item 9.01 of this Current Report, which disclosure is incorporated herein by reference.

INDEX TO EXHIBITS

See Item 9.01(d) below, which is incorporated by reference herein.

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DESCRIPTION OF EXHIBITS

See Exhibit Index below and the corresponding exhibits, which are incorporated by reference herein.

Item 3.02. Unregistered Sales of Equity Securities.
The disclosure set forth in Item 2.01 to this Current Report is incorporated into this item by reference.

Item 4.01. Changes in Registrant s Certifying Accountant.
On February 8, 2012, we engaged Mayer Hoffman McCann, P.C. as our principal independent registered public accounting firm, and effective February 8, 2012, we dismissed Webb & Company, P.A., as our principal independent registered public accounting firm. The decision to dismiss Webb & Company, P.A. and to appoint Mayer Hoffman McCann, P.C. was approved by our board of directors.

Webb & Company, P.A. s, report on our financial statements for either of the two most recent fiscal years ended June 30, 2011 and 2010 did not contain an adverse opinion or disclaimer of opinion, or qualification or modification as to uncertainty, audit scope, or accounting principles, except that such report on our financial statements contained an explanatory paragraph in respect to the substantial doubt about our ability to continue as a going concern.

During our two most recent fiscal years ended June 30, 2011 and 2010 and in the subsequent interim period through the date of dismissal, there were no disagreements, resolved or not, with Webb & Company, P.A. on any matter of accounting principles or practices, financial statement disclosure, or audit scope and procedures, which disagreement(s), if not resolved to the satisfaction of Webb & Company, P.A., would have caused Webb & Company, P.A. to make reference to the subject matter of the disagreement(s) in connection with its report.

During our two most recent fiscal years ended June 30, 2011 and 2010 and in the subsequent interim period through the date of dismissal, there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

We provided Webb & Company, P.A. with a copy of the disclosure in this Item 4.01 of this Current Report on Form 8-K prior to its filing with the SEC, and requested that it furnish us with a letter addressed to the SEC stating whether it agrees with the statements made in this Item 4.01 of this current report on Form 8-K, and if not, stating the respects with which it does not agree. A copy of the letter provided from Webb & Company, P.A. is filed as an Exhibit 16.1 to this Current Report on Form 8-K.

During our two most recent fiscal years ended June 30, 2011 and 2010 and in the subsequent interim period through the date of appointment, we have not consulted with Mayer Hoffman McCann, P.C. regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, nor has Mayer Hoffman McCann, P.C. provided to us a written report or oral advice that Mayer Hoffman McCann, P.C. concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue. In addition, during such periods, we have not consulted with Mayer Hoffman McCann, P.C. regarding any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

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Item 5.01. Changes in Control of the Registrant.

As a result of the Offering and the Merger, we experienced a change in control, with the former stockholders of Organovo acquiring control of us. The disclosure set forth in Item 2.01 to this Current Report is incorporated into this item by reference.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The disclosure set forth in Item 2.01 to this Current Report is incorporated into this item by reference.

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On February 8, 2012, concurrent with the Merger, we adopted the fiscal year end of our Organovo subsidiary, thereby changing our fiscal year end from June 30 to December 31. The audited financial statements for the new fiscal year will be reflected in our Form 10-K for the year ending December 31, 2012.

Item 5.06. Change in Shell Company Status.

The disclosure set forth in Item 2.01 to this Current Report is incorporated into this item by reference. As a result of the completion of the Merger, we believe that we are no longer a shell company, as defined in Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of business acquired

In accordance with Item 9.01(a), Organovo s audited financial statements for the years ended December 31, 2011 and 2010 are included with this Current Report beginning on Page F-1.

(b) Pro forma financial information

In accordance with Item 9.01(b), unaudited pro-forma combined financial statements are included with this Current Report beginning on Page F-24.

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(d) Exhibits

Exhibit No,	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of February 8, 2012, by and among Organovo Holdings, Inc. a Delaware corporation, Organovo Acquisition Corp., a Delaware corporation and Organovo, Inc., a Delaware corporation (incorporated by reference from Exhibit 2.1 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
2.2	Certificate of Merger as filed with the Delaware Secretary of State effective February 8, 2012 (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
2.3	Articles of Merger as filed with the Nevada Secretary of State effective December 28, 2011 (incorporated by reference from Exhibit 2.1 to the Company s Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the SEC) on February 3, 2012 (the February 2012 Form 8-K)
2.4	Agreement and Plan of Merger, dated as of December 28, 2011, by and between Real Estate Restoration and Rental, Inc. and Organovo Holdings, Inc. (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, as filed with the SEC on January 4, 2012)
2.5	Certificate of Merger as filed with the Delaware Secretary of State effective January 30, 2012 (incorporated by reference from Exhibit 2.3 to the February 2012 Form 8-K)
2.6	Agreement and Plan of Merger, dated as of January 30, 2012, by and between Organovo Holdings, Inc. (Nevada) and Organovo Holdings, Inc. (Delaware) (incorporated by reference from Exhibit 2.2 to the February 2012 Form 8-K)
2.7	Articles of Merger as filed with the Nevada Secretary of State effective January 30, 2012 (incorporated by reference from Exhibit 2.4 to the February 2012 Form 8-K)
3.1(i)	Articles of Incorporation of Real Estate Restoration and Rental, Inc. (incorporated by reference from Exhibit 3.1 to the Company s registration statement (SEC File No. 333-169928) on Form S-1, as filed with the SEC on October 13, 2010
3.1(ii)	Certificate of Incorporation, Certificate of Change of Registered Agent and/or Registered Office, Certificate of Correction, and Certificate of Amendment of Certificate of Incorporation, each of Organovo, Inc., as filed with the Secretary of State of the State of Delaware on April 19, 2007, January 30, 2009, July 29, 2010, and September 28, 2011 respectively*
3.1(iii)	Certificate of Incorporation of Organovo Holdings, Inc. (Delaware) (incorporated by reference from Exhibit 3.1 to the February 2012 Form 8-K)
3.2	Bylaws of Organovo Holdings, Inc. (Delaware) (incorporated by reference from Exhibit 3.2 to the February 2012 Form 8-K)
4.1	Form of Bridge Warrant of Organovo, Inc. (incorporated by reference from Exhibit 4.1 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.2	Form of Bridge Promissory Note of Organovo, Inc. (incorporated by reference from Exhibit 4.2 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.3	Form of Warrant of Organovo, Inc. issued to former holders of Organovo, Inc. promissory notes (incorporated by reference from Exhibit 4.3 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.4	Form of Investor Warrant of Organovo Holdings, Inc. (incorporated by reference from Exhibit 4.4 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.5(i)	Form of Warrant of Organovo Holdings, Inc. ($1.00 exercise price) issued to Placement Agent (incorporated by reference from Exhibit 4.2(i) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
4.5(ii)	Form of Warrant of Organovo, Inc. ($1.00 exercise price) issued to Selling Agent (incorporated by reference from Exhibit 4.2(ii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
4.5(iii)	Form of Warrant of Organovo Holdings, Inc. ($1.00 exercise price) issued to Placement Agent in exchange for Organovo, Inc. warrant issued to Selling Agent (incorporated by reference from Exhibit 4.2(iii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)

4.5	Form of Warrant of Organovo Holdings, Inc. issued to former holders of Organovo, Inc. promissory notes (incorporated by reference from Exhibit 4.5 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.6	Form of New Bridge Warrant (incorporated by reference from Exhibit 4.6 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
4.7	Form of Lock-Up Agreement (incorporated by reference from Exhibit 4.7 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)

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Exhibit No,	Description
10.1	Form of Securities Purchase Agreement between Organovo, Inc and the Bridge Investors (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.2	Escrow Agreement, by and among Organovo, Inc., the Selling Agent and Signature Bank (incorporated by reference from Exhibit 10.6 to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.3	Selling Agent Agreement between Organovo, Inc. and the Selling Agent (incorporated by reference from Exhibit 10.3 to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.4	Form of Subscription Agreement, by and between Organovo Holdings, Inc. and the investors in the offering (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012 Form 8-K)
10.5	Form of Registration Rights Agreement, by and between Organovo Holdings, Inc. and the investors in the offering (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.6	Escrow Agreement, by and among Organovo, Inc., the Placement Agent and Signature Bank (incorporated by reference from Exhibit 10.51 to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.6(i)	Extension to Escrow Agreement (incorporated by reference from Exhibit 10.5(iii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.7(i)	Joinder by Organovo Holdings, Inc. to Placement Agency Agreement (incorporated by reference from Exhibit 10.4(ii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.7(ii)	Joinder by Organovo Holdings, Inc. to Escrow Agreement (incorporated by reference from Exhibit 10.5(ii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.8	Placement Agent Agreement between Organovo, Inc. and the Placement Agent (incorporated by reference from Exhibit 10.4(i) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.8(i)	Extension to Placement Agent Agreement (incorporated by reference from Exhibit 10.4(iii) to the Company s Current Report on Form 8-K, as filed with the SEC on March 16, 2012)
10.9	Split-Off Agreement, by and among Organovo Holdings, Inc., Organovo Split Corp., Deborah Lovig and James Coker (incorporated by reference from Exhibit 10.9 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.10	General Release Agreement by and among Organovo Holdings, Inc., Organovo Split Corp., Deborah Lovig and James Coker (incorporated by reference from Exhibit 10.10 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.11	Form of Share Cancellation Agreement and Release (incorporated by reference from Exhibit 10.11 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.12	Offer Letter between Barry D. Michaels and Organovo, Inc. *** (incorporated by reference from Exhibit 10.12 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.13	Offer Letter between Sharon Collins Presnell and Organovo, Inc. *** (incorporated by reference from Exhibit 10.13 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.14	Organovo, Inc. 2008 Equity Incentive Plan *** (incorporated by reference from Exhibit 10.14 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.15	Organovo Holdings, Inc. 2012 Equity Incentive Plan*** (incorporated by reference from Exhibit 10.15 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.16	Form of Stock Option Award Agreement under the 2012 Equity Incentive Plan *** (incorporated by reference from Exhibit 10.16 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)

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Exhibit No,	Description
10.17	Form of Indemnification Agreement *** (incorporated by reference from Exhibit 10.17 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.18	Memorandum of Understanding between Organovo, Inc. and Robert Baltera, Jr. *** (incorporated by reference from Exhibit 10.18 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.19	Scientific Advisory Board Consulting Agreement, dated as of March 17, 2008, by and between Organovo, Inc. and Glenn Prestwich, Ph.D. (incorporated by reference from Exhibit 10.19 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.20	Scientific Advisory Board Consulting Agreement, dated as of March 17, 2008, by and between Organovo, Inc. and David Mooney, Ph.D. (incorporated by reference from Exhibit 10.20 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.21	Scientific Advisory Board Consulting Agreement, dated as of April 14, 2008, by and between Organovo, Inc. and Gordana Vunjak-Novakovic (incorporated by reference from Exhibit 10.21 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.22	Scientific Advisory Board Consulting Agreement, dated as of June 30, 2008, by and between Organovo, Inc. and K. Craig Kent, M.D. (incorporated by reference from Exhibit 10.22 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.23	License Agreement dated as of March 24, 2009, by and between Organovo, Inc. and the Curators of the University of Missouri**** (incorporated by reference from Exhibit 10.23 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.24	License Agreement dated as of March 12, 2010 by and between the Company and the University of Missouri **** (incorporated by reference from Exhibit 10.24 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.25	License Agreement dated as of May 2, 2011, by and between the Company and Clemson University Research Foundation**** (incorporated by reference from Exhibit 10.25 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
10.26	3D Bio-Printer Development Program Agreement, dated as of March 3, 2011, by and between Invetech Pty Ltd (Invetech) and Organovo Holdings, Inc.*, ****
16.1	Letter re change in certifying accountant (incorporated by reference from Exhibit 10.25 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
21.1	Subsidiaries of Organovo Holdings, Inc. (incorporated by reference from Exhibit 10.25 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)

* Filed herewith
*** Designates management contracts and compensation plans.
**** This Exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without the redaction pursuant to a Confidential Treatment Request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
Certain Confidential Information contained in this Exhibit was omitted by means of redacting a portion of the text and replacing it with an asterisk.

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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 hereunto duly authorized.

ORGANOVO HOLDINGS, INC.

Date: March 30, 2012

By: /s/ Keith Murphy
Name: Keith Murphy
Title: Chief Executive Officer

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Organovo, Inc.

Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Organovo, Inc.

San Diego, California

We have audited the accompanying balance sheets of **Organovo, Inc.** (the Company) as of December 31, 2011 and 2010, and the related statements of operations, stockholders deficit, and cash flows for the years then ended and for the period from April 19, 2007 (Inception) through December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Organovo, Inc.** as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended and for the period from April 19, 2007 (Inception) through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

San Diego, CA

March 30, 2012

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Organovo, Inc.

(A development stage company)

Balance Sheets

	December 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 339,607	$ 285,308
Grant receivable		59,744
Inventory	291,881	68,022
Deferred financing costs	318,843	
Prepaid expenses and other current assets	79,874	11,042
Total current assets	1,030,205	424,116
Fixed Assets - Net	278,208	295,539
Other Assets - Net	100,419	40,743
Total assets	$ 1,408,832	$ 760,398
Liabilities and Stockholders Deficit		
Current Liabilities		
Accounts payable	$ 657,560	$ 284,217
Accrued expenses	437,837	305,580
Deferred revenue	152,500	106,925
Related party note payable		25,000
Accrued interest payable	24,018	251,536
Convertible notes payable, current portion	703,833	200,000
Total current liabilities	1,975,748	1,173,258
Warrant liabilities	1,266,869	
Convertible notes payable, long-term portion		1,887,500
Total liabilities	$ 3,242,617	$ 3,060,758
Commitments and contingencies (Note 10)		
Stockholders Deficit		
Common stock, $0.0001 par value; 75,000,000 shares authorized, 22,445,254 and 14,707,020 shares issued and outstanding at December 31, 2011 and December 31, 2010, respectively	2,245	1,471
Additional paid-in capital	4,855,526	6,463
Deficit accumulated during the development stage	(6,691,556)	(2,308,294)
Total stockholders deficit	(1,833,785)	(2,300,360)
Total Liabilities and Stockholders Deficit	$ 1,408,832	$ 760,398

The accompanying notes are an integral part of these financial statements.

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Organovo, Inc.

(A development stage company)

Statements of Operations

	Year Ended December 31, 2011	Year Ended December 31, 2010	*Period from April 19, 1997 (Inception) through December 31, 2011*
Revenue			
Product	**$ 223,500**	**$**	$ 223,500
Collaborations	**688,088**	**75,000**	763,088
Grants	**56,925**	**528,412**	664,112
Total Revenue	**968,513**	**603,412**	1,650,700
Cost of product revenue	**133,607**		133,607
Selling, general, and administrative expenses	**1,705,171**	**577,914**	2,666,038
Research and development expenses	**1,419,718**	**1,203,716**	3,198,388
Loss from Operations	**(2,289,983)**	**(1,178,218)**	(4,347,333)
Other Income (Expense)			
Interest expense	**(2,066,889)**	**(160,873)**	(2,318,442)
Interest income	**64**	**81**	2,007
Other expense	**(26,454)**	**316**	(27,788)
Total Other Income (Expense)	**(2,093,279)**	**(160,476)**	(2,344,223)
Net Loss	**$ (4,383,262)**	**$ (1,338,694)**	$ (6,691,556)

The accompanying notes are an integral part of these financial statements.

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Organovo, Inc.

(A development stage company)

Statements of Stockholders Deficit

Period from April 19, 2007 (Inception) through December 31, 2011

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at inception (April 19, 2007)		**$**	**$**	$	$
Issuance of Common stock					
Stock-based compensation expense					
Net Loss					
Balance at December 31, 2007		**$**	**$**	**$**	**$**
Issuance of Common stock to founders	1,729,532	173	(173)		
Issuance of restricted Common stock	12,627,697	1,263	(1,263)		
Stock-based compensation expense			1,742		1,742
Net Loss				(97,559)	(97,559)
Balance at December 31, 2008	**14,357,229**	**$ 1,436**	**$ 306**	**$ (97,559)**	**$ (95,817)**
Issuance of restricted Common stock	130,422	13	(13)		
Stock-based compensation expense			2,336		2,336
Net Loss				(872,041)	(872,041)
Balance at December 31, 2009	**14,487,651**	**$ 1,449**	**$ 2,629**	**$ (969,600)**	**$ (965,522)**
Issuance of restricted Common stock	219,369	22	(22)		
Stock-based compensation expense			3,856		3,856
Net Loss				(1,338,694)	(1,338,694)
Balance at December 31, 2010	**14,707,020**	**$ 1,471**	**$ 6,463**	**$ (2,308,294)**	**$ (2,300,360)**
Issuance of Common stock through conversion of notes payable	7,676,828	768	3,488,990		3,489,758
Issuance of restricted Common stock	61,406	6	(6)		
Warrants issued with convertible notes and upon conversion of notes payable			1,111,364		1,111,364
Beneficial conversion feature of convertible notes payable			239,700		239,700
Stock-based compensation expense			9,015		9,015
Net Loss				(4,383,262)	(4,383,262)
Balance at December 31, 2011	**22,445,254**	**$ 2,245**	**$ 4,855,526**	**$ (6,691,556)**	**$ (1,833,785)**

The accompanying notes are an integral part of these financial statements.

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Organovo, Inc.

(A development stage company)

Statements of Cash Flows

	Year Ended December 31, 2011	Year Ended December 31, 2010	*Period from April 19, 2007 (Inception) through December 31, 2011*
Cash Flows From Operating Activities			
Net loss	**$ (4,383,262)**	**$ (1,338,694)**	$ (6,691,556)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of debt discount	**1,187,569**		1,187,569
Depreciation and amortization	**68,064**	**58,669**	156,328
Amortization of deferred financing costs	**119,451**		119,451
Warrants issued in connection with exchange agreement	**527,629**		527,629
Stock-based compensation	**9,015**	**3,856**	16,949
Change in fair value of warrants	**6,569**		6,569
Increase (decrease) in cash resulting from changes in:			
Grants receivable	**59,744**	**(54,846)**	
Inventory	**(223,859)**	**(68,022)**	(291,881)
Prepaid expenses and other current assets	**(68,693)**	**(2,409)**	(93,005)
Accounts payable	**373,343**	**230,165**	657,560
Accrued expenses	**132,257**	**83,404**	437,837
Deferred revenue	**45,575**	**106,925**	152,500
Accrued interest payable	**232,240**	**160,856**	483,776
Net cash used in operating activities	**(1,914,358)**	**(820,096)**	(3,330,274)
Cash Flows From Investing Activities			
Purchases of fixed assets	**(45,547)**	**(48,072)**	(426,823)
Purchases of intangible assets	**(65,000)**	**(5,000)**	(95,000)
Net cash used in investing activities	**(110,547)**	**(53,072)**	(521,823)
Cash Flows From Financing Activities			
Proceeds from issuance of convertible notes payable	**2,542,500**	**992,500**	4,630,000
Proceeds from issuance of related party notes payable	**225,000**	**25,000**	250,000
Repayment of related party notes payable	**(250,000)**		(250,000)
Deferred financing costs	**(438,296)**		(438,296)
Net cash provided by financing activities	**2,079,204**	**1,017,500**	4,191,704
Net Increase in Cash and Cash Equivalents	**54,299**	**144,332**	339,607
Cash and Cash Equivalents at Beginning of Period	**285,308**	**140,976**	
Cash and Cash Equivalents at End of Period	**$ 339,607**	**$ 285,308**	$ 339,607

The accompanying notes are an integral part of these financial statements.

Supplemental Discloures of Cash Flow Information:

Interest	$	$	$
Income Taxes	$ 800	$ 1,600	$ 2,400

Supplemental Disclosure of Noncash Investing and Financing Activities:

During 2008 the Company issued 1,729,532 shares of Common stock to the founders.

During 2011 and 2010 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued 61,406, 219,369 and 13,038,894, respectively, shares of restricted Common stock to certain employees, advisors and consultants of the Company.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued certain convertible notes payable that included warrants. The warrants and the related beneficial conversion feature, valued at $823,435 were classified as equity instruments and recorded as a discount to the carrying value of the related debt.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued warrants, valued at approximately $1,260,300, in connection with certain convertible notes payable. The warrants were recorded as a warrant liability and recorded as a discount to the carrying value related to debt.

During 2011, the Company issued 7,676,828 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $3,030,000 and accrued interest totaling $459,758.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

1. Summary of Significant Accounting Policies

A summary of the Company s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Nature of operations

Organovo, Inc. (the Company) was founded in Delaware in April 2007 and is a Delaware Corporation. Activities since the Company s inception through 2011 were devoted primarily to developing a platform technology for the generation of three-dimensional (3D) human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs.

As of December 31, 2011, the Company has devoted substantially all of its efforts to product development, raising capital, and building infrastructure. The Company has not realized significant revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

On February 8, 2012, the Company merged with and into Organovo Acquisition Corp., a wholly-owned subsidiary of Organovo Holdings, Inc., a publicly traded Delaware corporation (Organovo Holdings), with the Company surviving the merger as a wholly-owned subsidiary of Organovo Holdings (the Merger). As a result of the Merger, Organovo Holdings acquired the business of the Company, and will continue the existing business operations of the Company.

Liquidity

As of December 31, 2011, the Company had an accumulated deficit of approximately $6,691,600. The Company also had negative cash flow from operations of $1,914,400 during the year ended December 31, 2011.

The Company expects to cover it s anticipated 2012 operating expenses through cash on hand including the funds raised during the first quarter of 2012 through the Private Placement of its Securities and funds received through collaborative agreements, and other commercial arrangements.

On February 8, 2012, the Company received gross proceeds of approximately $6,500,000, including $1,500,000 previously received from the sale of convertible notes payable, in a private placement offering in conjunction with the Merger. The convertible notes automatically converted into equity at the time of the Merger. On February 29, 2012 and March 16, 2012, the Company completed two additional closings of its Private Placement Offering and received total gross proceeds of approximately $8,722,100. See Note 12.

While the likelihood of a liquidity crisis is considered remote, should one occur, there are no guarantees that the Company would be able to obtain sufficient cash from outside sources on a timely basis. Management does not believe the situation represents a significant risk to the Company as of the date of these financial statements.

The Company s ability to continue its operations is dependent upon its ability to raise additional capital through equity or debt financing, and to generate capital through collaborative research agreements and other commercial arrangements. There can be no assurance that any additional financing will be available on acceptable terms or available at all. Any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

The accompanying financial statements do not include any adjustments to reflect the

possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

Use of estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing the financial statements include those assumed in computing the valuation of warrants and conversion features, revenue recognized under the proportional performance model, the valuation of stock-based compensation expense, and the valuation allowance on deferred tax assets.

Cash and cash equivalents The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Financial instruments For certain of the Company s financial instruments, including cash and cash equivalents, grants receivable, inventory, prepaid expenses and other assets, accounts payable, accrued expenses, deferred revenue, notes payable to related parties and convertible notes payable, the carrying amounts are generally considered to be representative of their respective fair values because of the short-term nature of those instruments.

Derivative financial instruments The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks.

The Company reviews the terms of convertible debt and equity instruments it issues to determine whether there are embedded derivative instruments, including an embedded conversion option that is required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, the Company may issue freestanding warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

Derivative instruments are initially recorded at fair value and are then revalued at each reporting date with changes in the fair value reported as non-operating income or expense. When the convertible debt or equity instruments contain embedded derivative instruments that are to be bifurcated and accounted for as liabilities, the total proceeds allocated to the convertible host instruments are first allocated to the fair value of all the bifurcated derivative instruments. The remaining proceeds, if any, are then allocated to the convertible instruments themselves, usually resulting in those instruments being recorded at a discount from their face value.

The discount from the face value of the convertible debt, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to interest expense, using the effective interest method.

Grants receivable Grants receivable represent amounts due under: (i) two federal contracts with the National Heart, Lung, and Blood Institute (NHLBI), a division of the National Institutes of Health (NIH), and (ii) two U.S. Department of Treasury grant awards. The Company considers the grants receivable to be fully collectible, and accordingly no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

Inventory Inventories are stated at the lower of the cost or market (first-in, first out). Inventory at December 31, 2011, consisted of approximately $235,000 in finished goods and approximately $56,900 in raw materials. Inventory at December 31, 2010 consisted of approximately $40,000 of work in process and approximately $28,000 in raw materials.

The Company provides inventory allowances based on excess or obsolete inventories determined based on anticipated use in the final product. There was no obsolete inventory reserve as of December 31, 2011 or 2010.

Deferred financing costs As of December 31, 2011, deferred financing costs consisted of approximately $140,000 associated with the Merger transaction and approximately $179,000 associated with the private placement offering that was initiated in the fourth quarter of 2011. The deferred financing costs related to the private placement offering are being amortized over the life of the Convertible Notes. The deferred financing costs associated with the Merger transaction will be recorded to equity as an offset to the proceeds received as of the effective Merger date. See Note 5.

Other assets As of December 31, 2011, other assets consisted of approximately $13,100 in security deposits and $87,300 in net license fees related to a license obtained from Clemson University for bioprinting employing ink-jet technology, and a license obtained from the University of Missouri for 3D bioprinting. See Note 8.

Fixed assets and depreciation Property and equipment are carried at cost. Expenditures that extend the life of the asset are capitalized and depreciated. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term. The estimated useful life of the fixed assets range between three and ten years.

Impairment of long-lived assets In accordance with authoritative guidance the Company reviews its long-lived assets, including property and equipment and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates whether future undiscounted net cash flows will be less than the carrying amount of the assets and adjusts the carrying amount of its assets to fair value. Management has determined that no impairment of long-lived assets occurred in the period from inception through December 31, 2011.

Fair value measurement Financial assets and liabilities are measured at fair value, which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

- Level 1 Quoted prices in active markets for identical assets or liabilities.

- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2011 and 2010, cash and cash equivalents were comprised of cash in checking accounts.

The Company used Level 3 inputs for its valuation methodology for the warrant derivative liabilities. The estimated fair values were determined using a Monte Carlo option pricing model based on various assumptions (see Note 4). The Company s derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to fair value of derivative liabilities.

At December 31, 2011, the estimated fair values of the liabilities measured on a recurring basis are as follows:

Fair Value Measurements at December 31, 2011

	Balance at December, 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Warrant derivative liability	$ 1,266,869			$ 1,266,869

The following table presents the activity for liabilities measured at estimated fair value using unobservable inputs for the year ended December 31, 2011:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

		Warrant Derivative Liability
Beginning balance at December 31, 2010	$	
Issuances		1,260,300
Adjustments to estimated fair value		6,569
Ending balance at December 31, 2011	$	1,266,869

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

Revenue recognition

The Company s revenues are derived from the sale of bioprinter related products and services, NIH and U.S. Treasury Department Grants, collaboration agreements, and license agreements.

The Company recognizes revenue when the following criteria have been met: (i) persuasive evidence of an arrangement exists; (ii) services have been rendered or product has been delivered; (iii) price to the customer is fixed and determinable; and (iv) collection of the underlying receivable is reasonably assured.

Billings to customers or payments received from customers are included in deferred revenue on the balance sheet until all revenue recognition criteria are met. As of December 31, 2011 and 2010, the Company had approximately $152,500 and $107,000 in in deferred revenue related to its collaborative research programs.

Product Revenue

The Company recognizes product revenue at the time of shipment to the customer, provided all other revenue recognition criteria have been met. The Company recognizes product revenues upon shipment to distributors, provided that (i) the price is substantially fixed or determinable at the time of sale; (ii) the distributor s obligation to pay the Company is not contingent upon resale of the products; (iii) title and risk of loss passes to the distributor at time of shipment; (iv) the distributor has economic substance apart from that provided by the Company; (v) the Company has no significant obligation to the distributor to bring about resale of the products; and (vi) future returns can be reasonably estimated. For any sales that do not meet all of the above criteria, revenue is deferred until all such criteria have been met.

Research and Development Revenue Under Collaborative Agreements.

The Company s collaboration revenue consists of license and collaboration agreements that contain multiple elements, including non-refundable upfront fees, payments for reimbursement of third-party research costs, payments for ongoing research, payments associated with achieving specific development milestones and royalties based on specified percentages of net product sales, if any. The Company considers a variety of factors in determining the appropriate method of revenue recognition under these arrangements, such as whether the elements are separable, whether there are determinable fair values and whether there is a unique earnings process associated with each element of a contract.

The Company recognizes revenue from research funding under collaboration agreements when earned on a proportional performance basis as research hours are incurred. The Company performs services as specified in each respective agreement on a best-efforts basis, and is reimbursed based on labor hours incurred on each contract. The Company initially defers revenue for any amounts billed or payments received in advance of the services being performed and recognizes revenue pursuant to the related pattern of performance, based on total labor hours incurred relative to total labor hours estimated under the contract.

In December 2010, the Company entered into a 12 month research contract agreement with a third party, whereby the Company was engaged to perform research and development services on a fixed-fee basis for approximately $600,000. Based on proportional performance criteria, the Company recognized approximately $450,000 in revenue related to the contract during 2011, and expects to recognize the remaining $150,000 in revenue during 2012.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

In October 2011, the Company entered into a research contract agreement with a third party, whereby the Company will perform research and development services on a fixed-fee basis for $1,365,000. The agreement includes an initial payment to the Company of approximately $239,000, with remaining payments expected to occur over a 21-month period. At December 31, 2011, the Company recorded approximately $239,000 in revenue related to the research contract in recognition of the proportional performance achieved by the Company during the fourth quarter of 2011.

Revenue Arrangements with Multiple Deliverables

The Company occasionally enters into revenue arrangements that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. For multiple deliverable agreements, consideration is allocated at the inception of the agreement to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using VSOE of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, the Company uses its best estimate of the selling price for the deliverable.

The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect the Company s results of operations.

NIH and U.S. Treasury Grant Revenues

During 2010, the U.S. Treasury awarded the Company two one-time grants totaling approximately $397,300 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The grants cover reimbursement for qualifying expenses incurred by the Company in 2010 and 2009. The proceeds from these grants are classified in Revenues Grants in the 2010 statement of operations.

During 2010 and 2009, the NHLBI, a division of the NIH, awarded the Company two research grants totaling approximately $267,600. Revenues from the NIH grants are based upon internal and subcontractor costs incurred that are specifically covered by the grant, and where applicable, an additional facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors and as

the Company incurs internal expenses that are related to the grant. Revenue recognized under these grants for the years ended December 31, 2011 and 2010 was approximately $56,900 and $131,100, respectively.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

Stock-based compensation

The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board s ASC Topic 718, *Compensation Stock Compensation,* which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee s requisite service period (generally the vesting period of the equity grant).

The Company accounts for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at their estimated fair value as they vest.

Research and development

Research and development expenses, including direct and allocated expenses, consist of independent research and development costs, as well as costs associated with sponsored research and development. Reseach and development costs are expensed as incurred.

Income taxes

Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the combination of the tax payable for the year and the change during the year in deferred tax assets and liabilities.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at Comprehensive income (loss). For the years ended December 31, 2011 and 2010, and for the period April 19, 2007 (inception) through December 31, 2011, the comprehensive loss was equal to the net loss.

New accounting standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement* to amend the accounting and disclosure requirements on fair value measurements. This ASU limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, this update expands the disclosure on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. ASU No. 2011-04 is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this update to have a material effect on its financial statements.

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Notes to Financial Statements

In June 2011, FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* This ASU presents an entity with the option to present the total of comprehensive income, the components of net income, and the component of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity/deficit. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other Comprehensive income must be reclassified to net income. ASU No. 2011-05 should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU No. 2011-05 relates only to the presentation of Comprehensive income, the Company does not expect the adoption of this update to have a material effect on its financial statements.

2. Fixed Assets

Fixed assets consisted of the following:

December 31,	**2011**	2010
Laboratory equipment	**$ 345,319**	$ 309,057
Leasehold improvements	**34,198**	34,198
Computer software and equipment	**28,185**	28,185
Furniture and fixtures	**19,123**	9,836
	426,825	381,276
Less accumulated depreciation and amortization	**(148,617)**	(85,737)
	$ 278,208	$ 295,539

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was approximately $62,900 and $57,100, respectively. Depreciation and amortization expense was approximately $148,600 for the period from April 19, 2007 (inception) through December 31, 2011.

3. Accrued Expenses

Accrued expenses consisted of the following:

December 31,	**2011**	2010
Accrued compensation	**$ 317,097**	$ 129,234
Other accrued expenses	**91,884**	116,424
Deferred rent	**28,856**	59,922
	$ 437,837	$ 305,580

4. Derivative Liability

As discussed in Note 5, the Company issued Convertible Notes in 2011 that provided for the issuance of five-year warrants to purchase the Company s Common stock. The exercise price of the warrants is protected against down-round financing throughout the term of the warrant. Pursuant to ASC 815-15 and ASC 815-40, the fair value of the warrants of $1,260,300 was recorded as a derivative liability on the issuance date.

The fair value of the warrants was estimated at the issuance date and revalued at December 31, 2011, using a Monte Carlo simulation. At December 31, 2011, the Company has recorded a derivative liability of approximately $1,266,900. The change in fair value of the derivative liability of approximately $6,600 from the date of issuance to December 31, 2011 is included in other expense in the 2011 statement of operations.

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Organovo, Inc.

(A development stage company)

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5. Convertible Notes Payable

Convertible notes

From February 9, 2008 through December 31, 2011 the Company raised an aggregate of $2,390,000 in funds through loans consisting of convertible notes (Convertible Notes) to certain shareholders, management, vendors, and investors. The notes bore interest at rates ranging from 8% to 10% per annum and had maturity dates ranging from 2011 to 2018. The Convertible Notes were unsecured and subordinated to certain senior indebtedness of the Company, and for all Convertible Notes the principal plus accrued interest was convertible into the Company s Common stock. During October 2011 the Convertible Notes and accrued interest converted into the Company s Common stock, as discussed below.

Local Bridge

During July and August 2011, $740,000 of Convertible Notes bearing interest at 20% per annum, and warrants to purchase shares of common stock were issued to investors. The Convertible Notes were due at the earlier of 1) one year from the issuance date or 2) one week after the consummation of the Merger (as discussed in Note 12). The number of warrants to be issued was equal to the note principal divided by the exercise price. The exercise price is the per share or per unit fair market value received in the Merger. The notes were convertible at a price per share equal to seventy-five percent (75%) of the per share fair market value of the total consideration received for a share of a public company s Common stock to be determined to be identified upon consummation of a merger.

The Company determined that the beneficial conversion feature and the warrants did not represent embedded derivative instruments. Additionally, the Company did not record the discount for the beneficial conversion feature due to the contingencies surrounding conversion. The beneficial conversion feature was to be recorded when the contingencies are resolved. In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company recorded a discount of approximately $583,700 for the warrants. The discount is being amortized to interest expense over the term of the Convertible Notes using the effective interest method.

The Company calculated the fair value of the warrants using the Black-Scholes Model using a volatility of 109.84%, an interest rate of 1.12% and a dividend yield of zero.

Certain of these Convertible Notes and accrued interest were converted into the Company s Common stock in October 2011, as discussed below. Upon conversion the Company recognized the unamortized debt discount related to these notes to interest expense. The Company recognized approximately $583,700 of interest expense for the amortization of the note discount during the year ended December 31, 2011.

Exchange agreement and release

In October 2011, the Company s Board of Directors and shareholders approved an Exchange Agreement and Release whereby the note holders could exchange their Convertible Notes and accrued interest for shares of the Company s Common stock and warrants to purchase the Company s Common stock. A total of $3,030,000 of principal and approximately $459,800 of accrued interest converted, at prices ranging from $0.27 to $0.75, into 7,676,828 shares of the Company s Common stock, plus five-year warrants to purchase 1,309,750 Common shares at an exercise price of $1.00 per share. The Company calculated the fair value of the warrants using the Black-Scholes Model using a volatility of 110.13%, an interest rate of 1.11% and a dividend yield of zero. For the holders that elected to participate, the Exchange Agreement and Release resulted in the cancellation of the Convertible Notes and release from the note holders for any claims related to the Convertible Notes.

The Company determined that the warrants issued in connection with the Exchange Agreement and Release did not represent embedded derivative instruments. The warrants, valued at approximately $527,600, were classified as equity instruments and recorded as interest expense on the date of issuance.

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At December 31, 2011, a $100,000 Convertible Note remained outstanding, and was paid in cash at the close of the Merger. See Note 12

Private placement On September 18, 2011, the Company s Board of Directors authorized a private placement offering of up to 30 Units (the Units) of its securities at a price of $50,000 per Unit for an aggregate purchase price of $1,500,000. Each Unit consists of a convertible note in the principal amount of $50,000 accruing simple interest at the rate of 6% per annum, plus five-year warrants to purchase 50,000 shares of the next Qualified Round of Equity Securities, at an exercise price of $1.00 per share. The principal plus accrued interest was convertible into the common stock of a public shell company to be identified upon consummation of a merger transaction.

During October and November 2011, $1,500,000 of Convertible Notes bearing interest at 6% per annum with a maturity date of March 30, 2012, and five-year warrants to purchase 1,500,000 shares of the Company s Common stock were issued to investors under the private placement. The Convertible Notes were outstanding at December 31, 2011, and were converted into common stock in connection with the Merger. See Note 12. The warrants are exercisable at $1.00 per share, expire in five years, and contain down-round price protection.

The Company determined that the warrants represent a derivative instrument due to the down-round price protection, and accordingly, the Company recorded a derivative liability related to the warrants of approximately $1,260,300. See Note 4. Additionally, the Company recorded the discount for the beneficial conversion feature of $239,700. The debt discount associated with the warrants and beneficial conversion feature are being amortized to interest expense over the life of the Convertible Notes. The Company recorded approximately $603,800 of interest expense for the amortization of the debt discount during the year ended December 31, 2011.

As consideration for locating investors to participate in this financing, the placement agent earned a cash payment of $195,000. Additionally, upon closing of a Merger transaction, the placement agent will earn five-year warrants to purchase 610,155 shares of the Company s Common stock at $1.00 per share. These warrants contain down round protection and will be classified as derivative liabilities upon issuance.

As of December 31, 2011 and 2010, the outstanding principal balances on the Convertible Notes were $1,600,000 and $2,087,500, respectively. As of December 31, 2011 and 2010, the accrued interest balances on the outstanding Convertible Notes were approximately $24,000 and $252,000, respectively. As of December 31, 2011 and 2010, unamortized discounts relating to the outstanding principal balances were approximately $896,200 and $0, and the $896,200 is expected to be recognized as interest expense in 2012.

Interest expense, including amortization of the note discounts, for the years ended December 31, 2011 and 2010 was approximately $2,066,900 and $161,000, respectively. Interest expense, including amortization of the note discounts, for the period from April 19, 2007 (inception) through December 31, 2011 was approximately $2,318,000.

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Notes to Financial Statements

6. Stockholders Equity

Common stock

In September 2011, the Company amended its Certificate of Incorporation to increase its authorized Common stock from 100,000 shares to 75,000,000 shares. Each share of the Company s Common stock is entitled to one vote and all shares rank equally as to voting and other matters.

On September 18, 2011, the Company approved a 362.282-for-1 forward stock split. The Company did not change the par value of the shares. The stockholders equity section of the accompanying financial statements and all share numbers disclosed throughout the financial statements have been retroactively adjusted to give effect to the forward stock split.

The Company issued 1,729,532 shares of Common stock to the founders in February 2008.

In October 2011, the Company issued 7,676,828 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $3,030,000 and accrued interest totaling approximately $459,800. See Note 5.

Restricted stock awards

In February 2008, four founders, including the Chief Executive Officer (CEO) and three directors of the Company received 11,779,960 shares of restricted Common stock, 25% vesting after the first year and the remaining 75% vesting in equal quarterly portions over the following three years.

On May 8, 2008, the Board of Directors of the Company approved the 2008 Equity Incentive Plan (the 2008 Plan). The 2008 Plan authorized the issuance of up to 1,521,584 Common shares for awards of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, and stock appreciation rights. The 2008 Plan terminates on July 1, 2018.

From 2008 through 2011, the Company issued a total of 1,258,934 shares of restricted Common stock to various employees, advisors, and consultants of the Company. 1,086,662 of those shares were issued under the 2008 Plan and the remaining 172,272 shares were issued outside the plan.

A summary of the Company s restricted stock award activity is as follows:

	Number of Shares
Unvested at December 31, 2007	
Granted	12,627,697
Vested	(65,211)
Canceled / forfeited	

Unvested at December 31, 2008	12,562,486
Granted	130,422
Vested	(5,373,004)
Canceled / forfeited	
Unvested at December 31, 2009	7,319,904
Granted	219,369
Vested	(3,256,191)
Canceled / forfeited	
Unvested at December 31, 2010	**4,283,082**
Granted	**61,406**
Vested	**(3,233,193)**
Canceled / forfeited	
Unvested at December 31, 2011	**1,111,295**

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The fair value of each restricted Common stock award is recognized as stock-based expense over the vesting term of the award. The Company recorded restricted stock-based compensation expense in operating expenses for employees and non-employees of approximately $3,300 and $3,900 for the years ended December 31, 2011 and 2010, respectively. The Company recorded stock-based compensation expense of approximately $16,900 for the period from April 19, 2007 (inception) through December 31, 2011.

As of December 31, 2011 total unrecognized stock-based compensation expense was approximately $1,800, which will be recognized over a weighted average period of less than one year.

Stock options

Under the 2008 Plan, on October 12, 2011 the Company granted an officer of the Company incentive stock options to purchase 896,256 shares of the Company s Common stock at an exercise price of $0.08 per share, vesting over a four-year period commencing in May, 2011. After this grant, no additional issuances are authorized under the 2008 plan.

The following table summarizes stock option activity as of December 31, 2011, and the changes for the year then ended:

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2010			
Options Granted	896,256	$ 0.08	
Options Canceled			
Options Exercised			
Outstanding at December 31, 2011	896,256	$ 0.08	$
Vested and Exercisable at December 31, 2011		$ 0.08	$

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of employee stock options was estimated at the grant date using the following assumptions:

	December 31, 2011
Weighted-average grant date fair value	$ 0.06
Dividend yield	
Volatility	111%
Risk-free interest rate	1.07%
Expected life of options	5.0 years

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The assumed dividend yield was based on the Company s expectation of not paying dividends in the foreseeable future. Due to the Company s limited historical data, the estimated volatility incorporates the historical and implied volatility of comparable companies whose share prices are publicly available. The risk-free interest rate assumption was based on the U.S. Treasury s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The weighted average expected life of options was estimated using the average of the contractual term and the weighted average vesting term of the options.

The total employee stock-based compensation recorded as operating expenses was approximately $5,800 for the year ended December 31, 2011 and for the period from April 19, 2007 (inception) through December 31, 2011.

The total unrecognized compensation cost related to unvested stock option grants as of December 31, 2011 was approximately $48,000, and the weighted average period over which these grants are expected to vest is 4 years

Warrants

During 2011, the Company issued warrants to purchase 2,909,750 shares of its Common stock. These warrants are immediately exercisable at $1.00 per share, and have remaining terms of approximately 4.8 years. None of the warrants were exercised as of December 31, 2011. See Notes 4 and 5.

Common stock reserved for future issuance

Common stock reserved for future issuance consisted of the following at December 31, 2011:

Common stock warrants outstanding	2,909,750
Common stock options outstanding under the 2008 Plan	896,256
Common stock warrants held for convertible debt issuance	1,500,000
Authorized for future grant or issuance under the 2008 Plan	
Total	5,306,606

7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s net deferred tax assets are as follows as of December 31, 2011 and 2010:

December 31,	2011	2010
Deferred tax asset:		
Net operating loss carryforwards	$ 1,620,000	$ 784,000
Research & Development Credits	190,000	99,000
Depreciation and amortization	8,000	(2,000)
Accrued expenses and reserves	107,000	36,000

Total deferred tax assets	1,925,000	917,000
Valuation Allowance	(1,925,000)	(917,000)
	$	$

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A full valuation allowance has been established to offset the deferred tax assets as management cannot conclude that realization of such assets is more likely than not. The valuation allowance increased by approximately $1,008,000 in 2011.

At December 31, 2011, the Company had federal and state net operating loss carryforwards of approximately $4,067,000 and $4,063,000, respectively. The federal and state net operating loss carryforwards will begin expiring in 2029, unless previously utilized.

At December 31, 2011, the Company had federal and state research tax credit carryforwards of approximately $114,500 and $114,800, respectively. The federal research tax credit carryforwards begin expiring in 2029. The state research tax credit carryforwards do not expire.

The Company applies the authoritative guidance for uncertainty in income taxes pursuant to ASC 740-10. The adoption of this guidance did not have a material impact on the Company s financial statements. The Company did not record any accruals for income tax accounting uncertainties for the years ended December 31, 2011 or 2010.

The Company s policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. The Company did not accrue either interest or penalties as of December 31, 2011 or 2010.

The Company is subject to taxation in the United States, and the state of California. As of December 31, 2011, the Company s tax years from inception are subject to examination by the tax authorities. The Company is not currently under examination by the United States federal or state jurisdictions.

8. Licensing Agreements and Research Contracts

University of Missouri

On March 24, 2009 the Company entered into a license agreement with the Curators of the University of Missouri to in-license certain technology and intellectual property relating to self-assembling cell aggregates and to intermediate cellular units. The Company received the exclusive worldwide rights to commercialize products comprising this technology for all fields of use. The Company paid to the University of Missouri a nonrefundable license fee of $25,000 and has committed to reimburse the University of Missouri for certain prior and future patent costs. Each year the Company is required to pay the University of Missouri royalties ranging from 1% to 3% of net sales depending on the level of net sales achieved by the Company each year. A minimum annual royalty of $25,000 is due beginning 2 years after the calendar year of the first commercial sale and is credited to sales royalties. The license agreement terminates upon expiration of the patents licensed and is subject to certain conditions as defined in the license agreement, which are

expected to expire after 2029. The $25,000 license fee is included in Other Assets in the accompanying balance sheets and is being amortized over the life of the related patent.

On March 12, 2010, the Company entered into a license agreement with the Curators of the University of Missouri to in-license certain technology and intellectual property relating to engineered biological nerve grafts. The Company received the exclusive worldwide rights to commercialize products comprising this technology for all fields of use. The Company paid to University of Missouri a nonrefundable license fee of $5,000 and has committed to reimburse the University of Missouri for certain prior and future patent costs. Each year the Company is required to pay the University of Missouri royalties ranging from 1% to 3% of net sales depending on the level of net sales achieved by the Company each year. A minimum annual royalty of $5,000 is due beginning 2 years after the calendar year of the first commercial sale and is credited to sales royalties. An additional royalty of $12,500 is due if there are no net sales within five years from the effective date of the license. The license agreement terminates upon expiration of the patents licensed and is subject to certain conditions as defined in the license agreement. The $5,000 license fee is included in Other Assets and is being amortized over the life of the related patent.

On May 2, 2011, the Company entered into a license agreement with Clemson University Research Foundation to in-license certain technology and intellectual property relating to ink-jet printing of viable cells. The Company received the exclusive worldwide rights to commercialize products comprising this technology for all fields of use. The Company agreed to pay Clemson University a nonrefundable license fee of $32,500, payable in four quarterly payments with the last payment due in April 2012. The Company has also committed to reimburse Clemson University for certain prior and future patent costs. Each year the Company is required to pay the University royalties ranging from 1.5% to 3% of net sales depending on the level of net sales reached each year and minimum annual fees ranging from $20,000 to $40,000. Specific terms of the royalty and license agreements are confidential. The license agreement terminates upon expiration of the patents licensed, which is expected to expire in May 2024, and is subject to certain conditions as defined in the license agreement.

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Organovo, Inc.

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Notes to Financial Statements

Clemson University 2011 licensing agreement

On May 2, 2011 the Company entered into a license agreement with Clemson University Research Foundation to in-license certain technology and intellectual property relating to ink-jet printing of viable cells. The Company received the exclusive worldwide rights to commercialize products comprising this technology for all fields of use. The Company agreed to pay Clemson University a nonrefundable license fee in cash and in the form of a convertible promissory note. The Company has also committed to reimburse Clemson University for certain prior and future patent costs. Each year the Company is required to pay the University royalties. Specific terms of the royalty and license agreements are confidential. The license agreement terminates upon expiration of the patents licensed and is subject to certain conditions as defined in the license agreement.

No royalty fees have been incurred under the license agreements as of December 31, 2011.

Capitalized license fees consisted of the following:

December 31,	**2011**	2010
License fees	**$ 95,000**	$ 30,000
Less accumulated amortization	**(7,700)**	(2,500)
License fees, net	**$ 87,300**	$ 27,500

Amortization expense of licenses was approximately $5,200, $1,500 and 7,700 for 2011, 2010 and for the period from April 19, 2007 (inception) through December 31, 2011, respectively. At December 31, 2011, the weighted average remaining amortization period for all licenses was approximately 13 years. The annual amortization expense of licenses for the next five years is estimated to be approximately $6,000 per year.

9. Related Party Transactions

Note payable - related party

In October 2010, the CEO loaned the Company $25,000 and was issued an interest-free note payable for the amount of the loan. At various points in 2011, the CEO made interest-free, short-term loans to the Company which in the aggregate totaled $225,000. All the notes were repaid in full during 2011. Imputed interest on the loans was minimal.

There was approximately $0 and $94,400 in amounts due to the CEO recorded in accounts payable as of December 31, 2011 and 2010, respectively.

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10. Commitments and Contingencies

Operating leases The Company leases office and laboratory space under non-cancelable operating leases. The Company records rent expense on a straight-line basis over the life of the lease and records the excess of expense over the amounts paid as deferred rent.

Rent expense was approximately $145,200 and $107,500 for the years ended December 31, 2011 and 2010, respectively. Rent expense was approximately $324,600 for the period from April 19, 2007 (inception) through December 31, 2011.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

Year Ending December 31,	
2012	$ 125,095
Thereafter	
Total	$ 125,095

11. Concentrations

Credit risk Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company maintains cash balances at various financial institutions primarily located in San Diego. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Company has not experienced losses in such accounts, and management believes that the Company is not exposed to any significant credit risk with respect to its cash and cash equivalents.

12. Subsequent Events

Merger transaction On February 8, 2012, the Company merged with and into Organovo Acquisition Corp. (Acquisition Corp.), a wholly-owned subsidiary of Organovo Holdings, Inc., a publicly traded Delaware corporation (Organovo Holdings), with the Company surviving the merger as a wholly-owned subsidiary of Organovo Holdings (the Merger). As a result of the Merger, Organovo Holdings acquired the business of the Company, and will continue the existing business operations of the Company.

Simultaneously with the Merger, on February 8, 2012 (the Closing Date), all of the issued and outstanding shares of the Company s common stock converted, on a 1 for 1 basis, into shares of Organovo Holding s common stock, par value $0.001 per share (Common Stock). Also on the Closing Date, all of the issued and outstanding options to purchase shares of the Company s common stock and other outstanding warrants to purchase the Company s common stock, and all of the issued and outstanding Bridge Warrants (as defined below) to purchase shares of the Company s Common Stock, converted,

respectively, into options (the New Options), warrants (the New Warrants) and new bridge warrants (the New Bridge Warrants) to purchase shares of Organovo Holding s Common Stock. The New Bridge Warrants, the New Warrants and the New Bridge Options were converted on a 1 for 1 basis. The New Options will be administered under the Company s 2008 Equity Incentive Plan (the 2008 Plan), which Organovo Holding s assumed and adopted on the Closing Date in connection with the Merger.

Specifically, on the Closing Date, (i) 22,445,254 shares of Common Stock were issued to the Company s former stockholders; (ii) New Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan were issued to the Company s optionees pursuant to the assumption of the 2008 Plan by Organovo Holdings; (iii) New Warrants to purchase 1,309,750 shares of Organovo Holdings Common Stock at $1.00 per share were issued to holders of the Company s warrants; and (iv) New Bridge Warrants to purchase 1,500,000 shares of Organovo Holdings Common Stock at $1.00 per share were issued to the Company s Bridge Investors.

In connection with three separate closings of a private placement transaction completed in connection with the Merger (the Offering), the Company received gross proceeds of approximately $6,500,000 (including $1,500,000 previously received from the conversion of outstanding convertible notes payable), $1,800,000 and $6,900,000 on February 8, 2012, February 29, 2012 and March 16, 2012, respectively.

For all three closings of the Offering, the Company raised total gross proceeds of $15,247,959 and total net proceeds of $11,593,065.91 (or $12,811,897.11, including the conversion of the Bridge Notes referred to above). The Company issued 15,247,987 shares of Organovo Holdings Common Stock and warrants to purchase 16,747,987 shares of Organovo Holdings Common Stock (including warrants to purchase 1,500,000 shares to former holders of the Bridge Notes) exercisable at $1.00 to investors in the Offering. The placement agent and its selected dealers were paid total cash commissions of $1,372,260 and the Placement Agent was paid an expense allowance of $411,678 and was issued Placement Agent warrants to purchase 6,099,195 shares of Organovo Holdings Common Stock at an exercise price of $1.00 per share (including warrants to purchase 610,155 shares issued in connection with issuance of the Bridge Notes and subsequently exchanged for new warrants in the Merger).

The Merger will be treated as a recapitalization of the Company for financial accounting.

On February 8, 2012, the Company merged with and into Organovo Acquisition Corp. (Acquisition Corp.), a wholly-owned subsidiary of Organovo Holdings, Inc., a publicly traded Delaware corporation (Organovo Holdings), with the Company surviving the merger as a wholly-owned subsidiary of Organovo Holdings (the Merger). As a result of the Merger, Organovo Holdings acquired the business of the Company, and will continue the existing business operations of the Company.

Simultaneously with the Merger, on February 8, 2012 (the Closing Date), all of the issued and outstanding shares of the Company s common stock converted, on a 1 for 1 basis, into shares of Organovo Holding s common stock, par value $0.001 per share (Common Stock). Also on the Closing Date, all of the issued and outstanding options to purchase shares of the Company s common stock and other outstanding warrants to purchase the Company s common stock, and all of the issued and outstanding Bridge Warrants (as defined below) to purchase shares of the Company s Common Stock, converted, respectively, into options (the New Options), warrants (the New Warrants) and new bridge warrants (the New Bridge Warrants) to purchase shares of Organovo Holding s Common Stock. The New Bridge Warrants, the New Warrants and the New Bridge Options were converted on a 1 for 1 basis. The New Options will be administered under the Company s 2008 Equity Incentive Plan (the 2008 Plan), which Organovo Holding s assumed and adopted on the Closing Date in connection with the Merger.

Specifically, on the Closing Date, (i) 22,445,254 shares of Common Stock were issued to the Company s former stockholders; (ii) New Options to purchase 896,256 shares of Common Stock granted under the 2008 Plan were issued to the Company s optionees pursuant to the assumption of the 2008 Plan by Organovo Holdings; (iii) New Warrants to purchase 1,309,750 shares of Organovo Holdings Common Stock at $1.00 per share were issued to holders of the Company s warrants; and (iv) New Bridge Warrants to purchase 1,500,000 shares of Organovo Holdings Common Stock at $1.00 per share were issued to the Company s Bridge Investors.

In connection with three separate closings of a private placement transaction completed in connection with the Merger (the Offering), the Company received gross proceeds of approximately $6,500,000 (including $1,500,000 previously received from the conversion of outstanding convertible notes payable), $1,800,000 and $6,900,000 on February 8, 2012, February 29, 2012 and March 16, 2012, respectively.

For all three closings of the Offering, the Company raised total gross proceeds of $15,247,959 and total net proceeds of $11,593,065.91 (or $12,811,897.11, including the conversion of the Bridge Notes referred to above). The Company issued 15,247,987 shares of Organovo Holdings Common Stock and warrants to purchase 16,747,987 shares of Organovo Holdings Common Stock (including warrants to purchase 1,500,000 shares to former holders of the Bridge Notes) exercisable at $1.00 to investors in the Offering. The placement agent and its selected dealers were paid total cash commissions of $1,372,260 and the Placement Agent was paid an expense allowance of $411,678 and was issued Placement Agent warrants to purchase 6,099,195 shares of Organovo Holdings Common Stock at an exercise price of $1.00 per share (including warrants to purchase 610,155 shares issued in connection with issuance of the Bridge Notes and subsequently exchanged for new warrants in the Merger).

The Merger will be treated as a recapitalization of the Company for financial accounting purposes. The historical financial statements of Organovo Holdings before the Merger will be replaced with the historical financial statements of the Company before the Merger in all future filings with the Securities and Exchange Commission (the SEC).

Before the Merger, Organovo Holdings board of directors and stockholders adopted the 2012 Equity Incentive Plan (the 2012 Plan). The 2012 Plan provides for the issuance of 6,553,9856 shares of Organovo Holdings Common Stock to executive officers, directors, advisory board members and employees. In addition, Organovo Holdings assumed and adopted the Company s 2008 Plan, and as described above option holders under that plan were granted New Options to purchase Common Stock. No further options will be granted under the 2008 Plan. The parties have taken all actions necessary to ensure that the Merger is treated as a tax free exchange under Section 368(a) of the Internal Revenue Code of 1986, as amended.

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Organovo, Inc.

(A development stage company)

Notes to Financial Statements

New facilities lease The Company entered into a new facilities lease at 6275 Nancy Ridge Drive, San Diego, CA 92121. The lease was signed on February 27, 2012 with target occupancy of July 15, 2012. The base rent under the lease is approximately $38,800 per month with 3% annual escalators. The lease term is 48 months with an option for the Company to extend the lease at the end of the lease term.

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UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

Organovo Holdings, Inc. (f/k/a Real Estate Restoration & Rental, Inc.), a Delaware corporation (the Parent), Organovo Acquisition Corp., a Delaware corporation (the Acquisition Subsidiary) and Organovo, Inc., a Delaware corporation (the Company), are collectively referred to as the Parties.

The Parties entered into a merger agreement on February 8, 2012 that provides for a merger of the Acquisition Subsidiary with and into the Company, with the Company remaining as the surviving entity after the merger and operating a wholly-owned subsidiary of Parent (the Merger). In the Merger, the stockholders of the Company received common stock of the Parent in exchange for their capital stock of the Company.

Simultaneously with the closing of the Merger, the Parent completed a Private Placement (the Private Placement) of 5,000,500 units at the purchase price of $1.00 per unit. Each unit consisted of one share of the Parent s common stock, par value $0.001 per share, and one five year warrant to purchase one share of Parent common stock at an exercise price of $1.00 per share.

Also simultaneously with the closing of the Merger, the Company converted principal and interest of $1,525,387 related to its bridge financing (the Bridge Conversion) into 1,525,387 shares of common stock, and issued five year warrants to purchase 1,525,387 shares of common stock at $1.00 per share.

Immediately following the Merger, the Parent split-off its wholly owned subsidiary, Organovo Split Corp., a Delaware corporation (the Split-Off Subsidiary), through the sale of all of the outstanding capital stock of the Split-Off Subsidiary (the Split-Off) upon the terms and conditions of a split-off agreement.

The following unaudited pro forma combined balance sheet combines the historical balance sheet of the Parent as of December 31, 2011 and the historical balance sheet of the Company as of December 31, 2011, following the completion of the Merger, Private Placement, Bridge Conversion and Split-Off (collectively the Transactions). The Company remained as the surviving corporation of the Merger, becoming a wholly-owned subsidiary of the Parent. The pro forma combined balance sheet presented herein reflects the effects of the Transactions as if they had been consummated on December 31, 2011.

The following unaudited pro forma combined statements of operations combines the historical statements of operations of the Parent for the year ended December 31, 2011 and the Company for the year ended December 31, 2011, giving effect to the Transactions, as if they had occurred on January 1, 2011.

The following unaudited pro forma combined financial statements are presented to illustrate the estimated effects of the Transactions. The historical financial information has been adjusted to give effect to pro forma events that are directly attributable to the Transactions and factually supportable.

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The following information should be read in conjunction with the pro forma combined financial statements.

Accompanying notes to the unaudited pro forma combined financial statements.

Separate historical financial statements of the Parent for the year ended December 31, 2011 as filed in its Annual Report on Form 10-K with the Securities and Exchange Commission.

Separate historical financial statements of the Company for the year ended December 31, 2011 included it this Current Report on Form 8-K/A.

The unaudited pro forma combined financial statements are presented for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the Transactions been completed at the dates indicated. In addition, the unaudited pro forma combined financial statements do not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma combined financial statements were prepared using the reverse acquisition application of the acquisition method of accounting as described in ASC 805-40-05-2, with the Company treated as the acquiror for U.S. GAAP accounting and financial reporting purposes. Accordingly, the unaudited pro forma combined financial statements are presented as a continuation of the Company s financial statements with adjustments to reflect the Transactions.

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Organovo Holdings, Inc.

Pro Forma Combined Balance Sheet at December 31, 2011

	Real Estate Restoration & Rental, Inc. December 31, 2011	Organovo, Inc. December 31, 2011	Pro Forma Adjustments		Organovo Holdings, Inc. Pro Forma
Assets					
Current Assets					
Cash and cash equivalents	$ 753	$ 339,607	$ (104,219)	(1)	$ 4,585,823
			5,000,500	(3)	
			(650,065)	(3)	
			(753)	(4)	
Inventory		291,881			291,881
Deferred financing costs		318,843	(248,857)	(2)	69,986
Prepaid expenses and other current assets	2,500	79,874	(2,500)	(4)	79,874
Total current assets	3,253	1,030,205	3,994,106		5,027,564
Fixed Assets - Net		278,208			278,208
Other Assets - Net		100,419			100,419
Total assets	$ 3,253	$ 1,408,832	$ 3,994,106		$ 5,406,191
Liabilities and Stockholders Equity (Deficit)					
Current Liabilities					
Accounts payable	$ 61,198	$ 657,560	$ (61,198)	(4)	$ 657,560
Accrued expenses		437,837			437,837
Deferred revenue	3,323	152,500	(3,323)	(4)	152,500
Accrued interest payable		24,018	796	(1)	
			(4,219)	(1)	
			4,792	(2)	
			(25,387)	(2)	
Convertible notes payable, net	9,500	703,833	(100,000)	(1)	
			(1,500,000)	(2)	
			896,167	(2)	
			(9,500)	(4)	
Total current liabilities	74,021	1,975,748	(801,872)		1,247,897
Derivative liabilities		1,266,869	52,876	(2)	1,573,169
			10,751	(2)	
			242,673	(3)	
Total liabilities	74,021	3,242,617	(495,572)		2,821,066
Commitments and Contingencies					
Stockholders Equity (Deficit)					
Common stock, $0.0001 par value; 75,000,000 shares authorized, 22,445,254 shares issued and outstanding prior to the merger; 28,971,141 shares issued and outstanding after the merger	680	2,245	152	(2)	2,897
			500	(3)	
			(680)	(4)	
Additional paid-in capital	181,245	4,855,526	1,525,235	(2)	10,477,272

			(10,751)	(2)	
			5,000,000	(3)	
			(650,065)	(3)	
			(242,673)	(3)	
			(181,245)	(4)	
Deficit accumulated during the development stage	(252,693)	(6,691,556)	(796)	(1)	(7,895,044)
			(4,792)	(2)	
			(896,167)	(2)	
			(248,857)	(2)	
			(52,876)	(2)	
			252,693	(4)	
Total stockholders equity (deficit)	(70,768)	(1,833,785)	4,489,678		2,585,125
Total Liabilities and Stockholders Equity (Deficit)	$ 3,253	$ 1,408,832	$ 3,994,106		$ 5,406,191

See notes to unaudited pro forma combined financial information.

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Organovo Holdings, Inc.

Pro Forma Combined Statement of Operations for the Year Ended December 31, 2011

	Real Estate Restoration & Rental, Inc. 12 Months Ended December 31, 2011	Organovo, Inc. Year Ended December 31, 2011	Pro Forma Adjustments		Organovo Holdings, Inc. Pro Forma				
	$ 1,677	$							
ber 30,	115,120	(11,901)	(25,512)	115,120	865,123	927,324	(17,402)	(129,326)	(930,234
ss:						(101,784)			
efits							(4,842)		
ive loss mon						(19,097)			
yee stock wards					(4,093) (4,846)			4,846	
ensation nership		672			1,390 2,587 611			2,463	
			(1,535)						(616
ber 30,	115,120	(11,229)	(27,047)	115,120	860,772	806,443	(22,244)	(122,017)	(930,850
ss:						(69,368)			
efits							(413)		
ive loss mon						(19,223)			
yee stock wards	29			29	2,074 (307)			307	
					2,297				

ensation				5,777					
s				2,348					
ership	146			215			1,268		
		(48)		343					(693)
ber 30,	115,149	(11,083)	(27,095)	$ 115,149	$ 873,519	$ 717,852	$ (22,657)	$ (120,442)	$ (931,543)

See accompanying notes.

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KB HOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended November 30,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net loss	$ (69,368)	$ (101,784)	$ (976,131)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Equity in (income) loss of unconsolidated joint ventures	(772)	35,600	135,210
Distributions of earnings from unconsolidated joint ventures	20,410	7,662	22,183
Amortization of discounts and issuance costs	2,149	1,586	2,062
Depreciation and amortization	3,289	5,235	9,317
Loss on voluntary termination of revolving credit facility/early redemption of debt	1,802	976	10,388
Provision for deferred income taxes			221,306
Tax benefits from stock-based compensation	(583)	4,093	2,097
Stock-based compensation expense	8,074	3,977	5,018
Inventory impairments and land option contract abandonments	19,925	168,149	606,791
Goodwill impairment			67,970
Changes in assets and liabilities:			
Receivables	211,318	35,667	(60,565)
Inventories	(129,334)	433,075	545,850
Accounts payable, accrued expenses and other liabilities	(199,205)	(252,620)	(282,781)
Other, net	(1,669)	8,296	32,607
Net cash provided (used) by operating activities	(133,964)	349,912	341,322
Cash flows from investing activities:			
Investments in unconsolidated joint ventures	(15,669)	(19,922)	(59,625)
Sales (purchases) of property and equipment, net	(420)	(1,375)	7,073
Net cash used by investing activities	(16,089)	(21,297)	(52,552)
Cash flows from financing activities:			
Change in restricted cash	(1,185)	1,112	(115,404)
Proceeds from issuance of senior notes		259,737	
Payment of senior notes issuance costs		(4,294)	
Repayment of senior and senior subordinated notes		(453,105)	(305,814)
Payments on mortgages and land contracts due to land sellers and other loans	(101,154)	(78,983)	(12,800)
Issuance of common stock under employee stock plans	1,851	3,074	6,958
Excess tax benefit associated with exercise of stock options	583		
Payments of cash dividends	(19,223)	(19,097)	(62,967)
Repurchases of common stock	(350)	(616)	(967)

Net cash used by financing activities	(119,478)	(292,172)	(490,994)
Net increase (decrease) in cash and cash equivalents	(269,531)	36,443	(202,224)
Cash and cash equivalents at beginning of year	1,177,961	1,141,518	1,343,742
Cash and cash equivalents at end of year	$ 908,430	$ 1,177,961	$ 1,141,518

See accompanying notes.

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KB HOME
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Operations. KB Home is a builder of single-family homes, townhomes and condominiums. As of November 30, 2010, the Company had ongoing operations in Arizona, California, Colorado, Florida, Maryland, Nevada, North Carolina, Texas and Virginia. The Company also offers mortgage banking services through KBA Mortgage, a joint venture with a subsidiary of Bank of America, N.A. KBA Mortgage is accounted for as an unconsolidated joint venture within the Company s financial services reporting segment. The Company provides title and insurance services through its financial services subsidiary, KB Home Mortgage Company (KBHMC).

Basis of Presentation. The consolidated financial statements include the accounts of the Company and all significant subsidiaries and joint ventures in which a controlling interest is held, as well as certain VIEs required to be consolidated pursuant to ASC 810. All intercompany transactions have been eliminated. Investments in unconsolidated joint ventures in which the Company has less than a controlling interest are accounted for using the equity method.

Use of Estimates. The accompanying consolidated financial statements have been prepared in conformity with GAAP and, therefore, include amounts based on informed estimates and judgments of management. Actual results could differ from these estimates.

Cash and Cash Equivalents and Restricted Cash. The Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents. The Company s cash equivalents totaled $797.2 million at November 30, 2010 and $1.07 billion at November 30, 2009. The majority of the Company s cash and cash equivalents were invested in money market accounts and U.S. government securities.

Restricted cash of $115.5 million at November 30, 2010 consisted of $88.7 million of cash deposited with various financial institutions that is required as collateral for the LOC Facilities, and $26.8 million of cash in an escrow account required as collateral for a surety bond. Restricted cash of $114.3 million at November 30, 2009 consisted solely of cash deposited in an interest reserve account with the administrative agent of the Credit Facility pursuant to the Credit Facility s terms. The Credit Facility was terminated effective March 31, 2010 and the cash deposited in the interest reserve account was withdrawn.

Property and Equipment, Operating Properties and Depreciation. Property and equipment are recorded at cost and are depreciated over their estimated useful lives, which generally range from two to 10 years, using the straight-line method. Operating properties are recorded at cost and are depreciated over their estimated useful lives of 39 years, using the straight-line method. Repair and maintenance costs are charged to earnings as incurred. Property and equipment and operating properties are included in other assets on the consolidated balance sheets. Property and equipment totaled $9.6 million, net of accumulated depreciation of $27.1 million, at November 30, 2010, and $12.5 million, net of accumulated depreciation of $30.0 million, at November 30, 2009. Depreciation expense totaled $3.3 million in 2010, $5.2 million in 2009 and $9.3 million in 2008.

Homebuilding Operations. Revenues from housing and other real estate sales are recognized in accordance with ASC 360 when sales are closed and title passes to the buyer. Sales are closed when all of the following conditions are met: a sale is consummated, a sufficient down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured.

Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are generally allocated on a relative fair value basis to homes within a parcel or community. Land and land development costs include related interest and real estate taxes.

Housing and land inventories are stated at cost, unless the carrying amount is determined not to be recoverable, in which case the inventories are written down to fair value in accordance with ASC 360. ASC 360 requires that real estate assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of the amounts and timing of revenues, costs and expenses, and other factors. If real estate assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the

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assets exceeds the fair value of the assets. Fair value is determined based on estimated future cash flows discounted for inherent risks associated with the real estate assets, or other valuation techniques.

Fair Value Measurements. ASC 820 defines fair value, provides a framework for measuring the fair value of assets and liabilities under GAAP and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair value measurements are used for inventories on a nonrecurring basis when events and circumstances indicate the carrying value may not be recoverable. Fair value is determined based on estimated future cash flows discounted for inherent risks associated with real estate assets, or other valuation techniques.

The Company s financial instruments consist of cash and cash equivalents, restricted cash, mortgages and notes receivable, senior notes, and mortgages and land contracts due to land sellers and other loans. Fair value measurements of financial instruments are determined by various market data and other valuation techniques as appropriate. When available, the Company uses quoted market prices in active markets to determine fair value.

Financial Services Operations. Revenues from the Company s financial services segment are generated primarily from interest income, title services, and insurance commissions. Interest income is accrued as earned. Title services revenues are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously at the time each home is closed. Insurance commissions are recognized when policies are issued.

Warranty Costs. The Company provides a limited warranty on all of its homes. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company s warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. The Company s primary assumption in estimating the amounts it accrues for warranty costs is that historical claims experience is a strong indicator of future claims experience. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary based on its assessment.

Insurance. The Company self-insures a portion of its overall risk through the use of a captive insurance subsidiary. The Company records expenses and liabilities based on the estimated costs required to cover its self-insured retention and deductible amounts under its insurance policies, and on the estimated costs of potential claims and claim adjustment expenses above its coverage limits or that are not covered by its policies. These estimated costs are based on an analysis of the Company s historical claims and include an estimate of construction defect claims incurred but not yet reported.

The Company engages a third-party actuary that uses the Company s historical claim and expense data, as well as industry data, to estimate its unpaid claims, claim adjustment expenses and incurred but not reported claims liabilities for the risks that the Company is assuming under the self-insured portion of its general liability insurance. Projection of losses related to these liabilities requires actuarial assumptions that are subject to variability due to uncertainties regarding construction defect claims relative to the Company s markets and the types of product it builds, claim settlement patterns, insurance industry practices and legal or regulatory interpretations, among other factors. Because of the degree of judgment required and the potential for variability in the underlying assumptions used in determining these estimated liability amounts, actual future costs could differ from the Company s currently estimated amounts.

Advertising Costs. The Company expenses advertising costs as incurred. The Company incurred advertising costs of $25.9 million in 2010, $16.5 million in 2009 and $34.6 million in 2008.

Stock-Based Compensation. With the approval of the management development and compensation committee, consisting entirely of independent members of the Company s board of directors, the Company has provided some compensation benefits to its employees in the form of stock options, restricted stock, phantom shares and SARs.

The Company measures and recognizes compensation expense associated with its grant of equity-based awards in accordance with ASC 718, which requires that companies measure and recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements over the vesting period. The Company estimates the fair value of stock options and SARs granted using the Black-Scholes option-pricing model. ASC 718 also requires the tax benefit resulting from tax deductions in excess of the compensation expense recognized for those options to be reported in the statement of cash flows as an operating cash outflow and a financing cash inflow.

Income Taxes. Income taxes are accounted for in accordance with ASC 740. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on

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the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine whether a valuation allowance is required. In accordance with ASC 740, the Company assesses whether a valuation allowance should be established based on its determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which those temporary differences become deductible. Judgment is required in determining the future tax consequences of events that have been recognized in the Company s consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company s consolidated financial position or results of operations.

Accumulated Other Comprehensive Loss. The accumulated balances of other comprehensive loss in the consolidated balance sheets as of November 30, 2010 and 2009 are comprised solely of adjustments recorded directly to accumulated other comprehensive loss in accordance with ASC 715. ASC 715 requires an employer to recognize the funded status of defined postretirement benefit plans as an asset or liability on the balance sheet and requires any unrecognized prior service costs and actuarial gains/losses to be recognized in accumulated other comprehensive income (loss).

Loss Per Share. Basic and diluted loss per share were calculated as follows (in thousands, except per share amounts):

	Years Ended November 30,		
	2010	**2009**	**2008**
Numerator:			
Net loss	$ (69,368)	$ (101,784)	$ (976,131)
Denominator:			
Basic and diluted average shares outstanding	76,889	76,660	77,509
Basic and diluted loss per share	$ (.90)	$ (1.33)	$ (12.59)

All outstanding stock options were excluded from the diluted loss per share calculations for the years ended November 30, 2010, 2009 and 2008 because the effect of their inclusion would be antidilutive, or would decrease the reported loss per share.

Recent Accounting Pronouncements. In January 2010, the FASB issued ASU 2010-06, which provides amendments to Accounting Standards Codification Subtopic No. 820-10, Fair Value Measurements and Disclosures Overall. ASU 2010-06 requires additional disclosures and clarifications of existing disclosures for recurring and nonrecurring fair value measurements. The revised guidance was effective for the Company in the second quarter of 2010, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. ASU 2010-06 concerns disclosure only and will not have an impact on the Company s consolidated financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, which addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue

and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in ASU 2010-29 also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial position or results of operations.

Reclassifications. Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to the 2010 presentation.

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Note 2. Segment Information

As of November 30, 2010, the Company had identified five reporting segments, comprised of four homebuilding reporting segments and one financial services reporting segment, within its consolidated operations in accordance with Accounting Standards Codification Topic No. 280, Segment Reporting. As of November 30, 2010, the Company s homebuilding reporting segments conducted ongoing operations in the following states:

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

The Company s homebuilding reporting segments are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to first-time, move-up and active adult homebuyers.

The Company s homebuilding reporting segments were identified based primarily on similarities in economic and geographic characteristics, product types, regulatory environments, methods used to sell and construct homes and land acquisition characteristics. The Company evaluates segment performance primarily based on segment pretax results.

The Company s financial services reporting segment provides title and insurance services to the Company s homebuyers. This segment also provides mortgage banking services to the Company s homebuyers through KBA Mortgage. The Company s financial services reporting segment conducts operations in the same markets as the Company s homebuilding reporting segments.

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

The following tables present financial information relating to the Company s reporting segments (in thousands):

	Years Ended November 30,		
	2010	2009	2008
Revenues:			
West Coast	$ 700,645	$ 812,207	$ 1,055,021
Southwest	187,736	218,096	618,014
Central	436,404	434,400	594,317
Southeast	256,978	351,712	755,817
Total homebuilding revenues	1,581,763	1,816,415	3,023,169
Financial services	8,233	8,435	10,767
Total revenues	$ 1,589,996	$ 1,824,850	$ 3,033,936
Pretax income (loss):			

West Coast	$ 60,250	$ (88,442)	$ (298,047)
Southwest	(15,802)	(48,572)	(212,194)
Central	(1,772)	(29,382)	(82,789)
Southeast	(42,801)	(78,414)	(258,568)
Corporate and other (a)	(88,386)	(85,573)	(140,151)
Total homebuilding loss	(88,511)	(330,383)	(991,749)
Financial services	12,143	19,199	23,818
Total pretax loss	$ (76,368)	$ (311,184)	$ (967,931)

(a) Corporate and other includes corporate general and administrative expenses and goodwill impairment.

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	Years Ended November 30,		
	2010	2009	2008
Equity in income (loss) of unconsolidated joint ventures:			
West Coast	$ 1,476	$ (7,761)	$ (45,180)
Southwest	(8,631)	(15,509)	(35,633)
Central		506	(4,515)
Southeast	898	(26,851)	(67,422)
Total	$ (6,257)	$ (49,615)	$ (152,750)
Inventory impairments:			
West Coast	$ 3,828	$ 44,895	$ 229,059
Southwest	962	28,833	160,574
Central	348	23,891	51,518
Southeast	4,677	23,229	124,726
Total	$ 9,815	$ 120,848	$ 565,877
Land option contract abandonments:			
West Coast	$ 797	$ 32,679	$ 17,475
Southwest			187
Central	6,511		
Southeast	2,802	14,622	23,252
Total	$ 10,110	$ 47,301	$ 40,914
Joint venture impairments:			
West Coast	$	$ 7,190	$ 43,116
Southwest		5,426	30,434
Central			2,629
Southeast		25,915	65,671
Total	$	$ 38,531	$ 141,850

	November 30,	
	2010	2009
Assets:		
West Coast	$ 965,323	$ 838,510
Southwest	376,234	346,035
Central	328,938	357,688
Southeast	372,611	361,551
Corporate and other	1,037,200	1,498,781
Total homebuilding assets	3,080,306	3,402,565
Financial services	29,443	33,424

Total assets	$ 3,109,749	$ 3,435,989
Investments in unconsolidated joint ventures:		
West Coast	$ 37,830	$ 54,795
Southwest	59,191	56,779
Central Southeast	8,562	8,094
Total	$ 105,583	$ 119,668

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Note 3. Financial Services

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

	Years Ended November 30,		
	2010	2009	2008
Revenues			
Interest income	$ 6	$ 31	$ 209
Title services	992	1,184	2,369
Insurance commissions	7,235	7,220	8,189
Total	8,233	8,435	10,767
Expenses			
General and administrative	(3,119)	(3,251)	(4,489)
Operating income	5,114	5,184	6,278
Equity in income of unconsolidated joint venture	7,029	14,015	17,540
Pretax income	$ 12,143	$ 19,199	$ 23,818

	November 30,	
	2010	2009
Assets		
Cash and cash equivalents	$ 4,029	$ 3,246
Receivables	1,607	1,395
Investment in unconsolidated joint venture	23,777	28,748
Other assets	30	35
Total assets	$ 29,443	$ 33,424
Liabilities		
Accounts payable and accrued expenses	$ 2,620	$ 7,050
Total liabilities	$ 2,620	$ 7,050

Although KBHMC ceased originating and selling mortgage loans on September 1, 2005, it may be required to repurchase an individual loan that it funded on or before August 31, 2005 and sold to an investor if the representations or warranties that it made in connection with the sale of the loan are breached, in the event of an early payment default, or if the loan does not comply with the underwriting standards or other requirements of the ultimate investor.

Note 4. Receivables

Mortgages and notes receivable totaled $40.5 million at November 30, 2010 and $70.7 million at November 30, 2009. Mortgages and notes receivable are primarily related to land sales. Interest rates on mortgages and notes receivable ranged from 3% to 8% at November 30, 2010 and from 4% to 8% at November 30, 2009. Included in mortgages and notes receivable at November 30, 2010 is a note receivable of $40.0 million on which the Company is in the process of foreclosing on the underlying real estate.

Federal and state income taxes receivable totaled $.8 million at November 30, 2010 and $191.5 million at November 30, 2009. Other receivables of $66.7 million at November 30, 2010 and $75.7 million at November 30, 2009 included amounts due from municipalities and utility companies, and escrow deposits. Other receivables were net of allowances for doubtful accounts of $31.2 million in 2010 and $48.9 million in 2009.

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Note 5. Inventories

Inventories consisted of the following (in thousands):

	November 30, 2010	2009
Homes, lots and improvements in production	$ 1,298,085	$ 1,091,851
Land under development	398,636	409,543
Total	$ 1,696,721	$ 1,501,394

Inventories include land and land development costs, direct construction costs, capitalized interest and real estate taxes. Land under development primarily consists of parcels on which 50% or less of estimated development costs have been incurred.

Interest is capitalized to inventories while the related communities are being actively developed and until homes are completed. Capitalized interest is amortized in construction and land costs as the related inventories are delivered to homebuyers. The Company s interest costs are as follows (in thousands):

	Years Ended November 30, 2010	2009	2008
Capitalized interest at beginning of year	$ 291,279	$ 361,619	$ 348,084
Capitalized interest related to consolidation of previously unconsolidated joint ventures	9,914		
Interest incurred (a)	122,230	119,602	156,402
Interest expensed/loss on early redemption of debt (a)	(68,307)	(51,763)	(12,966)
Interest amortized to construction and land costs	(105,150)	(138,179)	(129,901)
Capitalized interest at end of year (b)	$ 249,966	$ 291,279	$ 361,619

(a) Amounts for the year ended November 30, 2010 include a total of $1.8 million of debt issuance costs written off in connection with the Company s voluntary reduction of the aggregate commitment under the Credit Facility from $650.0 million to $200.0 million and the subsequent voluntary termination of the Credit Facility. Amounts for the years ended November 30, 2009 and 2008 include losses on the early redemption of debt of $1.0 million and $10.4 million, respectively.

(b) Inventory impairment charges are recognized against all inventory costs of a community, such as land, land improvements, cost of home construction and capitalized interest. Capitalized interest amounts presented in the table reflect the gross amount of capitalized interest as impairment charges recognized are not generally allocated to specific components of inventory.

Note 6. Inventory Impairments and Land Option Contract Abandonments

Each land parcel or community in the Company s owned inventory is assessed to determine if indicators of potential impairment exist. Impairment indicators are assessed separately for each land parcel or community on a quarterly basis and include, but are not limited to: significant decreases in sales rates, average selling prices, volume of homes delivered, gross margins on homes delivered or projected margins on homes in backlog or future housing sales; significant increases in budgeted land development and construction costs or cancellation rates; or projected losses on expected future land sales. If indicators of potential impairment exist for a land parcel or community, the identified inventory is evaluated for recoverability in accordance with ASC 360. When an indicator of potential impairment is identified, the Company tests the asset for recoverability by comparing the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. The undiscounted future net cash flows are impacted by trends and factors known to the Company at the time they are calculated and the Company s expectations related to: market supply and demand, including estimates concerning average selling prices; sales and cancellation rates; and anticipated land development, construction and overhead costs to be incurred. These estimates, trends and expectations are specific to each land parcel or community and may vary among land parcels or communities.

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A real estate asset is considered impaired when its carrying amount is greater than the undiscounted future net cash flows the asset is expected to generate. Impaired real estate assets are written down to fair value, which is primarily based on the estimated future cash flows discounted for inherent risk associated with each asset. The discount rates used in the Company s estimated discounted cash flows ranged from 17% to 20% during 2010 and from 10% to 22% during 2009 and 2008. These discounted cash flows are impacted by: the risk-free rate of return; expected risk premium based on estimated land development, construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to development or construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located at the time the assessment is made. These factors are specific to each land parcel or community and may vary among land parcels or communities.

Based on the results of its evaluations, the Company recognized pretax, noncash inventory impairment charges of $9.8 million in 2010, $120.8 million in 2009 and $565.9 million in 2008. As of November 30, 2010, the aggregate carrying value of inventory that had been impacted by pretax, noncash inventory impairment charges was $418.5 million, representing 72 communities and various other land parcels. As of November 30, 2009, the aggregate carrying value of inventory that had been impacted by pretax, noncash inventory impairment charges was $603.9 million, representing 128 communities and various other land parcels.

The Company s optioned inventory is assessed to determine whether it continues to meet the Company s internal investment and marketing standards. Assessments are made separately for each optioned parcel on a quarterly basis and are affected by, among other factors: current and/or anticipated sales rates, average selling prices and home delivery volume; estimated land development and construction costs; and projected profitability on expected future housing or land sales. When a decision is made not to exercise certain land option contracts due to market conditions and/or changes in marketing strategy, the Company writes off the costs, including non-refundable deposits and pre-acquisition costs, related to the abandoned projects. Based on the results of its assessments, the Company recognized land option contract abandonment charges of $10.1 million in 2010, $47.3 million in 2009 and $40.9 million in 2008.

Inventory impairment and land option contract abandonment charges are included in construction and land costs in the Company s consolidated statements of operations.

Due to the judgment and assumptions applied in the estimation process with respect to inventory impairments and land option contract abandonments, it is possible that actual results could differ substantially from those estimated.

Note 7. Fair Value Disclosures

ASC 820 defines fair value, provides a framework for measuring the fair value of assets and liabilities under GAAP and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

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 the carrying value may not be recoverable. The following table presents the Company s assets measured at fair value on a nonrecurring basis (in thousands):

		Fair Value Measurements Using			
Description	**Year Ended November 30, 2010 (a)**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Losses**
Long-lived assets held and used	$ 11,570	$	$	$ 11,570	$ (9,815)

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(a) Amount represents the aggregate fair values for communities where the Company recognized noncash inventory impairment charges during the period, as of the date that the fair value measurements were made. The carrying value for these communities may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

In accordance with the provisions of ASC 360, long-lived assets held and used with a carrying amount of $21.4 million were written down to their fair value of $11.6 million during the year ended November 30, 2010, resulting in noncash inventory impairment charges of $9.8 million.

The fair values for long-lived assets held and used, determined using Level 3 inputs, were primarily based on the estimated future cash flows discounted for inherent risk associated with each asset. These discounted cash flows are impacted by: the risk-free rate of return; expected risk premium based on estimated land development, construction and delivery timelines; market risk from potential future price erosion; cost uncertainty due to development or construction cost increases; and other risks specific to the asset or conditions in the market in which the asset is located at the time the assessment is made. These factors are specific to each land parcel or community and may vary among land parcels or communities.

The Company s financial instruments consist of cash and cash equivalents, restricted cash, mortgages and notes receivable, senior notes, and mortgages and land contracts due to land sellers and other loans. Fair value measurements of financial instruments are determined by various market data and other valuation techniques as appropriate. When available, the Company uses quoted market prices in active markets to determine fair value. The following table presents the carrying values and estimated fair values of the Company s financial instruments, except for those for which the carrying values approximate fair values (in thousands):

	November 30,			
	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Liabilities:				
Senior notes due 2011 at 63/8%	$ 99,916	$ 101,500	$ 99,800	$ 100,250
Senior notes due 2014 at 53/4%	249,498	246,250	249,358	234,375
Senior notes due 2015 at 57/8%	299,068	289,500	298,875	276,000
Senior notes due 2015 at 61/4%	449,745	435,375	449,698	419,063
Senior notes due 2017 at 9.1%	260,352	279,575	259,884	276,263
Senior notes due 2018 at 71/4%	298,893	286,500	298,787	281,250

The fair values of the Company s senior notes are estimated based on quoted market prices.

The carrying amounts reported for cash and cash equivalents, restricted cash, mortgages and notes receivable, and mortgages and land contracts due to land sellers and other loans approximate fair values.

Note 8. Consolidation of Variable Interest Entities

In June 2009, the FASB revised the authoritative guidance for determining the primary beneficiary of a VIE. In December 2009, the FASB issued ASU 2009-17, which provided amendments to ASC 810 to reflect the revised

guidance. The amendments to ASC 810 replaced the quantitative-based risk and rewards calculation for determining which reporting entity, if any, has a controlling interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and (i) the obligation to absorb losses of the VIE or (ii) the right to receive benefits from the VIE. The amendments also require additional disclosures about a reporting entity s involvement with VIEs. The Company adopted the amended provisions of ASC 810 effective December 1, 2009. The adoption of the amended provisions of ASC 810 did not have a material effect on the Company s consolidated financial position or results of operations.

The Company participates in joint ventures from time to time for the purpose of conducting land acquisition, development and/or other homebuilding activities. Its investments in these joint ventures may create a variable interest in a VIE, depending on the contractual terms of the arrangement. The Company analyzes its joint ventures in accordance

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with ASC 810 to determine whether they are VIEs and, if so, whether the Company is the primary beneficiary. All of the Company s joint ventures at November 30, 2010 and November 30, 2009 were determined under the provisions of ASC 810 applicable at each such date to be unconsolidated joint ventures, either because they were not VIEs or, if they were VIEs, the Company was not the primary beneficiary of the VIEs.

In the ordinary course of its business, the Company enters into land option contracts, or similar contracts, to procure land for the construction of homes. The use of such land option and other similar contracts generally allows the Company to reduce the market risks associated with direct land ownership and development, reduces the Company s capital and financial commitments, including interest and other carrying costs, and minimizes the amount of the Company s land inventories in its consolidated balance sheets. Under such contracts, the Company will pay a specified option deposit or earnest money deposit in consideration for the right to purchase land in the future, usually at a predetermined price. Under the requirements of ASC 810, certain of these contracts may create a variable interest for the Company, with the land seller being identified as a VIE.

In compliance with ASC 810, the Company analyzes its land option and other similar contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the optioned land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. As a result of its analyses, the Company determined that as of November 30, 2010 it was not the primary beneficiary of any VIEs from which it is purchasing land under land option and other similar contracts. Since adopting the amended provisions of ASC 810, in determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the VIE s economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE.

Based on its analyses as of November 30, 2009, which were performed before the Company adopted the amended provisions of ASC 810, the Company determined that it was the primary beneficiary of certain VIEs from which it was purchasing land under land option or other similar contracts and, therefore, consolidated such VIEs. Prior to its adoption of the amended provisions of ASC 810, in determining whether it was the primary beneficiary, the Company considered, among other things, the size of its deposit relative to the contract price, the risk of obtaining land entitlement approval, the risk associated with land development required under the land option or other similar contract, and the risk of changes in the market value of the optioned land during the contract period. The consolidation of VIEs in which the Company determined it was the primary beneficiary increased inventories, with a corresponding increase to accrued expenses and other liabilities, on the Company s consolidated balance sheet by $21.0 million at November 30, 2009. The liabilities related to the Company s consolidation of VIEs from which it has arranged to purchase land under option and other similar contracts represent the difference between the purchase price of land not yet purchased and the Company s cash deposits. The Company s cash deposits related to these land option and other similar contracts totaled $4.1 million at November 30, 2009. Creditors, if any, of these VIEs have no recourse against the Company.

As of November 30, 2010, the Company had cash deposits totaling $2.6 million associated with land option and other similar contracts that the Company determined to be unconsolidated VIEs, having an aggregate purchase price of $86.1 million, and had cash deposits totaling $12.2 million associated with land option and other similar contracts that the Company determined were not VIEs, having an aggregate purchase price of $274.3 million.

The Company s exposure to loss related to its land option and other similar contracts with third parties and unconsolidated entities consisted of its non-refundable deposits, which totaled $14.8 million at November 30, 2010

and $9.6 million at November 30, 2009 and are included in inventories in the Company s consolidated balance sheets. In addition, the Company had outstanding letters of credit of $4.2 million at November 30, 2010 and $8.7 million at November 30, 2009 in lieu of cash deposits under certain land option or other similar contracts.

The Company also evaluates its land option and other similar contracts for financing arrangements in accordance with ASC 470, and, as a result of its evaluations, increased inventories, with a corresponding increase to accrued expenses and other liabilities, in its consolidated balance sheets by $15.5 million at November 30, 2010 and $36.1 million at November 30, 2009.

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Note 9. Investments in Unconsolidated Joint Ventures

The Company has investments in unconsolidated joint ventures that conduct land acquisition, development and/or other homebuilding activities in various markets where the Company s homebuilding operations are located. The Company s partners in these unconsolidated joint ventures are unrelated homebuilders, and/or land developers and other real estate entities, or commercial enterprises. The Company entered into these unconsolidated joint ventures in previous years to reduce or share market and development risks and increase the number of its owned and controlled homesites. In some instances, participating in unconsolidated joint ventures has enabled the Company to acquire and develop land that it might not otherwise have had access to due to a project s size, financing needs, duration of development or other circumstances. While the Company has viewed its participation in unconsolidated joint ventures as beneficial to its homebuilding activities, it does not view such participation as essential and has unwound its participation in a number of unconsolidated joint ventures in the past few years.

The Company and/or its unconsolidated joint venture partners typically have obtained or entered into other arrangements to have the right to purchase portions of the land held by certain of the unconsolidated joint ventures. When an unconsolidated joint venture sells land to the Company s homebuilding operations, the Company defers recognition of its share of such unconsolidated joint venture earnings until a home sale is closed and title passes to a homebuyer, at which time the Company accounts for those earnings as a reduction of the cost of purchasing the land from the unconsolidated joint venture.

The Company and its unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures, typically on a pro rata basis. The obligations to make capital contributions are governed by each unconsolidated joint venture s respective operating agreement and related documents.

Each unconsolidated joint venture is obligated to maintain financial statements in accordance with GAAP. The Company shares in profits and losses of these unconsolidated joint ventures generally in accordance with its respective equity interests. In some instances, the Company recognizes profits and losses that differ from its pro rata share of profits and losses recognized by an unconsolidated joint venture. Such differences may arise from impairments recognized by the Company related to its investment in an unconsolidated joint venture which differ from the recognition of impairments by the unconsolidated joint venture; differences between the Company s basis in assets transferred to an unconsolidated joint venture and the unconsolidated joint venture s basis in those assets; the deferral of unconsolidated joint venture profits from land sales to the Company; or other items.

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

	Years Ended November 30,		
	2010	**2009**	**2008**
Revenues	$ 122,200	$ 60,790	$ 112,767
Construction and land costs	(120,010)	(117,255)	(458,168)
Other expenses, net	(19,362)	(46,432)	(38,170)
Loss	$ (17,172)	$ (102,897)	$ (383,571)

With respect to the Company s investment in unconsolidated joint ventures, its equity in loss of unconsolidated joint ventures included pretax, noncash impairment charges of $38.5 million in 2009 and $141.9 million in 2008. There were no such impairment charges in 2010. Due to the judgment and assumptions applied in the estimation process with respect to joint venture impairments, it is possible that actual results could differ substantially from those estimated.

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

	November 30, 2010	2009
Assets		
Cash	$ 14,947	$ 12,816
Receivables	147,025	142,639
Inventories	575,632	709,130
Other assets	51,755	56,939
Total assets	$ 789,359	$ 921,524
Liabilities and equity		
Accounts payable and other liabilities	$ 113,478	$ 139,626
Mortgages and notes payable	327,856	469,079
Equity	348,025	312,819
Total liabilities and equity	$ 789,359	$ 921,524

The following tables present information relating to the Company s investments in unconsolidated joint ventures and the outstanding debt of unconsolidated joint ventures as of the dates specified, categorized by the nature of the Company s potential responsibility under a guaranty, if any, for such debt (dollars in thousands):

	November 30, 2010	2009
Number of investments in unconsolidated joint ventures:		
With limited recourse debt (a)		2
With non-recourse debt (b)		2
South Edge	1	1
Other (c)	9	8
Total	10	13
Investments in unconsolidated joint ventures:		
With limited recourse debt	$	$ 1,277
With non-recourse debt		9,983
South Edge	55,269	55,502
Other	50,314	52,906
Total	$ 105,583	$ 119,668
Outstanding debt of unconsolidated joint ventures:		

With limited recourse debt	$		$	11,198
With non-recourse debt				130,025
South Edge		327,856		327,856
Total (d)	$	327,856	$	469,079

(a) This category consists of unconsolidated joint ventures as to which the Company has entered into a loan-to-value maintenance guaranty with respect to a portion of each such unconsolidated joint venture s outstanding secured debt.

(b) This category consists of unconsolidated joint ventures as to which the Company does not have a guaranty or any other obligation to repay or to support the value of the collateral (which collateral includes any letters of credit) underlying such unconsolidated joint ventures respective outstanding secured debt.

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(c) This category consists of unconsolidated joint ventures with no outstanding debt.

(d) The Total amounts represent the aggregate outstanding principal balance of the debt of the unconsolidated joint ventures in which the Company participates. The amounts do not represent the Company s potential responsibility for such debt, if any.

In most cases, the Company may have also entered into a completion guaranty and/or a carve-out guaranty with the lenders for the unconsolidated joint ventures with outstanding debt as further described below.

The unconsolidated joint ventures have financed land and inventory investments through a variety of arrangements. To finance their respective land acquisition and development activities, certain of the Company s unconsolidated joint ventures have obtained loans from third-party lenders that are secured by the underlying property and related project assets. The Company s unconsolidated joint ventures had outstanding debt, substantially all of which was secured, of approximately $327.9 million at November 30, 2010 and $469.1 million at November 30, 2009. South Edge accounted for all or most of these outstanding debt amounts.

In certain instances, the Company and/or its partner(s) in an unconsolidated joint venture have provided completion and/or carve-out guaranties. A completion guaranty refers to the physical completion of improvements for a project and/or the obligation to contribute equity to an unconsolidated joint venture to enable it to fund its completion obligations. The Company s potential responsibility under its completion guarantees, if triggered, is highly dependent on the facts of a particular case. A carve-out guaranty generally refers to the payment of (i) losses a lender suffers due to certain bad acts or omissions by an unconsolidated joint venture or its partners, such as fraud or misappropriation, or due to environmental liabilities arising with respect to the relevant project, or (ii) outstanding principal and interest and certain other amounts owed to lenders upon the filing by an unconsolidated joint venture of a voluntary bankruptcy petition or, in certain circumstances, the filing of an involuntary bankruptcy petition.

In addition to the above-described guarantees, the Company has also provided a Springing Repayment Guaranty to the lenders to South Edge. The Springing Repayment Guaranty and certain legal proceedings regarding South Edge are discussed further below in Note 15. Legal Matters. The lenders to one of the Company s other unconsolidated joint ventures have filed a lawsuit against some of the unconsolidated joint venture s members and certain of those members parent companies seeking to recover damages under completion guarantees, among other claims *(Wachovia Bank, N.A. v. Focus Kyle Group LLC, et al. U.S. District Court, Southern District of New York (Case No. 08-cv-8681 (LTS)(GWG)))*. The Company and the other parent companies, together with the members, are defending the lawsuit.

Note 10. Goodwill

The Company has historically tested goodwill for potential impairment annually as of November 30 and between annual tests if an event occurred or circumstances changed that would more likely than not reduce the fair value of a reporting unit below its carrying amount. During 2008, the Company determined that it was necessary to evaluate goodwill for impairment between annual tests due to deteriorating conditions in certain housing markets and the significant inventory impairments the Company identified and recognized in that year.

Based on the results of its goodwill impairment evaluations performed in 2008, the Company determined that all of the goodwill previously recorded was impaired. As a result, the Company recorded goodwill impairment charges of $24.6 million related to its Central reporting segment and $43.4 million related to its Southeast reporting segment during 2008. These charges were recorded at the Company s corporate level because all goodwill was carried at that level. The Company had no goodwill balance as of November 30, 2010, November 30, 2009 or November 30, 2008.

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Note 11. Other Assets

Other assets consisted of the following (in thousands):

	November 30, 2010	2009
Operating properties, net	$ 71,938	$ 72,548
Cash surrender value of insurance contracts	59,103	54,595
Property and equipment, net	9,596	12,465
Debt issuance costs	5,254	6,334
Prepaid expenses	3,033	7,472
Deferred tax assets	1,152	1,152
Total	$ 150,076	$ 154,566

Note 12. Accrued Expenses and Other Liabilities

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

	November 30, 2010	2009
Construction defect and other litigation liabilities	$ 124,853	$ 121,781
Warranty liability	93,988	135,749
Employee compensation and related benefits	76,477	88,385
Accrued interest payable	42,963	46,302
Liabilities related to inventory not owned	15,549	57,150
Real estate and business taxes	8,220	12,516
Other	104,455	98,485
Total	$ 466,505	$ 560,368

Note 13. Mortgages and Notes Payable

Mortgages and notes payable consisted of the following (in thousands, interest rates are as of November 30):

	November 30, 2010	2009
Mortgages and land contracts due to land sellers and other loans (3% to 7% in 2010 and 2% to 8% in 2009)	$ 118,057	$ 163,968
Senior notes due 2011 at 63/8%	99,916	99,800

Senior notes due 2014 at 53/4%	249,498	249,358
Senior notes due 2015 at 57/8%	299,068	298,875
Senior notes due 2015 at 61/4%	449,745	449,698
Senior notes due 2017 at 9.1%	260,352	259,884
Senior notes due 2018 at 71/4%	298,893	298,787
Total	$ 1,775,529	$ 1,820,370

At November 30, 2009, the Company maintained the Credit Facility with a syndicate of lenders that was scheduled to mature in November 2010. As the Company did not anticipate borrowing under the Credit Facility before its scheduled maturity and to trim the costs associated with maintaining the Credit Facility, effective December 28, 2009, the Company voluntarily reduced the aggregate commitment under the Credit Facility from $650.0 million to $200.0 million, and effective March 31, 2010, the Company voluntarily terminated the Credit Facility.

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With the Credit Facility s termination, the Company proceeded to enter into the LOC Facilities to obtain letters of credit in the ordinary course of operating its business. As of November 30, 2010, $87.5 million of letters of credit were outstanding under the LOC Facilities. The LOC Facilities require the Company to deposit and maintain cash with the issuing financial institutions as collateral for its letters of credit outstanding. As of November 30, 2010, the amount of cash maintained for the LOC Facilities totaled $88.7 million and was included in restricted cash on the Company s consolidated balance sheet as of that date. In 2011, the Company may maintain or enter into additional or expanded facilities with the same or other financial institutions.

In connection with the termination of the Credit Facility, the Released Subsidiaries were released and discharged from guaranteeing any obligations with respect to the Company s senior notes. Each of the Released Subsidiaries is not a significant subsidiary, as defined under Rule 1-02(w) of Regulation S-X, and does not guarantee any other indebtedness of the Company. Each Released Subsidiary may be required to again provide a guarantee with respect to the Company s senior notes if it becomes a significant subsidiary. The Guarantor Subsidiaries continue to provide a guarantee with respect to the Company s senior notes.

The indenture governing the Company s senior notes does not contain any financial maintenance covenants. Subject to specified exceptions, the indenture contains certain restrictive covenants that, among other things, limit the Company s ability to incur secured indebtedness, or engage in sale-leaseback transactions involving property or assets above a certain specified value. The terms governing the Company s $265 Million Senior Notes contain certain limitations related to mergers, consolidations, and sales of assets.

As of November 30, 2010, the Company was in compliance with the applicable terms of all of its covenants under the Company s senior notes, the indenture, and mortgages and land contracts due to land sellers and other loans. The Company s ability to secure future debt financing may depend in part on its ability to remain in such compliance.

On July 14, 2008, the Company completed the early redemption of the $300 Million Senior Subordinated Notes at a price of 101.938% of the principal amount plus accrued interest to the date of redemption. The Company incurred a loss of $7.1 million in 2008 related to the early redemption of debt, as a result of the call premium and the unamortized original issue discount. This loss is included in interest expense, net of amounts capitalized/loss on early redemption of debt in the consolidated statements of operations.

On October 17, 2008, the Company filed the 2008 Shelf Registration with the SEC, registering debt and equity securities that it may issue from time to time in amounts to be determined. The Company s previously effective 2004 Shelf Registration was subsumed within the 2008 Shelf Registration. On July 30, 2009, the Company issued the $265 Million Senior Notes under the 2008 Shelf Registration. The Company has not issued any other securities under its 2008 Shelf Registration.

On June 30, 2004, the Company issued the $350 Million Senior Notes at 99.3% of the principal amount of the notes in a private placement. The $350 Million Senior Notes, which are due August 15, 2011, with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $350 Million Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to 100% of their principal amount, plus a premium, plus accrued and unpaid interest to the applicable redemption date. On December 3, 2004, the Company exchanged all of the privately placed $350 Million Senior Notes for notes that are substantially identical except that the new $350 Million Senior Notes are registered under the Securities Act of 1933. The $350 Million Senior Notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis.

On July 30, 2009, the Company purchased $250.0 million in aggregate principal amount of its $350 Million Senior Notes pursuant to a tender offer simultaneous with the issuance of the $265 Million Senior Notes. The total consideration paid to purchase the notes was $252.5 million. The Company incurred a loss of $3.7 million in the third quarter of 2009 related to the early redemption of debt due to the tender offer premium and the unamortized original issue discount. This loss, which is included in interest expense, net of amounts capitalized/loss on early redemption of debt in the consolidated statements of operations, was partly offset by a gain of $2.7 million on the early extinguishment of mortgages and land contracts due to land sellers and other loans.

On January 28, 2004, the Company issued $250.0 million of 53/4% senior notes due 2014 (the $250 Million Senior Notes) at 99.474% of the principal amount of the notes in a private placement. The $250 Million Senior Notes, which are

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due February 1, 2014, with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $250 Million Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to 100% of their principal amount, plus a premium, plus accrued and unpaid interest to the applicable redemption date. On June 16, 2004, the Company exchanged all of the privately placed $250 Million Senior Notes for notes that are substantially identical except that the new $250 Million Senior Notes are registered under the Securities Act of 1933. The $250 Million Senior Notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis.

On December 15, 2004, pursuant to the 2004 Shelf Registration, the Company issued $300.0 million of 57/8% senior notes due 2015 (the $300 Million 57/8% Senior Notes) at 99.357% of the principal amount of the notes. The $300 Million 57/8% Senior Notes, which are due January 15, 2015, with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $300 Million 57/8% Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to the greater of (a) 100% of their principal amount and (b) the sum of the present values of the remaining scheduled payments discounted to the date of redemption at a defined rate, plus, in each case, accrued and unpaid interest to the applicable redemption date. The notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis.

On June 2, 2005, pursuant to the 2004 Shelf Registration, the Company issued $450.0 million of 61/4% senior notes due 2015 (the $450 Million Senior Notes) at 100.614% of the principal amount of the notes plus accrued interest from June 2, 2005. The $450 Million Senior Notes, which are due June 15, 2015, with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $450 Million Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to the greater of (a) 100% of their principal amount and (b) the sum of the present values of the remaining scheduled payments discounted to the date of redemption at a defined rate, plus, in each case, accrued and unpaid interest to the applicable redemption date. The notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis.

On July 30, 2009, pursuant to the 2008 Shelf Registration, the Company issued the $265 Million Senior Notes at 98.014% of the principal amount of the notes. The $265 Million Senior Notes, which are due on September 15, 2017, with interest payable semiannually, represent senior unsecured obligations of the Company, and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $265 Million Senior Notes may be redeemed, in whole at any time or from time to time in part, at a price equal to the greater of (a) 100% of their principal amount and (b) the sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption at a defined rate, plus, in each case, accrued and unpaid interest to the applicable redemption date. If a change in control occurs as defined in the indenture, the Company would be required to purchase these notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. The notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis. The Company used substantially all of the net proceeds from the issuance of the $265 Million Senior Notes to purchase, pursuant to a simultaneous tender offer, $250.0 million in aggregate principal amount of the $350 Million Senior Notes.

On April 3, 2006, pursuant to the 2004 Shelf Registration, the Company issued $300.0 million of 71/4% senior notes due 2018 (the $300 Million 71/4% Senior Notes) at 99.486% of the principal amount of the notes. The $300 Million 71/4% Senior Notes, which are due June 15, 2018 with interest payable semi-annually, represent senior unsecured obligations of the Company and rank equally in right of payment with all of the Company s existing and future senior unsecured indebtedness. The $300 Million 71/4% Senior Notes may be redeemed, in whole at any time or from time

to time in part, at a price equal to the greater of (a) 100% of their principal amount and (b) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed discounted at a defined rate, plus, in each case, accrued and unpaid interest to the applicable redemption date. The notes are unconditionally guaranteed jointly and severally by the Guarantor Subsidiaries on a senior unsecured basis.

Principal payments on senior notes, mortgages and land contracts due to land sellers and other loans are due as follows: 2011 $204.3 million; 2012 $13.7 million; 2013 $0; 2014 $249.5 million; 2015 $748.8 million; and thereafter $559.2 million.

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Assets (primarily inventories) having a carrying value of approximately $161.9 million as of November 30, 2010 are pledged to collateralize mortgages and land contracts due to land sellers and other loans.

Note 14. Commitments and Contingencies

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

Warranty. The Company provides a limited warranty on all of its homes. The specific terms and conditions of warranties vary depending upon the market in which the Company does business. The Company generally provides a structural warranty of 10 years, a warranty on electrical, heating, cooling, plumbing and 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. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company s warranty liability include the number of homes delivered, historical and anticipated rates of warranty claims, and cost per claim. The Company s primary assumption in estimating the amounts it accrues for warranty costs is that historical claims experience is a strong indicator of future claims experience. The Company periodically assesses the adequacy of its recorded warranty liabilities, which are included in accrued expenses and other liabilities in the consolidated balance sheets, and adjusts the amounts as necessary based on its assessment.

The changes in the Company s warranty liability are as follows (in thousands):

	Years Ended November 30,		
	2010	2009	2008
Balance at beginning of year	$ 135,749	$ 145,369	$ 151,525
Warranties issued	5,173	6,846	17,169
Payments	(44,973)	(24,690)	(29,682)
Adjustments	(1,961)	8,224	6,357
Balance at end of year	$ 93,988	$ 135,749	$ 145,369

The Company s warranty liability at November 30, 2010 included $11.3 million associated with approximately 296 homes that have been identified as containing or suspected of containing allegedly defective drywall manufactured in China. These homes, which have repairs remaining to be completed and/or repair costs remaining to be paid, were primarily delivered in 2006 and 2007 and are located in Florida. The Company believes that its overall warranty liability at November 30, 2010 is sufficient with respect to its general limited warranty obligations and the estimated costs remaining to repair the identified homes affected by the allegedly defective drywall. The Company is continuing to review whether there are any additional homes delivered in Florida or other locations that contain or may contain this drywall material. Depending on the outcome of its review and its actual claims experience, the Company may incur additional warranty-related costs and increase its warranty liability in future periods. The amount accrued to repair these homes is based largely on the Company s estimates of future costs. If the actual costs to repair these homes differ from the estimated costs, the Company may revise its warranty estimate for this issue. The Company s warranty liability at November 30, 2009 included $14.4 million of estimated remaining costs associated with approximately 230 homes that were identified as containing or suspected of containing allegedly defective drywall manufactured in

China. In addition, for the year ended November 30, 2009, the Company incurred a charge of $5.7 million associated with the repair of allegedly defective drywall. During the years ended November 30, 2010 and 2009, the Company made payments totaling $25.5 million and $1.3 million, respectively, for the repair of homes that had been identified as containing or suspected of containing allegedly defective drywall manufactured in China.

The Company has been named as a defendant in nine lawsuits relating to this drywall material, and it may in the future be subject to other similar litigation or claims that could cause the Company to incur significant costs. Given the preliminary stages of the proceedings, the Company has not concluded whether the outcome of any of these lawsuits, if unfavorable, is likely to be material to its consolidated financial position or results of operations.

The Company intends to seek and is undertaking efforts, including legal proceedings, to obtain reimbursement from various sources for the costs it has incurred or expects to incur to investigate and complete repairs and to defend itself in litigation associated with this drywall material. At this early stage of its efforts to investigate and complete repairs and to respond to litigation, however, the Company has not recorded any amounts for potential recoveries as of November 30, 2010.

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Guarantees. In the normal course of its business, the Company issues certain representations, warranties and guarantees related to its home sales and land sales that may be affected by Accounting Standards Codification Topic No. 460, Guarantees. Based on historical evidence, the Company does not believe any of these representations, warranties or guarantees would result in a material effect on its consolidated financial position or results of operations.

Insurance. The Company has, and requires the majority of its subcontractors to maintain, general liability insurance (including construction defect and bodily injury coverage) and workers compensation insurance. These insurance policies protect the Company against a portion of its risk of loss from claims related to its homebuilding activities, subject to certain self-insured retentions, deductibles and other coverage limits. In Arizona, California, Colorado and Nevada, the Company s general liability insurance takes the form of a wrap-up policy, where eligible subcontractors are enrolled as insureds on each project. The Company self-insures a portion of its overall risk through the use of a captive insurance subsidiary. The Company records expenses and liabilities based on the estimated costs required to cover its self-insured retention and deductible amounts under its insurance policies, and on the estimated costs of potential claims and claim adjustment expenses above its coverage limits or that are not covered by its policies. These estimated costs are based on an analysis of the Company s historical claims and include an estimate of construction defect claims incurred but not yet reported. The Company s estimated liabilities for such items were $95.7 million at November 30, 2010 and $107.0 million at November 30, 2009. These amounts are included in accrued expenses and other liabilities in the Company s consolidated balance sheets. The Company s expenses associated with self-insurance totaled $7.4 million in 2010, $9.8 million in 2009 and $10.1 million in 2008.

Performance Bonds and Letters of Credit. The Company is often required to obtain performance bonds and letters of credit in support of its obligations to various municipalities and other government agencies in connection with community improvements such as roads, sewers and water, and to support similar development activities by certain of its unconsolidated joint ventures. At November 30, 2010, the Company had $414.3 million of performance bonds and $87.5 million of letters of credit outstanding. At November 30, 2009, the Company had $539.7 million of performance bonds and $175.0 million of letters of credit outstanding. If any such performance bonds or letters of credit are called, the Company would be obligated to reimburse the issuer of the performance bond or letter of credit. The Company does 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, the Company is 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 obligation is completed.

Land Option Contracts. In the ordinary course of business, the Company enters into land option contracts, or similar contracts, to procure land for the construction of homes. At November 30, 2010, the Company had total deposits of $19.0 million, comprised of cash deposits of $14.8 million and letters of credit of $4.2 million, to purchase land having an aggregate purchase price of $360.4 million. The Company s land option and other similar contracts generally do not contain provisions requiring the Company s specific performance.

Leases. The Company leases certain property and equipment under noncancelable operating leases. Office and equipment leases are typically for terms of three to five years and generally provide renewal options for terms up to an additional five years. In most cases, the Company expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases. The future minimum rental payments under operating leases, which primarily consist of office leases having initial or remaining noncancelable lease terms in excess of one year, are as follows: 2011 $9.4 million; 2012 $8.4 million; 2013 $6.9 million; 2014 $4.8 million; 2015 $2.2 million; and thereafter $0. Rental expense on these operating leases was $8.5 million in 2010, $10.3 million in 2009 and $17.3 million in 2008.

Note 15. Legal Matters

South Edge, LLC Litigation. On December 9, 2010, certain lenders to South Edge filed a Chapter 11 involuntary bankruptcy petition in the United States Bankruptcy Court, District of Nevada, *JPMorgan Chase Bank, N.A. v. South Edge, LLC (Case No. 10-32968-bam)*. KB HOME Nevada Inc., the Company s wholly-owned subsidiary, is a member of South Edge together with other unrelated homebuilders and a third-party property development firm. KB HOME Nevada Inc. holds a 48.5% interest in South Edge. The involuntary bankruptcy petition alleges that South Edge failed to undertake certain development-related activities and to repay amounts due on the Loans. At November 30, 2010, the outstanding principal balance of the Loans was approximately $328.0 million. The Loans were used by South Edge to partially finance the purchase and development of the underlying property for a residential community located near Las

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Vegas, Nevada. The petitioning lenders for the involuntary bankruptcy JPMorgan Chase Bank, N.A., Wells Fargo Bank, N.A. and Crédit Agricole Corporate and Investment Bank also filed motions to appoint a Chapter 11 trustee for South Edge, and have asserted that, among other actions, the trustee can enforce alleged obligations of the South Edge members to purchase land parcels from South Edge resulting in repayment of the Loans. On January 6, 2011, South Edge filed a motion for the court to dismiss or to abstain from the involuntary bankruptcy petition, and the court scheduled a trial that commenced on January 24, 2011 and is planned to continue until no later than February 4, 2011. The exact timing of the court s decision on the motion is uncertain.

The Company, KB HOME Nevada Inc., and the other South Edge members and their respective parent companies each provided certain guaranties to the lenders in connection with the Loans, including the Springing Repayment Guaranty. If the Company s Springing Repayment Guaranty were enforced, its maximum potential responsibility at November 30, 2010 would have been approximately $180.0 million in aggregate principal amount, plus a potentially significant amount for accrued and unpaid interest and attorneys fees in respect of the Loans. This potential Springing Repayment Guaranty obligation, however, does not account for any offsets or defenses that could be available to the Company to prevent or minimize the impact of its enforcement, or any reduction in the principal balance of the Loans arising from purchases of land parcels from South Edge under authority potentially given to a Chapter 11 trustee (as described above) or otherwise.

The petitioning lenders previously filed the Lender Litigation. The Lender Litigation, which, among other things, is seeking to enforce completion guaranties and also to force the South Edge members (including KB HOME Nevada Inc.) to purchase land parcels from and to provide certain financial and other support to South Edge, has been stayed pending the outcome of the involuntary bankruptcy petition. If the involuntary bankruptcy petition is dismissed, the Company expects the Lender Litigation to resume.

A separate arbitration proceeding was also commenced in May 2009 to address one South Edge member s claims for specific performance by the other members and their respective parent companies to purchase land parcels from and to make certain capital contributions to South Edge and, in the alternative, damages. On July 6, 2010, the arbitration panel issued a decision denying the specific performance claims and awarding to the claimant total damages of approximately $37.0 million against all of the defendants. The parties involved have appealed the arbitration panel s decision to the United States Courts of Appeal for the Ninth Circuit, *Focus South Group, LLC, et al. v. KB HOME Nevada Inc, et al., (Case No. 10-17562)*, and the case is pending. If the appeal on the damages awarded by the arbitration panel is denied, KB HOME Nevada Inc. will be responsible for a share of those damages.

While there are defenses to the above legal proceedings, the ultimate resolution of these matters and the timing of such resolutions are uncertain and involve multiple factors. Therefore, a meaningful range of potential outcomes cannot be reasonably estimated at this time. If unfavorable outcomes were to occur, however, there is a possibility that the Company could incur significant losses in excess of amounts accrued for these matters that could have a material adverse effect on its consolidated financial position and results of operations.

Other Matters. The Company is also involved in litigation and government proceedings incidental to its business. These proceedings are in various procedural stages and, based on reports of counsel, the Company believes as of the date of this report that provisions or accruals made for any potential losses (to the extent estimable) are adequate and that any liabilities or costs arising out of these proceedings are not likely to have a materially adverse effect on its consolidated financial position or results of operations. The outcome of any of these proceedings, however, is inherently uncertain, and if unfavorable outcomes were to occur, there is a possibility that they could, individually or in the aggregate, have a materially adverse effect on the Company s consolidated financial position or results of operations.

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Note 16. Income Taxes

The components of income tax benefit (expense) in the consolidated statements of operations are as follows (in thousands):

	Federal	State	Total
2010			
Current	$ 6,500	$ 500	$ 7,000
Deferred			
Income tax benefit	$ 6,500	$ 500	$ 7,000
2009			
Current	$ 207,900	$ 1,500	$ 209,400
Deferred			
Income tax benefit	$ 207,900	$ 1,500	$ 209,400
2008			
Current	$ (18,704)	$ 10,504	$ (8,200)
Deferred			
Income tax benefit (expense)	$ (18,704)	$ 10,504	$ (8,200)

Deferred income taxes result from temporary differences in the financial and tax basis of assets and liabilities. Significant components of the Company s deferred tax liabilities and assets are as follows (in thousands):

	November 30,	
	2010	2009
Deferred tax liabilities:		
Capitalized expenses	$ 106,800	$ 117,684
State taxes	56,915	52,223
Other	177	142
Total	$ 163,892	$ 170,049
Deferred tax assets:		
Inventory impairments and land option contract abandonments	$ 275,640	$ 378,834
2010, 2009 and 2008 NOLs	277,089	84,424
Warranty, legal and other accruals	103,359	147,924
Employee benefits	51,335	60,822
Partnerships and joint ventures	49,339	58,611
Depreciation and amortization	22,830	38,888

Capitalized expenses	5,927	6,573
Tax credits	145,643	140,133
Deferred income	1,219	1,219
Other	3,743	3,738
Total	936,124	921,166
Valuation allowance	(771,080)	(749,965)
Total	165,044	171,201
Net deferred tax assets	$ 1,152	$ 1,152

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Income tax benefit computed at the statutory U.S. federal income tax rate and income tax benefit (expense) provided in the consolidated statements of operations differ as follows (in thousands):

	Years Ended November 30,		
	2010	2009	2008
Income tax benefit computed at statutory rate	$ 26,729	$ 108,914	$ 338,776
Increase (decrease) resulting from:			
State taxes, net of federal income tax benefit	4,010	11,079	25,142
Reserve and deferred income	1,204	(11,075)	4,825
Basis in joint ventures	13,729	(3,336)	(4,992)
NOLs reconciliation	(24,749)	(36,941)	
Recognition of federal tax benefits	1,621	16,411	4,757
Tax credits	5,384	203	(3,984)
Valuation allowance for deferred tax assets	(21,115)	128,813	(355,839)
Other, net	187	(4,668)	(16,885)
Income tax benefit (expense)	$ 7,000	$ 209,400	$ (8,200)

The Company recognized an income tax benefit of $7.0 million in 2010, compared to an income tax benefit of $209.4 million in 2009 and income tax expense of $8.2 million in 2008. The income tax benefit in 2010 reflected the recognition of a $5.4 million federal income tax benefit from an additional carryback of the Company s 2009 NOLs to offset earnings the Company generated in 2004 and 2005, and the reversal of a $1.6 million liability for unrecognized tax benefits due to the status of federal and state tax audits. The income tax benefit in 2009 resulted primarily from the recognition of a $190.7 million federal income tax benefit based on the carryback of the Company s 2009 NOLs to offset earnings the Company generated in 2004 and 2005, and the reversal of a $16.3 million liability for unrecognized federal and state tax benefits due to the status of federal and state tax audits. The income tax expense in 2008 was mainly due to the disallowance of tax benefits related to the Company s 2008 loss as a result of a full valuation allowance. Due to the effects of its deferred tax asset valuation allowance, carrybacks of its NOLs, and changes in its unrecognized tax benefits, the Company s effective tax rates in 2010, 2009 and 2008 are not meaningful items as the Company s income tax amounts are not directly correlated to the amount of its pretax losses for those periods.

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted into law and amended Section 172 of the Internal Revenue Code to extend the permitted carryback period for offsetting certain NOLs against earnings from two years to up to five years. Due to this federal tax legislation, the Company was able to carry back its 2009 NOLs to offset earnings it generated in 2004 and 2005. As a result, the Company filed an application for a federal tax refund of $190.7 million and reflected this amount as a receivable in its consolidated balance sheet as of November 30, 2009. The Company received the cash proceeds from the refund in the first quarter of 2010. In September of 2010, the Company filed an amended application for a federal tax refund to carry back an additional amount of its 2009 NOLs to offset earnings the Company generated in 2004 and 2005. The amended application generated a refund in the amount of $5.4 million, and the Company received cash proceeds of this refund in the fourth quarter of 2010.

In accordance with ASC 740, the Company evaluates its deferred tax assets quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established

based on the consideration of all available evidence using a more likely than not standard. During 2010, the Company recorded a net increase of $21.1 million to the valuation allowance against net deferred tax assets. The net increase was comprised of a $26.6 million valuation allowance recorded against the net deferred tax assets generated from the loss for the year, partially offset by the $5.4 million federal income tax benefit from the additional carryback of the Company s 2009 NOLs to offset earnings it generated in 2004 and 2005.

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During the first nine months of 2009, the Company recognized a net increase of $67.5 million in the valuation allowance. This increase reflected the net impact of an $89.9 million valuation allowance recorded during the first nine months of 2009, partly offset by a reduction of deferred tax assets due to the forfeiture of certain equity-based awards. In the fourth quarter of 2009, the Company recognized a decrease in the valuation allowance of $196.3 million primarily due to the benefit derived from the carryback of its 2009 NOLs to offset earnings it generated in 2004 and 2005. As a result, the net decrease in the valuation allowance for the year ended November 30, 2009 totaled $128.8 million. The decrease in the valuation allowance was reflected as a noncash income tax benefit of $130.7 million and a noncash charge of $1.9 million to accumulated other comprehensive loss. During 2008, the Company recorded a valuation allowance of $355.9 million against its net deferred tax assets. The valuation allowance was reflected as a noncash charge of $358.2 million to income tax expense and a noncash benefit of $2.3 million to accumulated other comprehensive loss (as a result of an adjustment made in accordance with ASC 715). The majority of the tax benefits associated with the Company s net deferred tax assets can be carried forward for 20 years and applied to offset future taxable income. The federal NOL carryforward if not utilized will expire in 2030, and the various state NOLs will expire within the next three to 20 years. In addition, the Company s tax credits, if not utilized will expire within six to 20 years.

The Company s net deferred tax assets totaled $1.1 million at both November 30, 2010 and 2009. The deferred tax asset valuation allowance increased to $771.1 million at November 30, 2010 from $750.0 million at November 30, 2009. The Company s deferred tax assets for which it did not establish a valuation allowance relate to amounts that can be realized through future reversals of existing taxable temporary differences or through carrybacks to the 2006 and 2007 years. To the extent the Company generates sufficient taxable income in the future to fully utilize the tax benefits of the related deferred tax assets, the Company expects its effective tax rate to decrease as the valuation allowance is reversed.

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

	Years Ended November 30,		
	2010	**2009**	**2008**
Balance at beginning of year	$ 11,024	$ 18,332	$ 27,617
Additions for tax positions related to prior years	1,720	4,230	199
Reductions for tax positions related to prior years	(1,183)	(270)	
Reductions due to lapse of statute of limitations		(1,277)	
Reductions due to resolution of federal and state audits	(253)	(9,991)	(9,484)
Balance at end of year	$ 11,308	$ 11,024	$ 18,332

In July 2006, the FASB issued guidance which prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted this guidance effective December 1, 2007. As of the date of adoption, the Company s net liability for unrecognized tax benefits was $18.3 million, which represented $27.6 million of gross unrecognized tax benefits less $9.3 million of indirect tax benefits. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in its consolidated financial statements as a component of the provision for income taxes. As of November 30, 2010, 2009 and 2008, there were $.9 million, $1.3 million and $7.0 million, respectively, of

unrecognized tax benefits that if recognized would affect the Company s annual effective tax rate. The Company s total accrued interest and penalties related to unrecognized income tax benefits was $3.5 million at November 30, 2010 and $4.9 million at November 30, 2009. The Company s liabilities for unrecognized tax benefits at November 30, 2010 and 2009 are included in accrued expenses and other liabilities in its consolidated balance sheets.

Included in the balance of gross unrecognized tax benefits at November 30, 2010 and 2009 are tax positions of $7.9 million and $6.5 million, respectively, for which the ultimate deductibility is highly certain but there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to a tax authority to an earlier period.

The Company anticipates that total gross unrecognized tax benefits will decrease by an amount ranging from $2.0 million to $3.0 million during the 12 months from this reporting date due to various state filings associated with the resolution of the federal audit.

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The fiscal years ending after 2005 remain open to federal examination and fiscal years after 2004 remain open to examination by various state taxing jurisdictions.

The benefits of the Company s NOLs, built-in losses and tax credits would be reduced or potentially eliminated if the Company experienced an ownership change under Section 382. Based on the Company s analysis performed as of November 30, 2010, the Company does not believe it has experienced an ownership change as defined by Section 382, and, therefore, the NOLs, built-in losses and tax credits the Company has generated should not be subject to a Section 382 limitation as of this reporting date.

Note 17. Stockholders Equity

Preferred Stock. On January 22, 2009, the Company adopted a Rights Agreement between the Company and Mellon Investor Services LLC, as rights agent, dated as of that date (the 2009 Rights Agreement), and declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock that was payable to stockholders of record as of the close of business on March 5, 2009. Subject to the terms, provisions and conditions of the 2009 Rights Agreement, if these rights become exercisable, each right would initially represent the right to purchase from the Company 1/100th of a share of its Series A Participating Cumulative Preferred Stock for a purchase price of $85.00 (the Purchase Price). If issued, each fractional share of preferred stock would generally give a stockholder approximately the same dividend, voting and liquidation rights as does one share of the Company s common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder, including without limitation any dividend, voting or liquidation rights. The rights will not be exercisable until the earlier of (i) 10 calendar days after a public announcement by the Company that a person or group has become an Acquiring Person (as defined under the 2009 Rights Agreement) and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group if upon consummation of the offer the person or group would beneficially own 4.9% or more of the Company s outstanding common stock.

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

At any time prior to the later of the Distribution Date and the time the Company publicly announces that an Acquiring Person becomes such, the Company s board of directors may redeem all of the then-outstanding rights in whole, but not in part, at a price of $0.001 per right, subject to adjustment (the Redemption Price). The redemption will be effective immediately upon the board of directors action, unless the action provides that such redemption will be effective at a subsequent time or upon the occurrence or nonoccurrence of one or more specified events, in which case the redemption will be effective in accordance with the provisions of the action. Immediately upon the effectiveness of the redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the Redemption Price, with interest thereon. The rights issued pursuant to the 2009 Rights Agreement will expire on the earliest of (a) the close of business on March 5, 2019, (b) the time at which the rights are

redeemed, (c) the time at which the rights are exchanged, (d) the time at which the Company s board of directors determines that a related provision in the Company s Restated Certificate of Incorporation is no longer necessary, and (e) the close of business on the first day of a taxable year of the Company to which the Company s board of directors determines that no tax benefits may be carried forward. At the Company s annual meeting of stockholders on April 2, 2009, the Company s stockholders approved the 2009 Rights Agreement.

Common Stock. As of November 30, 2010, the Company was authorized to repurchase four million shares of its common stock under a board-approved stock repurchase program. The Company did not repurchase any of its common stock under this program in 2010, 2009 or 2008. The Company has not repurchased common shares pursuant to a common stock repurchase

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plan for the past several years and any resumption of such stock repurchases will be at the discretion of the Company s board of directors.

During 2010 and 2009, the Company s board of directors declared four quarterly dividends of $.0625 per share of common stock that were also paid during those years. In November 2008, the Company s board of directors reduced the quarterly cash dividend on the Company s common stock to $.0625 per share from $.25 per share. Consequently, during 2008, the Company s board of directors declared three quarterly dividends of $.25 per share of common stock and one quarterly dividend of $.0625 per share of common stock, all of which were paid that year.

Treasury Stock. The Company acquired $.4 million of common stock in 2010, $.6 million in 2009 and $1.0 million in 2008, which were previously issued shares delivered to the Company by employees to satisfy withholding taxes on the vesting of restricted stock awards or forfeitures of previous restricted stock awards. Differences between the cost of treasury stock and the reissuance are recorded to paid-in capital. These transactions are not considered repurchases under the share repurchase program.

Note 18. Employee Benefit and Stock Plans

Most employees are eligible to participate in the KB Home 401(k) Savings Plan (the 401(k) Plan) under which contributions by employees are partially matched by the Company. The aggregate cost of the 401(k) Plan to the Company was $3.2 million in 2010, $3.2 million in 2009 and $4.1 million in 2008. The assets of the 401(k) Plan are held by a third-party trustee. The 401(k) plan participants may direct the investment of their funds among one or more of the several fund options offered by the 401(k) Plan. A fund consisting of the Company s common stock is one of the investment choices available to participants. As of November 30, 2010, 2009 and 2008, approximately 5%, 6% and 5%, respectively, of the 401(k) Plan s net assets were invested in the fund consisting of the Company s common stock.

At the Company s Annual Meeting of Stockholders held on April 1, 2010, the Company s stockholders approved the KB Home 2010 Equity Incentive Plan (the 2010 Plan), authorizing, among other things, the issuance of up to 3,500,000 shares of the Company s common stock for grants of stock-based awards to employees, non-employee directors and consultants of the Company. This pool of shares includes all of the shares that were available for grant as of April 1, 2010 under the Company s 2001 Stock Incentive Plan, and no new awards may be made under the 2001 Stock Incentive Plan. Accordingly, as of April 1, 2010, the 2010 Plan became the Company s only active equity compensation plan. Under the 2010 Plan, grants of stock options and other similar awards reduce the 2010 Plan s share capacity on a 1-for-1 basis, and grants of restricted stock and other similar full value awards reduce the 2010 Plan s share capacity on a 1.78-for-1 basis. In addition, subject to the 2010 Plan s terms and conditions, a stock-based award may also be granted under the 2010 Plan to replace an outstanding award granted under another Company plan (subject to the terms of such other plan) with terms substantially identical to those of the award being replaced.

The Company s 2010 Plan provides that stock options, performance stock, restricted stock and stock units may be awarded to any employee of the Company for periods of up to 10 years. The 2010 Plan also enables the Company to grant cash bonuses, SARs and other stock-based awards. In addition to awards outstanding under the 2010 Plan, the Company has awards outstanding under its Amended and Restated 1999 Incentive Plan (the 1999 Plan), which provides for generally the same types of awards as the 2010 Plan. The Company also has awards outstanding under its 1988 Employee Stock Plan and its Performance-Based Incentive Plan for Senior Management, each of which provides for generally the same types of awards as the 2010 Plan, but stock option awards granted under these plans have terms of up to 15 years.

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Stock Options. Stock option transactions are summarized as follows:

	Years Ended November 30,					
	2010		2009		2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	5,711,701	$ 27.39	7,847,402	$ 30.11	8,173,464	$ 30.17
Granted	3,572,237	18.71	1,403,141	15.44		
Exercised	(28,281)	13.00			(144,020)	18.31
Cancelled	(457,044)	22.05	(3,538,842)	28.69	(182,042)	42.33
Options outstanding at end of year	8,798,613	$ 24.19	5,711,701	$ 27.39	7,847,402	$ 30.11
Options exercisable at end of year	6,146,605	$ 28.73	4,046,027	$ 31.05	7,321,170	$ 29.77
Options available for grant at end of year	21,703		1,714,650		593,897	

The total intrinsic value of stock options exercised during the years ended November 30, 2010 and 2008 was $.1 million and $1.0 million, respectively. There were no stock options exercised during the year ended November 30, 2009. The aggregate intrinsic value of stock options outstanding was $.3 million, $.1 million and $.1 million at November 30, 2010, 2009 and 2008, respectively. The aggregate intrinsic value of stock options exercisable was less than $.1 million at November 30, 2010, and was $.1 million at both November 30, 2009 and 2008. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the price of the option. In 2009, in connection with the settlement of certain stockholder derivative litigation, the Company s former chairman and chief executive officer relinquished 3,011,452 stock options to the Company and those stock options were cancelled.

On August 13, 2010, the Company consummated an exchange offer (the August 2010 Exchange Offer) pursuant to which eligible employees of the Company had the opportunity to exchange their outstanding cash-settled SARs granted on October 2, 2008 and January 22, 2009 for non-qualified options to purchase shares of the Company s common stock granted under the 2010 Plan.

On November 9, 2010, the Company consummated a separate exchange offer (the November 2010 Exchange Offer) pursuant to which eligible employees of the Company had the opportunity to exchange their outstanding cash-settled SARs granted on July 12, 2007 and October 4, 2007 for non-qualified options to purchase shares of the Company s common stock granted under the 2010 Plan.

Pursuant to both the August 2010 Exchange Offer and the November 2010 Exchange Offer, each stock option granted in exchange for a SAR had an exercise price equal to the SAR s exercise price and the same number of underlying shares, vesting schedule and expiration date as each such SAR. The August 2010 Exchange Offer and the November 2010 Exchange Offer did not include a re-pricing or any other changes impacting the value to the employees. The Company conducted the August 2010 Exchange Offer and November 2010 Exchange Offer in an effort to reduce the overall degree of variability in the expense recorded for employee equity-based compensation by replacing the SARs, which are accounted for as liability awards, with stock options, which are accounted for as equity awards.

Pursuant to the August 2010 Exchange Offer, 19 eligible employees returned a total of 1,116,030 SARs to the Company, and those SARs were cancelled on August 13, 2010 in exchange for corresponding grants of stock options to 18 of those employees to purchase an aggregate of 1,073,737 shares of the Company s common stock at $19.90 per share and one grant of stock options to one employee to purchase 42,293 shares of the Company s common stock at $11.25 per share.

Pursuant to the November 2010 Exchange Offer, nine eligible employees returned a total of 925,705 SARs to the Company, and those SARs were cancelled on November 9, 2010 in exchange for corresponding grants of stock options to those employees to purchase an aggregate of 732,170 shares of the Company s common stock at $28.10 per share and grants of stock options to seven of those employees to purchase an aggregate of 193,535 shares of the Company s common stock at $36.19 per share.

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The stock options granted pursuant to the August 2010 Exchange Offer and the November 2010 Exchange Offer are included in the stock options granted total in the above table.

On October 7, 2010, the Company s president and chief executive officer was granted an award of performance-based stock options to purchase an aggregate of 260,000 shares of the Company s common stock at the purchase price of $11.06 per share. The performance-based stock options shall vest and become exercisable if the Company s president and chief executive officer does not experience a termination of service prior to the applicable dates described in the 2010 Equity Incentive Plan Stock Option Agreement (the Agreement), and if the performance goal, as set forth in the Agreement, has been satisfied. The number of performance-based stock options that ultimately vests depends on the achievement of one of three performance metrics: positive cumulative operating margin; relative operating margin; and relative customer satisfaction. In accordance with ASC 718, the Company used the Black-Scholes option-pricing model to estimate the grant-date fair value per performance-based stock option of $4.59.

Stock options outstanding and stock options exercisable at November 30, 2010 are as follows:

	Options Outstanding			Options Exercisable		
Range of Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$ 8.88 to $12.50	1,501,001	$ 11.10	9.58	65,260	$ 11.52	
$12.51 to $15.44	1,828,270	14.94	7.89	966,126	14.55	
$15.45 to $26.29	1,896,619	20.81	7.25	1,542,496	21.02	
$26.30 to $35.26	1,833,299	31.01	7.42	1,833,299	31.01	
$35.27 to $69.63	1,739,424	41.69	7.22	1,739,424	41.69	
$ 8.88 to $69.63	8,798,613	$ 24.19	7.81	6,146,605	$ 28.73	7.20

The weighted average fair value of stock options granted in 2010 and 2009 was $2.81 and $7.16, respectively. The Company granted no stock options in 2008. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2010 and 2009, respectively: a risk-free interest rate of .7% and 1.9%; an expected volatility factor for the market price of the Company s common stock of 61.7% and 64.3%; an expected dividend yield of 2.2% and 1.6%; and an expected term of 3 years and 4 years.

The risk-free interest rate assumption is determined based on observed interest rates appropriate for the expected term of the Company s stock options. The expected volatility factor is based on a combination of the historical volatility of the Company s common stock and the implied volatility of publicly traded options on the Company s stock. The expected dividend yield assumption is based on the Company s history of dividend payouts. The expected term of employee stock options is estimated using historical data.

The Company s stock-based compensation expense related to stock option grants was $5.8 million in 2010, $2.6 million in 2009 and $5.0 million in 2008. As of November 30, 2010, there was $8.0 million of total unrecognized stock-based compensation expense related to unvested stock option awards. This expense is expected to be recognized

over a weighted average period of 1.6 years.

The Company records proceeds from the exercise of stock options as additions to common stock and paid-in capital. Actual tax shortfalls realized for the tax deduction from stock option exercises of $2.8 million in 2010, $4.1 million in 2009 and $1.1 million in 2008, were recorded as paid-in capital. In 2010, 2009 and 2008, the consolidated statement of cash flows reflects $.6 million, $0 and $0, respectively, of excess tax benefit associated with the exercise of stock options since December 1, 2005, in accordance with the cash flow classification requirements of ASC 718.

Other Stock-Based Awards. From time to time, the Company grants restricted common stock to various employees as a compensation benefit. During the restriction periods, the employees are entitled to vote and receive dividends on such shares. The restrictions imposed with respect to the shares granted lapse over periods of three or eight years if certain conditions are met.

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Restricted stock transactions are summarized as follows:

	Years Ended November 30,			
	2010		2009	
	Shares	Weighted Average per Share Grant Date Fair Value	Shares	Weighted Average per Share Grant Date Fair Value
Outstanding at beginning of year	445,831	$ 15.44	700,000	$ 15.70
Granted	51,023	12.58	445,831	15.44
Vested				
Cancelled	(94,377)	15.36	(700,000)	15.70
Outstanding at end of year	402,477	$ 15.09	445,831	$ 15.44

In 2009, in connection with the settlement of certain stockholder derivative litigation, the Company s former chairman and chief executive officer relinquished 700,000 shares of restricted common stock.

On July 12, 2007, the Company awarded 54,000 Performance Shares to its president and chief executive officer subject to the terms of the 1999 Plan, the president and chief executive officer s Performance Stock Agreement dated July 12, 2007 and his Employment Agreement dated February 28, 2007. Depending on the Company s total shareholder return over the three-year period ending on November 30, 2009 relative to a group of peer companies, zero to 150% of the Performance Shares would vest and become unrestricted. In accordance with ASC 718, the Company used a Monte Carlo simulation model to estimate the grant-date fair value of the Performance Shares. The total grant-date fair value of $2.0 million was recognized over the requisite service period. On January 21, 2010, the management development and compensation committee of the Company s board of directors certified the Company s relative total shareholder return over the performance period associated with the Performance Shares and determined that the vesting restrictions lapsed with respect to 48,492 Performance Shares effective on that date.

In 2009 and 2008, the Company granted phantom shares to various employees. In 2008, the Company also granted SARs to various employees. Both phantom shares and SARs are accounted for as liabilities in the Company s consolidated financial statements because such awards provide for settlement in cash. Each phantom share represents the right to receive a cash payment equal to the closing price of the Company s common stock on the applicable vesting date. Each SAR represents a right to receive a cash payment equal to the positive difference, if any, between the grant price and the market value of a share of the Company s common stock on the date of exercise. The phantom shares vest in full at the end of three years, while the SARs vest in equal annual installments over three years. As of November 30, 2010, there were 268,762 phantom shares and 37,517 SARs outstanding. There were 926,705 phantom shares and 2,292,537 SARs outstanding as of November 30, 2009 and 1,099,722 phantom shares and 2,345,154 SARs outstanding as of November 30, 2008. The year-over-year decrease in the number of outstanding SARs in 2010 from 2009 reflects the impact of the August 2010 Exchange Offer and the November 2010 Exchange Offer.

The Company recognized total compensation expense of $1.8 million in 2010, $10.0 million in 2009 and $7.1 million in 2008 related to restricted common stock, the Performance Shares, phantom shares and SARs.

Grantor Stock Ownership Trust. On August 27, 1999, the Company established a grantor stock ownership trust (the Trust) into which certain shares repurchased in 2000 and 1999 were transferred. The Trust, administered by a third-party trustee, holds and distributes the shares of common stock acquired to support certain employee compensation and employee benefit obligations of the Company under its existing stock option, the 401(k) Plan and other employee benefit plans. The existence of the Trust has no impact on the amount of benefits or compensation that is paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders equity in the consolidated balance sheets. The difference between the Trust share value and the market value on the date shares are released from the Trust is included in paid-in capital. Common stock held in the Trust is not considered outstanding in the computations of earnings (loss) per share. The Trust held 11,082,723 and 11,228,951 shares of common stock at November 30, 2010 and 2009, respectively. The trustee votes shares

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held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

Note 19. Postretirement Benefits

The Company has a supplemental non-qualified, unfunded retirement plan, the KB Home Retirement Plan, effective as of July 11, 2002, pursuant to which the Company pays supplemental pension benefits to certain employees upon retirement. The Company s supplemental non-qualified, unfunded retirement plan, the KB Home Supplemental Executive Retirement Plan, restated effective as of July 12, 2001, was terminated during 2009. In connection with the plans, the Company has purchased cost recovery life insurance on the lives of certain employees. Insurance contracts associated with each plan are held by a trust, established as part of the plans to implement and carry out the provisions of the plans and to finance the benefits offered under the plans. The trust is the owner and beneficiary of such contracts. The amount of the insurance coverage is designed to provide sufficient revenues to cover all costs of the plans if assumptions made as to employment term, mortality experience, policy earnings and other factors are realized. The cash surrender value of these insurance contracts was $41.4 million at November 30, 2010 and $38.3 million at November 30, 2009.

The Company also has an unfunded death benefit plan, the KB Home Death Benefit Only Plan, implemented on November 1, 2001, for certain key management employees. In connection with the plan, the Company has purchased cost recovery life insurance on the lives of certain employees. Insurance contracts associated with the plan are held by a trust, established as part of the plan to implement and carry out the provisions of the plan and to finance the benefits offered under the plan. The trust is the owner and beneficiary of such contracts. The amount of the coverage is designed to provide sufficient revenues to cover all costs of the plan if assumptions made as to employment term, mortality experience, policy earnings and other factors are realized. The cash surrender value of these insurance contracts was $13.6 million at November 30, 2010 and $12.9 million at November 30, 2009.

The net periodic benefit cost of the Company s postretirement benefit plans for the year ended November 30, 2010 was $5.5 million, which included service costs of $1.2 million, interest costs of $2.2 million, amortization of unrecognized loss of $.3 million, amortization of prior service costs of $1.6 million and other costs of $.2 million. The net periodic benefit cost of these plans for the year ended November 30, 2009 was $5.6 million, which included service costs of $1.1 million, interest costs of $2.4 million, amortization of prior service costs of $1.5 million and a charge of $.8 million due to plan settlements, partly offset by other income of $.2 million. For the year ended November 30, 2008, the net periodic benefit cost of these plans was $6.5 million, which included service costs of $1.3 million, interest costs of $2.9 million, amortization of prior service costs of $1.6 million and other costs of $.7 million. In 2009, in connection with the settlement of certain stockholder derivative litigation, the Company paid $22.2 million to its former chairman and chief executive officer under the KB Home Retirement Plan and the KB Home Supplemental Executive Retirement Plan. The liabilities related to the postretirement benefit plans were $44.1 million at November 30, 2010 and $38.3 million at November 30, 2009, and are included in accrued expenses and other liabilities in the consolidated balance sheets. For the years ended November 30, 2010 and 2009, the discount rates used for the plans were 5.2% and 5.7%, respectively.

Benefit payments under the Company s postretirement benefit plans are expected to be paid as follows: 2011 $.2 million; 2012 $.3 million; 2013 $1.0 million; 2014 $1.5 million; 2015 $1.6 million; and for the five years ended November 30, 2020 $14.9 million in the aggregate.

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Note 20. Supplemental Disclosure to Consolidated Statements of Cash Flows

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

	Years Ended November 30,		
	2010	2009	2008
Summary of cash and cash equivalents at the end of the year:			
Homebuilding	$ 904,401	$ 1,174,715	$ 1,135,399
Financial services	4,029	3,246	6,119
Total	$ 908,430	$ 1,177,961	$ 1,141,518
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$ 71,647	$ 55,892	$ 20,726
Income taxes paid	807	7,145	2,354
Income taxes refunded	196,868	242,418	125,226
Supplemental disclosure of noncash activities:			
Increase in inventories in connection with consolidation of joint ventures	$ 72,300	$ 97,550	$
Increase in secured debt in connection with consolidation of joint ventures		133,051	
Increase in accounts payable, accrued expenses and other liabilities in connection with consolidation of joint ventures	38,861		
Stock appreciation rights exchanged for stock options	2,348		
Reclassification from inventory to operating properties		72,548	
Reclassification from accounts payable to investments in unconsolidated joint ventures		50,626	
Cost of inventories acquired through seller financing	55,244	16,240	90,028
Decrease in consolidated inventories not owned	(41,626)	(45,340)	(143,091)

Note 21. Quarterly Results (unaudited)

The following tables present consolidated quarterly results for the Company for the years ended November 30, 2010 and 2009 (in thousands, except per share amounts):

	First	Second	Third	Fourth
2010				
Revenues	$ 263,978	$ 374,052	$ 501,003	$ 450,963
Gross profit	35,971	65,671	87,008	84,825
Pretax income (loss)	(54,504)	(30,609)	(6,697)	15,442
Net income (loss)	(54,704)	(30,709)	(1,397)	17,442

Basic and diluted earnings (loss) per share	$ (.71)	$ (.40)	$ (.02)	$ .23
2009				
Revenues	$ 307,361	$ 384,470	$ 458,451	$ 674,568
Gross profit	14,783	6,115	41,773	3,833
Pretax loss	(59,572)	(83,583)	(77,048)	(90,981)
Net income (loss)	(58,072)	(78,383)	(66,048)	100,719
Basic and diluted earnings (loss) per share	$ (.75)	$ (1.03)	$ (.87)	$ 1.31

Included in gross profit in the first, third and fourth quarters of 2010 were pretax, noncash inventory impairment charges of $6.8 million, $1.4 million and $1.6 million, respectively, and pretax, noncash charges for land option contract abandonments of $6.5 million, $2.0 million and $1.6 million, respectively.

Included in gross profit in the first, second, third and fourth quarters of 2009 were pretax, noncash inventory impairment charges of $24.4 million, $5.7 million, $22.8 million and $67.9 million, respectively, and pretax, noncash charges for land option contract abandonments of $.3 million, $36.5 million, $1.7 million and $8.8 million, respectively.

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The pretax loss in the first, second, third and fourth quarters of 2009 also included charges for joint venture impairments of $7.6 million, $7.2 million, $23.2 million and $.5 million, respectively.

The net loss in the first, second and third quarters of 2010 included charges of $21.2 million, $12.8 million and $3.0 million, respectively, to record valuation allowances against net deferred tax assets in accordance with ASC 740. Net income in the fourth quarter of 2010 included a decrease of $10.4 million in the deferred tax asset valuation allowance. The net loss in the first, second and third quarters of 2009 included charges of $22.7 million, $31.7 million and $35.5 million, respectively, to record valuation allowances against net deferred tax assets in accordance with ASC 740. The charge in the first quarter of 2009 was substantially offset by a reduction of deferred tax assets due to the forfeiture of certain equity-based awards. Net income in the fourth quarter of 2009 included a decrease of $196.3 million in the deferred tax asset valuation allowance primarily due to the benefit derived from the Company s carryback of its 2009 NOLs to offset earnings it generated in 2004 and 2005 in accordance with federal tax legislation enacted in that quarter.

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

Note 22. Supplemental Guarantor Information

The Company s obligations to pay principal, premium, if any, and interest under its senior notes are guaranteed on a joint and several basis by the Guarantor Subsidiaries. The guarantees are full and unconditional and the Guarantor Subsidiaries are 100% owned by the Company. The Company has determined that separate, full financial statements of the Guarantor Subsidiaries would not be material to investors and, accordingly, supplemental financial information for the Guarantor Subsidiaries is presented.

In connection with the Company s voluntary termination of the Credit Facility effective March 31, 2010, the Released Subsidiaries were released and discharged from guaranteeing any obligations with respect to the Company s senior notes. Accordingly, the supplemental financial information presented below reflects the relevant subsidiaries that were Guarantor Subsidiaries as of the respective periods then ended.

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(In Thousands)

	Year Ended November 30, 2010				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 429,917	$ 1,160,079	$	$ 1,589,996
Homebuilding:					
Revenues	$	$ 429,917	$ 1,151,846	$	$ 1,581,763
Construction and land costs		(360,450)	(947,838)		(1,308,288)
Selling, general and administrative expenses	(68,149)	(48,233)	(173,138)		(289,520)
Operating income (loss)	(68,149)	21,234	30,870		(16,045)
Interest income	1,770	30	298		2,098
Interest expense, net of amounts capitalized/loss on early redemption of debt	20,353	(41,686)	(46,974)		(68,307)
Equity in loss of unconsolidated joint ventures		(186)	(6,071)		(6,257)
Homebuilding pretax loss	(46,026)	(20,608)	(21,877)		(88,511)
Financial services pretax income			12,143		12,143
Total pretax loss	(46,026)	(20,608)	(9,734)		(76,368)
Income tax benefit	4,200	1,900	900		7,000
Equity in net loss of subsidiaries	(27,542)			27,542	
Net loss	$ (69,368)	$ (18,708)	$ (8,834)	$ 27,542	$ (69,368)

	Year Ended November 30, 2009				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 1,608,533	$ 216,317	$	$ 1,824,850
Homebuilding:					
Revenues	$	$ 1,608,533	$ 207,882	$	$ 1,816,415
Construction and land costs		(1,548,678)	(201,233)		(1,749,911)
Selling, general and administrative expenses	(71,181)	(198,964)	(32,879)		(303,024)
Operating loss	(71,181)	(139,109)	(26,230)		(236,520)

Interest income	5,965	887	663		7,515
Interest expense, net of amounts capitalized/loss on early redemption of debt	31,442	(74,946)	(8,259)		(51,763)
Equity in loss of unconsolidated joint ventures		(22,840)	(26,775)		(49,615)
Homebuilding pretax loss	(33,774)	(236,008)	(60,601)		(330,383)
Financial services pretax income			19,199		19,199
Total pretax loss	(33,774)	(236,008)	(41,402)		(311,184)
Income tax benefit	22,700	158,800	27,900		209,400
Equity in net loss of subsidiaries	(90,710)			90,710	
Net loss	$ (101,784)	$ (77,208)	$ (13,502)	$ 90,710	$ (101,784)

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	Year Ended November 30, 2008				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$	$ 2,331,771	$ 702,165	$	$ 3,033,936
Homebuilding:					
Revenues	$	$ 2,331,771	$ 691,398	$	$ 3,023,169
Construction and land costs		(2,555,911)	(758,904)		(3,314,815)
Selling, general and administrative expenses	(74,075)	(296,964)	(129,988)		(501,027)
Goodwill impairment	(67,970)				(67,970)
Operating loss	(142,045)	(521,104)	(197,494)		(860,643)
Interest income	31,666	2,524	420		34,610
Interest expense, net of amounts capitalized/loss on early redemption of debt	56,541	(34,946)	(34,561)		(12,966)
Equity in loss of unconsolidated joint ventures		(10,742)	(142,008)		(152,750)
Homebuilding pretax loss	(53,838)	(564,268)	(373,643)		(991,749)
Financial services pretax income			23,818		23,818
Total pretax loss	(53,838)	(564,268)	(349,825)		(967,931)
Income tax expense	(400)	(4,600)	(3,200)		(8,200)
Equity in net loss of subsidiaries	(921,893)			921,893	
Net loss	$ (976,131)	$ (568,868)	$ (353,025)	$ 921,893	$ (976,131)

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CONDENSED CONSOLIDATING BALANCE SHEETS
(In Thousands)

	November 30, 2010				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	$ 770,603	$ 3,619	$ 130,179	$	$ 904,401
Restricted cash	88,714		26,763		115,477
Receivables	4,205	6,271	97,572		108,048
Inventories		774,102	922,619		1,696,721
Investments in unconsolidated joint ventures		37,007	68,576		105,583
Other assets	68,166	72,805	9,105		150,076
	931,688	893,804	1,254,814		3,080,306
Financial services			29,443		29,443
Investments in subsidiaries	36,279			(36,279)	
Total assets	$ 967,967	$ 893,804	$ 1,284,257	$ (36,279)	$ 3,109,749
Liabilities and stockholders equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	$ 124,609	$ 150,260	$ 424,853	$	$ 699,722
Mortgages and notes payable	1,632,362	112,368	30,799		1,775,529
	1,756,971	262,628	455,652		2,475,251
Financial services			2,620		2,620
Intercompany	(1,420,882)	631,176	789,706		
Stockholders equity	631,878		36,279	(36,279)	631,878
Total liabilities and stockholders equity	$ 967,967	$ 893,804	$ 1,284,257	$ (36,279)	$ 3,109,749

	November 30, 2009				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Homebuilding:					
Cash and cash equivalents	$ 995,122	$ 56,969	$ 122,624	$	$ 1,174,715

Restricted cash	114,292				114,292
Receivables	191,747	109,536	36,647		337,930
Inventories		1,374,617	126,777		1,501,394
Investments in unconsolidated joint ventures		115,402	4,266		119,668
Other assets	68,895	85,856	(185)		154,566
	1,370,056	1,742,380	290,129		3,402,565
Financial services			33,424		33,424
Investments in subsidiaries	35,955			(35,955)	
Total assets	$ 1,406,011	$ 1,742,380	$ 323,553	$ (35,955)	$ 3,435,989
Liabilities and stockholders equity					
Homebuilding:					
Accounts payable, accrued expenses and other liabilities	$ 147,264	$ 588,203	$ 165,878	$	$ 901,345
Mortgages and notes payable	1,656,402	163,967	1		1,820,370
	1,803,666	752,170	165,879		2,721,715
Financial services			7,050		7,050
Intercompany	(1,104,879)	990,210	114,669		
Stockholders equity	707,224		35,955	(35,955)	707,224
Total liabilities and stockholders equity	$ 1,406,011	$ 1,742,380	$ 323,553	$ (35,955)	$ 3,435,989

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended November 30, 2010				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net loss	$ (69,368)	$ (18,708)	$ (8,834)	$ 27,542	$ (69,368)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:					
Inventory impairments and land option contract abandonments		1,980	17,945		19,925
Changes in assets and liabilities:					
Receivables	187,542	3,557	20,219		211,318
Inventories		(99,216)	(30,118)		(129,334)
Accounts payable, accrued expenses and other liabilities	(16,973)	(65,878)	(116,354)		(199,205)
Other, net	(8,461)	1,794	39,367		32,700
Net cash provided (used) by operating activities	92,740	(176,471)	(77,775)	27,542	(133,964)
Cash flows from investing activities:					
Investments in unconsolidated joint ventures		(517)	(15,152)		(15,669)
Purchases of property and equipment, net	(229)	(70)	(121)		(420)
Net cash used by investing activities	(229)	(587)	(15,273)		(16,089)
Cash flows from financing activities:					
Change in restricted cash	25,578		(26,763)		(1,185)
Payments on mortgages and land contracts due to land sellers and other loans		(81,041)	(20,113)		(101,154)
Issuance of common stock under employee stock plans	1,851				1,851
Excess tax benefit associated with exercise of stock options	583				583
Payments of cash dividends	(19,223)				(19,223)
Repurchases of common stock	(350)				(350)
Intercompany	(325,469)	217,240	135,771	(27,542)	
Net cash provided (used) by financing activities	(317,030)	136,199	88,895	(27,542)	(119,478)

Net decrease in cash and cash equivalents	(224,519)	(40,859)	(4,153)		(269,531)
Cash and cash equivalents at beginning of year	995,122	44,478	138,361		1,177,961
Cash and cash equivalents at end of year	$ 770,603	$ 3,619	$ 134,208	$	$ 908,430

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	Year Ended November 30, 2009				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net loss	$ (101,784)	$ (77,208)	$ (13,502)	$ 90,710	$ (101,784)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:					
Inventory impairments and land option contract abandonments		153,294	14,855		168,149
Changes in assets and liabilities:					
Receivables	26,853	33,210	(24,396)		35,667
Inventories		216,554	216,521		433,075
Accounts payable, accrued expenses and other liabilities	(47,284)	(83,316)	(122,020)		(252,620)
Other, net	22,313	24,411	20,701		67,425
Net cash provided (used) by operating activities	(99,902)	266,945	92,159	90,710	349,912
Cash flows from investing activities:					
Investments in unconsolidated joint ventures		(14,517)	(5,405)		(19,922)
Sales (purchases) of property and equipment, net	(142)	(1,497)	264		(1,375)
Net cash used by investing activities	(142)	(16,014)	(5,141)		(21,297)
Cash flows from financing activities:					
Change in restricted cash	1,112				1,112
Proceeds from issuance of senior notes	259,737				259,737
Payment of senior notes issuance costs	(4,294)				(4,294)
Repayment of senior and senior subordinated notes	(453,105)				(453,105)
Payments on mortgages and land contracts due to land sellers and other loans		(78,983)			(78,983)
Issuance of common stock under employee stock plans	3,074				3,074
Payments of cash dividends	(19,097)				(19,097)
Repurchases of common stock	(616)				(616)
Intercompany	321,298	(140,046)	(90,542)	(90,710)	
	108,109	(219,029)	(90,542)	(90,710)	(292,172)

Net cash provided (used) by financing activities					
Net increase (decrease) in cash and cash equivalents	8,065	31,902	(3,524)		36,443
Cash and cash equivalents at beginning of year	987,057	25,067	129,394		1,141,518
Cash and cash equivalents at end of year	$ 995,122	$ 56,969	$ 125,870	$	$ 1,177,961

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	Year Ended November 30, 2008				
	KB Home Corporate	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net loss	$ (976,131)	$ (568,868)	$ (353,025)	$ 921,893	$ (976,131)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:					
Provision for deferred income taxes	221,306				221,306
Inventory impairments and land option contract abandonments		469,017	137,774		606,791
Goodwill impairment	67,970				67,970
Changes in assets and liabilities:					
Receivables	(92,069)	24,376	7,128		(60,565)
Inventories		409,629	136,221		545,850
Accounts payable, accrued expenses and other liabilities	(20,246)	(210,319)	(52,216)		(282,781)
Other, net	48,519	19,978	150,385		218,882
Net cash provided (used) by operating activities	(750,651)	143,813	26,267	921,893	341,322
Cash flows from investing activities:					
Investments in unconsolidated joint ventures		8,985	(68,610)		(59,625)
Sales (purchases) of property and equipment, net	5,837	(55)	1,291		7,073
Net cash provided (used) by investing activities	5,837	8,930	(67,319)		(52,552)
Cash flows from financing activities:					
Change in restricted cash	(115,404)				(115,404)
Repayment of senior subordinated notes	(305,814)				(305,814)
Payments on mortgages and land contracts due to land sellers and other loans		(12,800)			(12,800)
Issuance of common stock under employee stock plans	6,958				6,958
Payments of cash dividends	(62,967)				(62,967)
Repurchases of common stock	(967)				(967)

Intercompany	1,105,636	(186,395)	2,652	(921,893)	
Net cash provided (used) by financing activities	627,442	(199,195)	2,652	(921,893)	(490,994)
Net decrease in cash and cash equivalents	(117,372)	(46,452)	(38,400)		(202,224)
Cash and cash equivalents at beginning of year	1,104,429	71,519	167,794		1,343,742
Cash and cash equivalents at end of year	$ 987,057	$ 25,067	$ 129,394	$	$ 1,141,518

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of KB Home:

We have audited the accompanying consolidated balance sheets of KB Home as of November 30, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended November 30, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KB Home at November 30, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KB Home s internal control over financial reporting as of November 30, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 31, 2011 expressed an unqualified opinion thereon.

Los Angeles, California
January 31, 2011

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

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that information we are required to disclose in the reports we file or submit under the Securities and Exchange Act of 1934 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 the President and Chief Executive Officer (the Principal Executive Officer) and Executive Vice President and Chief Financial Officer (the Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of November 30, 2010.

Internal Control Over Financial Reporting

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Under the supervision and with the participation of senior management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of November 30, 2010.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report, has issued its report on the effectiveness of our internal control over financial reporting as of November 30, 2010.

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of KB Home:

We have audited KB Home s internal control over financial reporting as of November 30, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). KB Home s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

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

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

In our opinion, KB Home maintained, in all material respects, effective internal control over financial reporting as of November 30, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KB Home as of November 30, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended November 30, 2010 and our report dated January 31, 2011 expressed an unqualified opinion thereon.

Los Angeles, California
January 31, 2011

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended November 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item for executive officers is set forth under Executive Officers of the Registrant in Part I. Except as set forth below, the other information called for by this item is incorporated by reference to the Corporate Governance and Board Matters and the Proposal 1: Election of Directors sections of our Proxy Statement for the 2011 Annual Meeting of Stockholders (the 2011 Proxy Statement), which will be filed with the SEC not later than March 30, 2011 (120 days after the end of our fiscal year).

Ethics Policy

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

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

Within the time period required by the SEC and the New York Stock Exchange, we will post on our website at http://investor.kbhome.com any amendment to our Ethics Policy and any waiver applicable to our principal executive officer, principal financial officer or principal accounting officer, or persons performing similar functions, and our other executive officers or directors.

Corporate Governance Principles

We have adopted Corporate Governance Principles, which are available on our website at http://investor.kbhome.com. Stockholders may request a free copy of the Corporate Governance Principles from the address, phone number and email address set forth above under Ethics Policy.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Corporate Governance and Board Matters and the Executive Compensation sections of the 2011 Proxy Statement.

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

The information required by this item is incorporated by reference to the Ownership of KB Home Securities section of the 2011 Proxy Statement, except for the information required by Item 201(d) of Regulation S-K, which is provided below.

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The following table presents information as of November 30, 2010 with respect to shares of our common stock that may be issued under our existing compensation plans:

Equity Compensation Plan Information

Plan category	Number of common shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of common shares remaining available for future issuance under equity compensation plans (excluding common shares reflected in column(a)) (c)	
Equity compensation plans approved by stockholders	8,798,613	$ 24.19	21,703	
Equity compensation plans not approved by stockholders				(1)
Total	8,798,613	$ 24.19	21,703	

(1) Represents our current compensation plan for our non-employee directors that provides for grants of deferred common stock units or stock options. These stock units and options are described in the Director Compensation section of our 2011 Proxy Statement, which is incorporated herein. Although we may purchase shares of our common stock on the open market to satisfy the payment of these stock units and options, to date, all of them have been settled in cash. Further, under the non-employee directors current compensation plan, our non-employee directors cannot receive shares of our common stock in satisfaction of their stock units or options unless and until approved by our stockholders. Therefore, we consider the non-employee directors compensation plans as having no available capacity to issue shares of our common stock.

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

The information required by this item is incorporated by reference to the Corporate Governance and Board Matters and the Other Matters sections of our 2011 Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the Independent Auditor Fees and Services section of our 2011 Proxy Statement.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

Reference is made to the index set forth on page 59 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

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

3. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, as amended, filed as an exhibit to the Company s Current Report on Form 8-K dated April 7, 2009, is incorporated by reference herein.
3.2	By-Laws, as amended and restated on April 5, 2007, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007, is incorporated by reference herein.
4.1	Rights Agreement between the Company and Mellon Investor Services LLC, as rights agent, dated January 22, 2009, filed as an exhibit to the Company s Current Report on Form 8-K/A dated January 28, 2009, is incorporated by reference herein.
4.2	Indenture and Supplemental Indenture relating to 53/4% Senior Notes due 2014 among the Company, the Guarantors and Sun Trust Bank, Atlanta, each dated January 28, 2004, filed as exhibits to the Company s Registration Statement No. 333-114761 on Form S-4, are incorporated by reference herein.
4.3	Second Supplemental Indenture relating to 63/8% Senior Notes due 2011 among the Company, the Guarantors and Sun Trust Bank, Atlanta, dated June 30, 2004, filed as an exhibit to the Company s Registration Statement No. 333-119228 on Form S-4, is incorporated by reference herein.
4.4	Third Supplemental Indenture relating to the Company s Senior Notes by and between the Company, the Guarantors named therein, the Subsidiary Guarantor named therein and SunTrust Bank, dated as of May 1, 2006, filed as an exhibit to the Company s Current Report on Form 8-K dated May 3, 2006, is incorporated by reference herein.
4.5	Fourth Supplemental Indenture relating to the Company s Senior Notes by and between the Company, the Guarantors named therein and U.S. Bank National Association, dated as of November 9, 2006, filed as an exhibit to the Company s Current Report on Form 8-K dated November 13, 2006, is incorporated by reference herein.
4.6	Fifth Supplemental Indenture, dated August 17, 2007, relating to the Company s Senior Notes by and between the Company, the Guarantors, and the Trustee, filed as an exhibit to the Company s Current Report on Form 8-K dated August 22, 2007, is incorporated by reference herein.
4.7	Specimen of 53/4% Senior Notes due 2014, filed as an exhibit to the Company s Registration Statement No. 333-114761 on Form S-4, is incorporated by reference herein.
4.8	

	Specimen of 57/8% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated December 15, 2004, is incorporated by reference herein.
4.9	Form of officers certificates and guarantors certificates establishing the terms of the 57/8% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated December 15, 2004, is incorporated by reference herein.
4.10	Specimen of 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 2, 2005, is incorporated by reference herein.
4.11	Form of officers certificates and guarantors certificates establishing the terms of the 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 2, 2005, is incorporated by reference herein.
4.12	Specimen of 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 27, 2005, is incorporated by reference herein.

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Exhibit Number	Description
4.13	Form of officers certificates and guarantors certificates establishing the terms of the 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 27, 2005, is incorporated by reference herein.
4.14	Specimen of 71/4% Senior Notes due 2018, filed as an exhibit to the Company s Current Report on Form 8-K dated April 3, 2006, is incorporated by reference herein.
4.15	Form of officers certificates and guarantors certificates establishing the terms of the 71/4% Senior Notes due 2018, filed as an exhibit to the Company s Current Report on Form 8-K dated April 3, 2006, is incorporated by reference herein.
4.16	Specimen of 9.100% Senior Notes due 2017, filed as an exhibit to the Company s Current Report on Form 8-K dated July 30, 2009, is incorporated by reference herein.
4.17	Form of officers certificates and guarantors certificates establishing the terms of the 9.100% Senior Notes due 2017, filed as an exhibit to the Company s Current Report on Form 8-K dated July 30, 2009, is incorporated by reference herein.
10.1	Consent Order, Federal Trade Commission Docket No. C-2954, dated February 12, 1979, filed as an exhibit to the Company s Registration Statement No. 33-6471 on Form S-1, is incorporated by reference herein.
10.2*	Kaufman and Broad, Inc. Executive Deferred Compensation Plan, effective as of July 11, 1985, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.
10.3*	Amendment to Kaufman and Broad, Inc. Executive Deferred Compensation Plan for amounts earned or vested on or after January 1, 2005, effective January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.4*	KB Home 1988 Employee Stock Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.5*	Kaufman and Broad Home Corporation Directors Deferred Compensation Plan established effective as of July 27, 1989, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.
10.6	Consent decree, dated July 2, 1991, relating to Federal Trade Commission Consent Order, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.
10.7*	KB Home Performance-Based Incentive Plan for Senior Management, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.8*	Form of Stock Option Agreement under KB Home Performance-Based Incentive Plan for Senior Management, filed as an exhibit to the Company s 1995 Annual Report on Form 10-K, is incorporated by reference herein.
10.9*	KB Home 1998 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.10	KB Home Directors Legacy Program, as amended January 1, 1999, filed as an exhibit to the Company s 1998 Annual Report on Form 10-K, is incorporated by reference herein.
10.11	Trust Agreement between Kaufman and Broad Home Corporation and Wachovia Bank, N.A. as Trustee, dated as of August 27, 1999, filed as an exhibit to the Company s 1999 Annual Report on Form 10-K, is incorporated by reference herein.
10.12*	Amended and Restated KB Home 1999 Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by

	reference herein.
10.13*	Form of Non-Qualified Stock Option Agreement under the Company s Amended and Restated 1999 Incentive Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended May 31, 2006, is incorporated by reference herein.
10.14*	Form of Restricted Stock Agreement under the Company s Amended and Restated 1999 Incentive Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended May 31, 2006, is incorporated by reference herein.
10.15*	KB Home 2001 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.

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Exhibit Number	Description
10.16*	Form of Stock Option Agreement under the Company s 2001 Stock Incentive Plan, filed as an exhibit to the Company s 2006 Annual Report on Form 10-K, is incorporated by reference herein.
10.17*	Form of Stock Restriction Agreement under the Company s 2001 Stock Incentive Plan, filed as an exhibit to the Company s 2006 Annual Report on Form 10-K, is incorporated by reference herein.
10.18*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals prior to January 1, 2005, effective March 1, 2001, filed as an exhibit to the Company s 2001 Annual Report on Form 10-K, is incorporated by reference herein.
10.19*	KB Home Nonqualified Deferred Compensation Plan with respect to deferrals on and after January 1, 2005, effective January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.20*	KB Home Change in Control Severance Plan, as amended and restated effective January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.21*	KB Home Death Benefit Only Plan, filed as an exhibit to the Company s 2001 Annual Report on Form 10-K, is incorporated by reference herein.
10.22*	Amendment No. 1 to the KB Home Death Benefit Only Plan, effective as of January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.23*	KB Home Retirement Plan, as amended and restated effective January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.24*	Employment Agreement of Jeffrey T. Mezger, dated February 28, 2007, filed as an exhibit to the Company s Current Report on Form 8-K dated March 6, 2007, is incorporated by reference herein.
10.25*	Amendment to the Employment Agreement of Jeffrey T. Mezger, dated December 24, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.
10.26*	Form of Stock Option Agreement under the Employment Agreement between the Company and Jeffrey T. Mezger dated as of February 28, 2007, filed as an exhibit to the Company s Current Report on Form 8-K dated July 18, 2007, is incorporated by reference herein.
10.27*	Form of Stock Option Agreement under the Amended and Restated 1999 Incentive Plan for stock option grant to Jeffrey T. Mezger, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended August 31, 2007, is incorporated by reference herein.
10.28*	Policy Regarding Stockholder Approval of Certain Severance Payments, adopted July 10, 2008, filed as an exhibit to the Company s Current Report on Form 8-K dated July 15, 2008, is incorporated by reference herein.
10.29*	KB Home Executive Severance Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended August 31, 2008, is incorporated by reference herein.
10.30*	Form of Fiscal Year 2009 Phantom Shares Agreement, filed as an exhibit to the Company s Current Report on Form 8-K dated October 8, 2008, is incorporated by reference herein.
10.31*	KB Home Annual Incentive Plan for Executive Officers, filed as Attachment C to the Company s Proxy Statement on Schedule 14A for the 2009 Annual Meeting of Stockholders, is incorporated by reference herein.
10.32	Amendment to Trust Agreement by and between KB Home and Wachovia Bank, N.A., dated August 24, 2009, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended August 31, 2009, is incorporated by reference herein.
10.33	

	Amended and Restated KB Home Non-Employee Directors Compensation Plan, effective as of July 9, 2009, filed as an exhibit to the Company s 2009 Annual Report on Form 10-K, is incorporated by reference herein.
10.34	Form of Indemnification Agreement, filed as an exhibit to the Company s Current Report on Form 8-K dated April 2, 2010, is incorporated by reference herein.
10.35*	KB Home 2010 Equity Incentive Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended February 28, 2010, is incorporated by reference herein.
10.36*	Form of Stock Option Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to the Company s Current Report on Form 8-K dated July 20, 2010, is incorporated by reference herein.

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Exhibit Number	Description
10.37*	Form of Restricted Stock Award Agreement under the KB Home 2010 Equity Incentive Plan, filed as an exhibit to the Company s Current Report on Form 8-K dated July 20, 2010, is incorporated by reference herein.
10.38*	Agreement, dated July 15, 2010, between the Company and Wendy C. Shiba, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended August 31, 2010, is incorporated by reference herein.
10.39*	Form of Fiscal Year 2011 Restricted Cash Award Agreement, filed as an exhibit to the Company s Current Report on Form 8-K dated October 13, 2010, is incorporated by reference herein.
10.40*	KB Home 2010 Equity Incentive Plan Stock Option Agreement for performance stock option grant to Jeffrey T. Mezger.
12.1	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Jeffrey T. Mezger, President and Chief Executive Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jeffrey T. Mezger, President and Chief Executive Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from KB Home s Annual Report on Form 10-K for the year ended November 30, 2010, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Stockholders Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

* Management contract or compensatory plan or arrangement in which executive officers are eligible to participate.
Document filed with this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ JEFF J. KAMINSKI
Jeff J. Kaminski
Executive Vice President and Chief Financial Officer

Date: January 27, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ JEFFREY T. MEZGER Jeffrey T. Mezger	Director, President and Chief Executive Officer (Principal Executive Officer)	January 27, 2011
/s/ JEFF J. KAMINSKI Jeff J. Kaminski	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	January 27, 2011
/s/ WILLIAM R. HOLLINGER William R. Hollinger	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	January 27, 2011
/s/ STEPHEN F. BOLLENBACH Stephen F. Bollenbach	Chairman of the Board and Director	January 27, 2011
/s/ BARBARA T. ALEXANDER Barbara T. Alexander	Director	January 27, 2011

/s/ TIMOTHY W. FINCHEM	Director	January 27, 2011
Timothy W. Finchem		
/s/ KENNETH M. JASTROW, II	Director	January 27, 2011
Kenneth M. Jastrow, II		
/s/ ROBERT L. JOHNSON	Director	January 27, 2011
Robert L. Johnson		
/s/ MELISSA LORA	Director	January 27, 2011
Melissa Lora		
/s/ MICHAEL G. MCCAFFERY	Director	January 27, 2011
Michael G. McCaffery		
/s/ LESLIE MOONVES	Director	January 27, 2011
Leslie Moonves		
/s/ LUIS G. NOGALES	Director	January 27, 2011
Luis G. Nogales		

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LIST OF EXHIBITS FILED

Exhibit Number	Description	Sequential Page Number
3.1	Restated Certificate of Incorporation, as amended, filed as an exhibit to the Company s Current Report on Form 8-K dated April 7, 2009, is incorporated by reference herein.	
3.2	By-Laws, as amended and restated on April 5, 2007, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007, is incorporated by reference herein.	
4.1	Rights Agreement between the Company and Mellon Investor Services LLC, as rights agent, dated January 22, 2009, filed as an exhibit to the Company s Current Report on Form 8-K/A dated January 28, 2009, is incorporated by reference herein.	
4.2	Indenture and Supplemental Indenture relating to 53/4% Senior Notes due 2014 among the Company, the Guarantors and Sun Trust Bank, Atlanta, each dated January 28, 2004, filed as exhibits to the Company s Registration Statement No. 333-114761 on Form S-4, are incorporated by reference herein.	
4.3	Second Supplemental Indenture relating to 63/8% Senior Notes due 2011 among the Company, the Guarantors and Sun Trust Bank, Atlanta, dated June 30, 2004, filed as an exhibit to the Company s Registration Statement No. 333-119228 on Form S-4, is incorporated by reference herein.	
4.4	Third Supplemental Indenture relating to the Company s Senior Notes by and between the Company, the Guarantors named therein, the Subsidiary Guarantor named therein and SunTrust Bank, dated as of May 1, 2006, filed as an exhibit to the Company s Current Report on Form 8-K dated May 3, 2006, is incorporated by reference herein.	
4.5	Fourth Supplemental Indenture relating to the Company s Senior Notes by and between the Company, the Guarantors named therein and U.S. Bank National Association, dated as of November 9, 2006, filed as an exhibit to the Company s Current Report on Form 8-K dated November 13, 2006, is incorporated by reference herein.	
4.6	Fifth Supplemental Indenture, dated August 17, 2007, relating to the Company s Senior Notes by and between the Company, the Guarantors, and the Trustee, filed as an exhibit to the Company s Current Report on Form 8-K dated August 22, 2007, is incorporated by reference herein.	
4.7	Specimen of 53/4% Senior Notes due 2014, filed as an exhibit to the Company s Registration Statement No. 333-114761 on Form S-4, is incorporated by reference herein.	
4.8	Specimen of 57/8% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated December 15, 2004, is incorporated by reference herein.	
4.9	Form of officers certificates and guarantors certificates establishing the terms of the 57/8% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated December 15, 2004, is incorporated by reference herein.	

4.10	Specimen of 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 2, 2005, is incorporated by reference herein.
4.11	Form of officers certificates and guarantors certificates establishing the terms of the 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 2, 2005, is incorporated by reference herein.
4.12	Specimen of 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 27, 2005, is incorporated by reference herein.

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Exhibit Number	Description	Sequential Page Number
4.13	Form of officers certificates and guarantors certificates establishing the terms of the 61/4% Senior Notes due 2015, filed as an exhibit to the Company s Current Report on Form 8-K dated June 27, 2005, is incorporated by reference herein.	
4.14	Specimen of 71/4% Senior Notes due 2018, filed as an exhibit to the Company s Current Report on Form 8-K dated April 3, 2006, is incorporated by reference herein.	
4.15	Form of officers certificates and guarantors certificates establishing the terms of the 71/4% Senior Notes due 2018, filed as an exhibit to the Company s Current Report on Form 8-K dated April 3, 2006, is incorporated by reference herein.	
4.16	Specimen of 9.100% Senior Notes due 2017, filed as an exhibit to the Company s Current Report on Form 8-K dated July 30, 2009, is incorporated by reference herein.	
4.17	Form of officers certificates and guarantors certificates establishing the terms of the 9.100% Senior Notes due 2017, filed as an exhibit to the Company s Current Report on Form 8-K dated July 30, 2009, is incorporated by reference herein.	
10.1	Consent Order, Federal Trade Commission Docket No. C-2954, dated February 12, 1979, filed as an exhibit to the Company s Registration Statement No. 33-6471 on Form S-1, is incorporated by reference herein.	
10.2*	Kaufman and Broad, Inc. Executive Deferred Compensation Plan, effective as of July 11, 1985, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.	
10.3*	Amendment to Kaufman and Broad, Inc. Executive Deferred Compensation Plan for amounts earned or vested on or after January 1, 2005, effective January 1, 2009, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.4*	KB Home 1988 Employee Stock Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.5*	Kaufman and Broad Home Corporation Directors Deferred Compensation Plan established effective as of July 27, 1989, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.	
10.6	Consent decree, dated July 2, 1991, relating to Federal Trade Commission Consent Order, filed as an exhibit to the Company s 2007 Annual Report on Form 10-K, is incorporated by reference herein.	
10.7*	KB Home Performance-Based Incentive Plan for Senior Management, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.8*	Form of Stock Option Agreement under KB Home Performance-Based Incentive Plan for Senior Management, filed as an exhibit to the Company s 1995 Annual Report on Form 10-K, is incorporated by reference herein.	
10.9*	KB Home 1998 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.10		

	KB Home Directors Legacy Program, as amended January 1, 1999, filed as an exhibit to the Company s 1998 Annual Report on Form 10-K, is incorporated by reference herein.
10.11	Trust Agreement between Kaufman and Broad Home Corporation and Wachovia Bank, N.A. as Trustee, dated as of August 27, 1999, filed as an exhibit to the Company s 1999 Annual Report on Form 10-K, is incorporated by reference herein.

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Exhibit Number	Description	Sequential Page Number
10.12*	Amended and Restated KB Home 1999 Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.13*	Form of Non-Qualified Stock Option Agreement under the Company s Amended and Restated 1999 Incentive Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended May 31, 2006, is incorporated by reference herein.	
10.14*	Form of Restricted Stock Agreement under the Company s Amended and Restated 1999 Incentive Plan, filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended May 31, 2006, is incorporated by reference herein.	
10.15*	KB Home 2001 Stock Incentive Plan, as amended and restated on October 2, 2008, filed as an exhibit to the Company s 2008 Annual Report on Form 10-K, is incorporated by reference herein.	
10.16*	Form of Stock Option Agreement under the Company s 2001 Stock Incentive Plan, filed as an exhibit to the Company s 2006 Annual Report on Form 10-K, is incorporated by reference herein.	
10.17*	Form of Stock Restriction Agreement under the Company s 2001 Stock Incentive Plan, filed as an exhibit to the Company s 2006 Annual Report on Form 10-K, is incorporated by reference herein.	
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10.21*	KB Home Death Benefit Only Plan, filed as an exhibit to the Company s 2001 Annual Report on Form 10-K, is incorporated by reference herein.	
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10.24*	Employment Agreement of Jeffrey T. Mezger, dated February 28, 2007, filed as an exhibit to the Company s Current Report on Form 8-K dated March 6, 2007, is incorporated by reference herein.	
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10.28*	Policy Regarding Stockholder Approval of Certain Severance Payments, adopted July 10, 2008, filed as an exhibit to the Company s Current Report on Form 8-K dated July 15, 2008, is incorporated by reference herein.	
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31.2	Certification of Jeff J. Kaminski, Executive Vice President and Chief Financial Officer of KB Home Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jeffrey T. Mezger, 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.
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* Management contract or compensatory plan or arrangement in which executive officers are eligible to participate.

Document filed with this Form 10-K.