

KB HOME
Form DEF 14A
March 05, 2007

Table of Contents

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Definitive Proxy Statement

Preliminary
Proxy
Statement
 Confidential, for
Use of the
Commission Only
(as permitted by
Rule 14a-6(e)(2))
 Definitive
Additional
Materials
 Soliciting
Material Pursuant
to §240.14a-12

KB HOME

(Name of Registrant as Specified In Its Charter)

KB HOME

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed
on table below
per Exchange Act
Rules 14a-6(i)(4)
and 0-11.
(1) Title of each
class of securities
to which
transaction

applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form,
Schedule or
Registration
Statement No.:

(3) Filing Party:

(4) Date Filed:

TABLE OF CONTENTS

Notice of Annual Meeting of Stockholders

Proxy Statement

Corporate Governance and Board Matters

Proposal 1: Election of Directors

Proposal 2: Approval of an Amendment to the Amended Certificate of Incorporation of KB Home to Declassify the Board of Directors and Provide for the Annual Election of Directors

Proposal 3: Approval of an Amendment to the Amended Certificate of Incorporation of KB Home to Eliminate its Fair Price Provision and Related Supermajority Vote Requirements

Proposal 4: Ratification of Independent Registered Public Accounting Firm

Proposal 5: Stockholder Proposal

Proposal 6: Stockholder Proposal

Proposal 7: Stockholder Proposal

Ownership of KB Home Securities

Management Development and Compensation Committee Report on Executive Compensation

KB Home Common Stock Price Performance

Employment Agreements, Change in Control Arrangements, Retirement and Death Benefit Plans

Executive Compensation

Audit and Compliance Committee Report

Independent Auditor Fees and Services

Other Matters

ATTACHMENT A KB Home Director Independence Standards

Table of Contents

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

Jeffrey T. Mezger
President and Chief Executive Officer

March 5, 2007

Dear Fellow Stockholder:

Your officers and directors join me in inviting you to attend the Annual Meeting of Stockholders of KB Home at 9:00 a.m. Pacific Daylight Time on April 5, 2007 in the Garden Room at the Hotel Bel-Air, 701 Stone Canyon Road, in Los Angeles, California.

The matters expected to be acted on at the meeting are described in detail in the attached Notice of Annual Meeting of Stockholders and Proxy Statement. In addition to specific agenda items, by attending the Annual Meeting you will have an opportunity to hear about our plans for the future and to meet your officers and directors.

We look forward to seeing you on April 5.

Sincerely,
/s/ Jeffrey T. Mezger

Jeffrey T. Mezger
President and Chief Executive Officer

Table of Contents

Notice of Annual Meeting
of Stockholders

Time and Date: 9:00 a.m. Pacific Daylight Time on Thursday, April 5, 2007.

Location: Garden Room, Hotel Bel-Air, 701 Stone Canyon Road, Los Angeles, California.

- Items of Business:**
- (1) Elect three Class III Directors, each to serve for a three-year term, and one Class I Director, to serve for a one-year term;
 - (2) Vote on an amendment to the Amended Certificate of Incorporation of KB Home to declassify the Board of Directors and provide for the annual election of Directors;
 - (3) Vote on an amendment to the Amended Certificate of Incorporation of KB Home to eliminate its fair price provision and related supermajority voting requirements;
 - (4) Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 30, 2007;
 - (5) Consider three stockholder proposals, if properly presented at the meeting; and
 - (6) To transact any other business as may properly come before the meeting and any adjournment or postponement thereof.

Record Date: You can vote if you were a stockholder of record on February 14, 2007.

If you attend the Meeting: If you plan to attend the meeting, you may be asked to present photo identification and you may be accompanied by only one guest. If you hold your shares in a brokerage or similar account (in street name), you will need to bring a statement reflecting the shares you owned on February 14, 2007.

Proxy Voting: **Whether or not you expect to attend the meeting, please promptly complete and return the Proxy Card or voting instruction card you received to ensure that your shares will be represented. If available to you, you may also vote by using the telephone number or via the Internet web site address printed on your Proxy Card or voting instruction card.**

Annual Report: Copies of our Annual Report on Form 10-K for the fiscal year ended November 30, 2006, including audited financial statements, are being mailed to stockholders concurrently with this Proxy Statement. It is anticipated that the mailing will commence on or about March 5, 2007.

By Order of The Board of Directors,
/s/ William A. Richelieu

William A. Richelieu
Assistant Corporate Secretary
Los Angeles, California

March 5, 2007

Table of Contents

KB HOME
10990 Wilshire Boulevard
Los Angeles, California 90024
Proxy Statement
for
Annual Meeting of Stockholders
To Be Held April 5, 2007

General Information

Why did I receive this Proxy Statement?

Your Board of Directors is furnishing this Proxy Statement to you to solicit your proxy to be voted at our 2007 Annual Meeting of Stockholders. The Annual Meeting is scheduled for Thursday, April 5, 2007, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

Can I attend the Annual Meeting?

You are cordially invited to attend the Annual Meeting. **Please note, however, that you may be subject to a security check and that no cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting. Also, due to space constraints, you may be accompanied by only one guest.**

Who is entitled to vote at the Annual Meeting?

Only holders of record of the 89,374,122 shares of our Common Stock outstanding at the close of business on February 14, 2007 will be entitled to vote at the Annual Meeting. Each holder of our Common Stock is entitled to one vote for each share held. Our Grantor Stock Ownership Trust, established to assist us in meeting certain of our obligations to employees under our employee benefit plans, held 12,337,882 shares of our Common Stock for voting purposes as of February 14, 2007. These shares will be voted by the trustee of the Grantor Stock Ownership Trust in accordance with instructions received from employees who participate in certain of our employee benefit plans. There is no right to cumulative voting.

Who is a Holder of Record ?

If your shares of our Common Stock are registered directly in your name with our transfer agent, Mellon Investor Services LLC, you are considered the holder of record of those shares. If your shares are held in a stock brokerage account or by a financial institution or other holder of record, you are considered the beneficial owner of those shares held in street name.

Table of Contents

How do I vote?

If you are a beneficial owner, you have the right to instruct your broker, financial institution or other holder of record on how to vote your shares by using the voting instruction card you received from them or by following their respective telephone and/or Internet voting instructions.

If you are a holder of record, you may vote by mail, by telephone or via the Internet, as described below.

Mail. Please promptly complete and return your Proxy Card in the postage-paid envelope provided.

Telephone. Please call the toll-free telephone number listed on your Proxy Card. Telephone voting procedures have been established to verify your identity, to allow you to provide proxy voting instructions and to confirm that your instructions were accurately recorded. Please have your Proxy Card available when you call.

Internet. Please visit the Internet web site address listed on your Proxy Card. As with telephone voting, procedures have been established to verify your identity and to confirm your voting instructions. Please have your Proxy Card available when you visit the Internet web site address.

Telephone and Internet voting will be available to holders of record 24 hours each day until 11:59 p.m. Eastern Daylight Time on April 4, 2007. If you use the toll-free telephone number or the Internet to provide your proxy voting instructions, you do not need to mail in your Proxy Card.

Revoking Your Proxy Vote. If you are a holder of record, you may revoke the proxy voting instructions you make by mail, by telephone or via the Internet at any time prior to the exercise of those instructions at the Annual Meeting by delivering a revocation in writing to us in care of the Corporate Secretary, KB Home, 10990 Wilshire Boulevard, Los Angeles, California 90024.

If you are a beneficial owner, you may submit new voting instructions by contacting your broker, financial institution or other holder of record. You may also vote in person at the Annual Meeting as described in the next paragraph.

In Person at the Annual Meeting. Whether you are a holder of record or a beneficial owner, you may vote in person at the Annual Meeting, even if you have previously provided proxy voting instructions by mail, by telephone or via the Internet. If you are a holder of record, you may also be represented by another person at the Annual Meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares of our Common Stock, you must obtain a legal proxy from your broker, bank or other holder of record and present it with your ballot to be able to vote in person at the Annual Meeting.

What are the voting requirements to elect the Director nominees and to approve each of the proposals in this Proxy Statement?

Under the laws of the State of Delaware, where we are incorporated, stockholders may take action at the Annual Meeting by voting their shares as described above, provided a quorum is present. At least a majority of the outstanding shares entitled to vote must be present or represented at the Annual Meeting to establish a quorum. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of establishing a quorum.

A broker non-vote arises when a broker, financial institution or other holder of record that holds shares in street name does not receive instructions from a beneficial owner and does not have the discretionary authority to vote on a particular item. Per current New York Stock Exchange rules, bro-

Table of Contents

kers have discretionary authority to vote on the election of directors, each of the management proposals to amend our Amended Certificate of Incorporation and the ratification of the appointment of our independent registered public accounting firm. Brokers do not, however, have discretionary authority to vote on the stockholder proposals in this Proxy Statement. Accordingly, broker non-votes will not be considered entitled to vote for those proposals and will have no effect on the outcome.

All shares of Common Stock represented by valid proxies received pursuant to this solicitation and not revoked will be voted in accordance with the proxy instructions given.

Because a proxy confers discretionary authority to vote upon other matters that may properly come before the Annual Meeting, shares represented by valid proxies will be voted in accordance with the judgment of Jeffrey T. Mezger, President and Chief Executive Officer, and William A. Richelieu, Assistant Corporate Secretary, who are the persons named as proxies on the Proxy Cards for holders of record, or their duly authorized designees.

Where no instruction is made on a signed Proxy Card with respect to any item submitted to a vote, such shares will be voted for the election as Directors of the four individuals named under Election of Directors on pages 13-15 below, for each of the management proposals to amend our Amended Certificate of Incorporation discussed on pages 20-23 below, for the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 30, 2007 discussed on page 24 below and against the three stockholder proposals in this Proxy Statement, if properly presented at the Annual Meeting, discussed on pages 25-32 below.

Election of Directors. The affirmative vote of a plurality of the votes present or represented at the Annual Meeting is required to elect each Director nominee. Accordingly, the Director nominee with the most votes for a particular board seat will be elected to that seat. You may vote for all Director nominees or you may withhold your vote with respect to one or more of the Director nominees. Abstentions will not be counted.

Under our Governance Principles, any Director elected to the Board of Directors at the Annual Meeting in an uncontested election with less than the affirmative vote of a majority of shares present in person or represented by proxy shall promptly tender his or her resignation to the Chair of the Nominating and Corporate Governance Committee of the Board of Directors. The Nominating and Corporate Governance Committee will then promptly evaluate all relevant factors and recommend to the full Board whether to accept the resignation or, if appropriate, to adopt another course of action to remedy the underlying cause(s) of the election result. Subject to any applicable legal or regulatory requirements, the Board shall within 90 days following certification of the stockholder vote decide whether to accept the resignation, reject the resignation or, if appropriate, reject the resignation but adopt measures designed to address the underlying cause(s) of the election result. A full explanation of the Board's decision will be publicly disclosed in a periodic or current report filed with the Securities and Exchange Commission. A Director who tenders his or her resignation because he or she was elected in an uncontested election with less than a majority of the shares present or represented at an Annual Meeting and any non-independent Director will not participate in these deliberations and decisions. As part of the new corporate governance initiatives discussed on page 5 below, the Board of Directors has resolved to move our mandatory majority voting policy from our Governance Principles to our Bylaws.

Table of Contents

Other Proposals in this Proxy Statement. The affirmative vote of not less than 80% of the outstanding shares of our Common Stock is required to approve each of the management proposals to amend our Amended Certificate of Incorporation. The affirmative vote of a majority of the shares of our Common Stock present or represented at the Annual Meeting and entitled to vote is required both to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 30, 2007 and to approve each of the stockholder proposals in this Proxy Statement, if properly presented at the Annual Meeting. You may vote for, against, or abstain with respect to any of these proposals. Abstentions will have the same effect as an against vote.

Are the Notice of Annual Meeting, Proxy Statement and the 2006 Annual Report on Form 10-K available online?

Yes. The Notice of Annual Meeting, this Proxy Statement and the 2006 Annual Report on Form 10-K may be viewed or downloaded from our website at: <http://www.kbhome.com/investor>.

Who will pay for this proxy solicitation?

We will pay the entire cost of soliciting proxies. In addition to use of the mail, proxies may be solicited by our officers, Directors and other employees by telephone, facsimile or personal solicitation, and no additional compensation will be paid to such individuals. We will, if requested, reimburse banks, brokerage houses and other custodians, nominees and certain fiduciaries for their reasonable expenses incurred in mailing proxy material to their principals. We have hired Georgeson Inc., a professional soliciting organization, to assist in proxy solicitation and in distributing proxy materials to institutions, brokerage houses, custodians, nominees and other fiduciaries. For these services, we will pay Georgeson a fee of \$8,500.

Who will count the vote?

Representatives of our transfer agent, Mellon Investor Services LLC, will count the votes and act as independent inspectors of election.

Table of Contents

Corporate Governance and Board Matters

Role of the Board

The Board of Directors is elected by the stockholders to oversee the management of our business and to assure that the long-term interests of our stockholders are being served.

Recent Corporate Governance Initiatives

The Board of Directors has recently taken a number of actions to strengthen our corporate governance, including:

Creating the position of independent Non-Executive Chairman of the Board and initiating a search to fill this position;

Appointing Kenneth M. Jastrow, II to serve as independent Lead Director until the Non-Executive Chairman position is filled;

Dissolving the Executive Committee of the Board of Directors, effective April 5, 2007;

Initiating a comprehensive review of our compensation programs and practices;

Approving a resolution to declassify the Board of Directors, which is being presented to stockholders for their approval at the Annual Meeting;

Approving a resolution to eliminate the fair price provision and related supermajority voting requirements from our Amended Certificate of Incorporation, which is being presented to stockholders for their approval at the Annual Meeting;

Resolving to move our mandatory majority voting for Directors policy from our Governance Principles to our Bylaws;

Creating the positions of Chief Compliance Officer and Risk Assessment Officer, each of which will report to the Audit and Compliance Committee of the Board of Directors as well as to senior executive management, and initiating a search to fill these positions;

Resolving to conduct a comprehensive internal review of our compliance environment upon the engagement of a Chief Compliance Officer;

Adopting an Equity-Based Award Grant Policy to improve the policies and procedures governing our equity compensation practices; and

Resolving to review our Director and executive stock ownership guidelines and assess Board compensation.

The Board cannot declassify the Board of Directors or eliminate the fair price provision and related supermajority voting requirements from our Amended Certificate of Incorporation without first obtaining the affirmative vote of at least 80% of the outstanding shares of our Common Stock. We are therefore presenting Proposals 2 and 3 for your consideration at the Annual Meeting, as further described on pages 20-23 below.

Director Qualifications

We believe that our Directors should possess the highest personal and professional ethics, integrity, judgment and values, and be committed to representing the long-term interests of our stockholders. Directors should also have an inquisitive and objective perspective, and be able and willing to dedicate the time necessary to Board and Committee service.

Table of Contents

The Nominating and Corporate Governance Committee of the Board of Directors regularly assesses the skills and characteristics of current and potential Directors in view of the perceived needs of the Board at the time an assessment is made and may consider the following attributes, among others:

Personal qualities, accomplishments and reputation in the business community;

Financial literacy, financial and accounting expertise and significant business, academic or government experience in leadership positions or at senior policy-making levels;

Geographical representation in areas relevant to our business;

Diversity of background and personal experience;

Fit of abilities and personality with those of current and potential Directors in building a Board that is effective, collegial and responsive to the needs of our business; and

Independence and an absence of conflicting time commitments.

Director Independence

We believe that a substantial majority of our Directors should be independent. A Director is deemed to be independent if he or she does not have any direct or indirect material commercial or charitable relationship with us based on all relevant facts and circumstances. The Board of Directors makes independence determinations annually based on information supplied by Directors and other sources, and on the prior review and recommendation of the Nominating and Corporate Governance Committee.

The Board's Director independence determinations are guided by certain standards, which are included in this Proxy Statement at Attachment A, and are consistent with New York Stock Exchange listing standards.

The Board has determined that all currently incumbent Directors and Director nominees are independent under the Board's Director independence standards, except Jeffrey T. Mezger, our President and Chief Executive Officer. In addition, the Board has determined that all Committees of the Board, except the Executive Committee, which did not regularly meet in the 2006 fiscal year, are entirely composed of independent Directors within the meaning of New York Stock Exchange listing standards and Securities and Exchange Commission rules. In our 2006 fiscal year, the Executive Committee was comprised of Dr. Ray R. Irani and Luis G. Nogales, who are both independent, and Mr. Mezger.

Governance Principles

In addition to containing our Director independence standards, our Governance Principles provide the framework within which we conduct our business and pursue strategic goals. Our Governance Principles are regularly reviewed by the Nominating and Corporate Governance Committee, and the full Board approves changes as appropriate.

Ethics Policy

We expect all of our Directors and employees to follow the highest ethical standards when representing KB Home and our interests. To this end, all employees, including senior executive management and Directors, must abide by our Ethics Policy. Our Ethics Policy is reviewed regularly by the Audit and Compliance Committee of the Board of Directors, and the full Board approves changes as appropriate. Our Ethics Policy was amended on September 15, 2006.

Table of Contents**Board Meetings, Membership and Attendance**

The Board held seven meetings in our 2006 fiscal year. As of the date of this Proxy Statement, the Board has 11 members.

All Directors are expected to attend our Annual Meetings. All Directors who were serving at the time attended the 2006 Annual Meeting, which was held on April 6, 2006, except for J. Terrence Lanni.

Each Director attended at least 75% of all Board meetings and of all meetings of the Committees on which he or she served in our 2006 fiscal year, except for Leslie Moonves.

Board Committees

In our 2006 fiscal year, the Board had four standing Committees: Audit and Compliance; Management Development and Compensation; Nominating and Corporate Governance; and Executive. Each standing Committee assists the Board in fulfilling its responsibilities, as described below.

The chart below shows the standing Committees of the Board, the current members of those Committees and the number of meetings each standing Committee held during the 2006 fiscal year.

Name of Director	Audit and Compliance	Management Development and Compensation	Nominating and Corporate Governance	Executive
<i>Independent Directors</i>				
Ronald W. Burkle	X		X	
Timothy W. Finchem	X		X	
Dr. Ray R. Irani		X*		X*
Kenneth M. Jastrow, II(a)			X	
James A. Johnson(b)		X	X*	
J. Terrence Lanni		X	X	
Melissa Lora	X			
Michael G. McCaffery	X*		X	
Leslie Moonves		X		
Luis G. Nogales	X	X		X
<i>Employee Director(c)</i>				
Jeffrey T. Mezger				X
<i>Number of Meetings in Fiscal 2006</i>	10(d)	3	3	1

X = Member * = Chair = Lead Director

(a) Mr. Jastrow was elected as the independent Lead Director of the Board of Directors on November 12, 2006.

(b) Mr. Johnson served as the Presiding Director of the Board of Directors during the 2006 fiscal year until November 12, 2006.

(c) Mr. Bruce Karatz served as our Chairman and Chief Executive Officer through November 12, 2006. During his tenure on our Board of Directors, Mr. Karatz also served on the Executive Committee. On November 12, 2006, the Board of Directors elected Jeffrey T. Mezger to the Board and to the Executive Committee of the Board and as our President and Chief Executive Officer.

(d) Includes quarterly conference calls with management to review our earnings releases prior to their release.

Table of Contents

Shown below are the standing Committees of the Board and the members of those Committees effective April 5, 2007.

Name of Director	Audit and Compliance	Management Development and Compensation	Nominating and Corporate Governance
<i>Independent Directors</i>			
Ronald W. Burkle	X		X
Timothy W. Finchem	X	X	
Dr. Ray R. Irani		X	
Kenneth M. Jastrow, II			X
James A. Johnson			X
J. Terrence Lanni		X*	
Melissa Lora	X		X
Michael G. McCaffery	X*	X	
Leslie Moonves			X*
Luis G. Nogales	X	X	
<i>Employee Director</i>			
Jeffrey T. Mezger			

X = Member * = Chair = Lead Director

Table of Contents

Audit and Compliance Committee. The Audit and Compliance Committee represents and assists the Board in fulfilling its responsibilities for oversight of our:
accounting and reporting practices, including the quality and integrity of our financial statements and reports;

internal control over financial reporting and disclosure controls and procedures;

audit process, including our independent registered public accounting firm's qualifications, independence, retention, compensation and performance, and the performance of our internal audit department; and

compliance with legal and regulatory requirements and management of matters in which we have or may have material liability exposure.

The Audit and Compliance Committee also oversees the preparation of a report for inclusion in the annual proxy statement and is charged with the duties and responsibilities listed in its Charter. The report of the Audit and Compliance Committee is included in this Proxy Statement on page 52 below.

The Board has determined that each current member of the Audit and Compliance Committee is independent under our Governance Principles, New York Stock Exchange listing standards and Securities and Exchange Commission rules. The Board has also determined that each current member of the Audit and Compliance Committee is financially literate under New York Stock Exchange listing standards, and that Ms. Lora qualifies as an audit committee financial expert under Securities and Exchange Commission rules.

In August 2006, a Subcommittee of the Audit and Compliance Committee was established to conduct a review of our past stock option grant practices in conjunction with independent legal counsel. This Subcommittee met 20 times in fiscal 2006. Mr. Finchem, Ms. Lora and Mr. McCaffery constituted this Subcommittee.

Management Development and Compensation Committee. The Management Development and Compensation Committee represents and assists the Board in fulfilling its responsibilities for oversight of:

the compensation of corporate and division officers, including the determination of the nature and amount of awards to be granted under our employee compensation plans; and

our efforts to attract, develop and promote qualified executives.

The Management Development and Compensation Committee also oversees the preparation of a report on executive compensation for inclusion in the annual proxy statement and is charged with the duties and responsibilities listed in its Charter. The report of the Management Development and Compensation Committee is included in this Proxy Statement beginning on page 37 below.

In addition to being independent under our Governance Principles and New York Stock Exchange listing standards, the Board has determined that each current member of the Management Development and Compensation Committee is a non-employee director under Securities and Exchange Commission rules and an outside director under Section 162(m) of the Internal Revenue Code.

No member of the Management Development and Compensation Committee was part of a compensation committee interlock during our 2006 fiscal year as described under Securities and Exchange Commission rules. In addition, none of our executive officers served as a director or member of the compensation committee of another

Table of Contents

entity that would constitute a compensation committee interlock.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee represents and assists the Board in fulfilling its responsibilities to:

shape and monitor the implementation of our governance policies and practices;

identify and investigate individuals qualified to become Board members, consistent with criteria approved by the Board, and recommend proposed nominees for Board membership;

assess the Board's size, operations, structure, needs and effectiveness by, among other things, reviewing and making recommendations as to the membership, purpose and functions of Board Committees and overseeing the annual evaluation of the Board's and its Committees' respective performance; and

establish and from time to time adjust non-employee Director compensation and benefits in accordance with, among other things, the compensation guidelines set forth in our Governance Principles.

The Nominating and Corporate Governance Committee also reviews and makes recommendations to the full Board on proposed changes to our Amended Certificate of Incorporation and Bylaws, periodically assesses and recommends action with respect to our stockholder rights plan and other stockholder protections, reviews and approves or ratifies (as applicable) transactions in which we participate and in which certain related parties have a material interest, and is charged with the other duties and responsibilities listed in its Charter.

The Board has determined that each member of the Nominating and Corporate Governance Committee is independent under our Governance Principles and New York Stock Exchange listing standards.

Executive Committee. The Executive Committee met once in our 2006 fiscal year and acted periodically by written consent. As part of the new corporate governance initiatives discussed on page 5 above, the Board of Directors has voted to dissolve the Executive Committee effective April 5, 2007.

Executive Sessions of Independent Directors

The independent Directors have met in executive session without management present as part of the Board's regularly scheduled meetings, and will continue to do so. Any independent Director can request additional executive sessions. Until November 12, 2006, Mr. Johnson served as the Board's Presiding Director and scheduled and chaired executive sessions. Since November 12, 2006, the independent Lead Director of the Board of Directors, currently Mr. Jastrow, is responsible for scheduling and chairing the executive sessions.

Communications with the Board

You, and any other interested person, may write to the Board or to any of the independent Directors in care of our Corporate Secretary at KB Home, 10990 Wilshire Boulevard, Los Angeles, California 90024. The Corporate Secretary or the Assistant Corporate Secretary reviews all such written correspondence promptly upon receipt and will forward it, as they determine is appropriate, to a Committee Chair, to an individual Director and/or to the Lead Director. Directors who receive such correspondence determine, individually or with other Directors and/or senior executive management, whether and how to respond.

Table of Contents

Consideration of Director Candidates

The Nominating and Corporate Governance Committee is responsible for identifying and evaluating Director candidates on the Board's behalf. Director candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board members, professional search firms or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year.

Stockholders may recommend a candidate for the Nominating and Corporate Governance Committee's consideration by submitting the candidate's name and qualifications to us in care of the Corporate Secretary at the address listed above under the heading Communications with the Board. Candidates recommended by stockholders will be evaluated in the same manner as candidates recommended by any other person.

Director Compensation

Only non-employee Directors receive compensation for their Board and Committee service. Non-employee Directors are compensated on a Director Year basis, which is the period between Annual Meetings. Accordingly, the 2006 Director Year commenced on April 6, 2006, the date of our 2006 Annual Meeting, and will conclude on April 4, 2007, the date before our 2007 Annual Meeting.

Non-employee Director compensation is currently provided under our Non-Employee Directors Stock Plan (the Director Plan).

The Director Plan provides each non-employee Director with an annual cash retainer of \$80,000 and an annual grant of 4,000 deferred Stock Units. A Stock Unit is a contract right to receive a cash payment equal to the fair market value of a share of our Common Stock.

Annual Retainer. Each non-employee Director may receive the annual cash retainer in quarterly installments of \$20,000 paid out over the course of a Director Year.

Under the Director Plan, each non-employee Director may elect to receive the annual cash retainer in Stock Units or in Stock Options. If a Director elects to receive the annual cash retainer in Stock Units, the Stock Units are granted at the beginning of each Director Year at a value of 120% of the cash value of the retainer on the day of grant.

If a non-employee Director elects to receive Stock Options in lieu of the annual cash retainer, the Stock Options are granted at the beginning of each Director Year and will have an exercise price equal to the closing price of our Common Stock on the New York Stock Exchange on the date of grant. The number of Stock Options granted is equal to four times the number of shares of our Common Stock that can be acquired with the amount of the annual retainer based on the closing price of our Common Stock on the date of grant.

Stock Options granted to a non-employee Director under the Director Plan are fully vested when granted, but cannot be exercised until the earlier to occur of (a) the Director's acquisition and continued ownership of at least 5,000 shares of our Common Stock or Stock Units or (b) the date the Director ceases to serve on our Board. These Stock Options have a term of fifteen years, although they must be exercised within one year of the date the Director ceases to serve on our Board.

Annual Stock Unit Grant. Each non-employee Director receives an annual grant of 4,000 Stock Units at the beginning of each Director Year. A Director may elect to receive the annual Stock Unit grant in Stock Options, as described above.

Table of Contents

Non-employee Directors are paid the equivalent of cash dividends on their Stock Units when cash dividends are paid on shares of our Common Stock. The amount of these cash dividend equivalent payments is equal to the number of Stock Units held multiplied by the amount of the cash dividend paid on a share of our Common Stock. Stock Units granted to a non-employee Director under the Director Plan are paid out in cash when the Director leaves the Board, and the amount paid is equal to the number of Stock Units held multiplied by the closing price of our Common Stock on the last business day before the payment date.

Committee Chair Retainer. At the beginning of each Director Year, the Chair of the Audit and Compliance Committee receives an additional annual retainer of 1,000 Stock Units, and each Chair of the other Board Committees receives an annual retainer of 600 Stock Units. A Committee Chair may elect to receive the Chair Stock Unit grant in Stock Options as described above.

Cash Election. Although the Director Plan provides the non-employee Directors with the option to receive payout of any Stock Units and Stock Options in shares of our Common Stock, all non-employee Directors have elected to receive payouts of currently outstanding stock-based awards granted to them under the Director Plan in cash.

Directors Legacy Program. Under our Directors Legacy Program we will make a charitable donation on each Director's behalf of up to \$1,000,000. Each donation can be allocated to up to five qualifying institutions or organizations of the Director's choice upon his or her death. Directors vest in the full donation in five equal annual installments of \$200,000, and therefore must serve on the Board for five consecutive years to be able to donate the maximum amount.

The Board of Directors has elected to close the Directors Legacy Program to new participants, and any future Directors will not be eligible to participate.

Copies of Governance Principles, Ethics Policy and Board Committee Charters

Copies of our Governance Principles, Ethics Policy and all Board Committee Charters can be viewed on and downloaded from our website at <http://www.kbhome.com/investor>. Stockholders may request free print copies of our Governance Principles, Ethics Policy and Board Committee Charters by writing to the Corporate Secretary at the address listed above under the heading Communications with the Board.

Table of Contents

**Proposals to be Voted on
Proposal 1:
Election of Directors**

At the Annual Meeting, the Board of Directors will present as nominees and recommend to stockholders that each of Messrs. Burkle, Moonves and Nogales be elected as Class III Directors to serve for a three-year term ending at the 2010 Annual Meeting, and that Dr. Irani be elected as a Class I Director to serve for a one-year term ending at the 2008 Annual Meeting. Each nominee is currently a Director, is standing for re-election, has consented to being nominated and has agreed to serve as a Director if elected. Should any of these nominees become unable to serve as a Director prior to the Annual Meeting, the persons named on the enclosed Proxy Card will, unless otherwise directed, vote for the election of such other person as the Board of Directors may recommend in place of such nominee. Although Dr. Irani has reached the retirement age for Directors under our Corporate Governance Principles, the Board believes it is in our and our stockholders' best interests that Dr. Irani continues to serve on the Board until the 2008 Annual Meeting.

Vote Required

The election of each Director nominee will require the affirmative vote of a plurality of shares of Common Stock present or represented at the Annual Meeting.

Your Board recommends a vote FOR the election to the Board of each of the following nominees. A brief summary of each nominee's principal occupation, recent professional experience and their directorships at other public companies, if any, is provided below.

Ron Burkle, age 54, is the founder and managing partner of The Yucaipa Companies, a private investment firm based in Southern California. Yucaipa specializes in acquisitions, mergers and management of large retail, manufacturing and distribution companies. Mr. Burkle has served as Chairman of the Board and controlling shareholder of numerous companies including Alliance Entertainment, Dominick's, Fred Meyer, Ralphs and Food4Less. He is currently a member of the board of Occidental Petroleum Corporation, Yahoo! Inc. and Kaufman & Broad S.A., the Company's publicly-traded French subsidiary. He has been a Director of the Company since 1995.

Table of Contents

Dr. Ray R. Irani, age 72, is Chairman, President and Chief Executive Officer of Occidental Petroleum Corporation. He joined Occidental in 1983 as Chairman and Chief Executive Officer of Occidental Chemical Corporation, an Occidental subsidiary, and as Executive Vice President of Occidental. In 1984 he was elected to the Board of Directors of Occidental and was named President and Chief Operating Officer. He assumed the responsibilities of Chairman and Chief Executive Officer in 1990, and the additional position of President in 2005. Dr. Irani was Chairman of the Board of Directors of Canadian Occidental Petroleum Ltd., an Occidental affiliate, from 1987 to 1999. Dr. Irani is a director of Kaufman & Broad S.A., the Company's publicly-traded French subsidiary. Dr. Irani has been a Director of the Company since 1992.

Leslie Moonves, age 57, is President and Chief Executive Officer and a Director of CBS Corporation and most recently was Co-President and Co-Chief Operating Officer of Viacom, which title he held from June 2004 to December 2005. Mr. Moonves previously served as President and Chief Executive Officer of CBS from 1998 to 2004, and served as its Chairman from 2003 to 2005, with responsibility for UPN since January 2002. He joined CBS in 1995 as President, CBS Entertainment. Prior to that, Mr. Moonves was President of Warner Bros. Television from 1993, when Warner Bros. and Lorimar Television combined operations. From 1989 to 1993, he was president of Lorimar Television. Mr. Moonves joined the Board in 2004.

Table of Contents

Luis G. Nogales, age 63, is the Managing Partner of Nogales Investors, LLC, a private equity investment firm. He was Chairman and Chief Executive Officer of Embarcadero Media, Inc. from 1992 to 1997, President of Univision Communications, Inc., from 1986 to 1988, and Chairman and Chief Executive Officer of United Press International from 1983 to 1986. He is a director of Edison International, Southern California Edison, Arbitron, and Kaufman & Broad S.A., the Company's publicly-traded French subsidiary. Mr. Nogales has been a Director of the Company since 1995.

Table of Contents

Listed below are our other incumbent Directors and their respective principal occupations, business affiliations and other information for at least the past five years.

Timothy W. Finchem, age 59, has been Commissioner of the PGA TOUR since 1994. He joined the TOUR staff as Vice President of Business Affairs in 1987, and was promoted to Deputy Commissioner and Chief Operating Officer in 1989. Mr. Finchem served in the White House as Deputy Advisor to the President in the Office of Economic Affairs in 1978 and 1979, and in the early 1980's, co-founded the National Marketing and Strategies Group in Washington, D.C. He joined the Board in May 2005 and his current term expires in 2008.

Kenneth M. Jastrow, II, age 59, has been Chairman and Chief Executive Officer of Temple-Inland Inc. since 2000. Prior to that, Mr. Jastrow served as President and Chief Operating Officer in 1998 and 1999, Group Vice President from 1995 until 1998, and as Chief Financial Officer of Temple-Inland from November 1991 until 1999. Mr. Jastrow is also a director of MGIC Investment Corporation. He joined the Board in December 2001 and was elected Lead Director in November 2006. His current term expires in 2009.

Table of Contents

James A. Johnson, age 63, has been Vice Chairman of Perseus LLC, a merchant banking and private equity firm, since 2001. In 2000, Mr. Johnson served as Chairman and Chief Executive Officer of Johnson Capital Partners, a private investment company. Mr. Johnson was employed by Fannie Mae from 1990 through 1999, where he served as Vice Chairman in 1990, Chairman and Chief Executive Officer from 1991 through 1998 and Chairman of the Executive Committee of the Board in 1999. He serves on the boards of Target Corporation, UnitedHealth Group, The Goldman Sachs Group, Inc., and Temple-Inland Inc. Mr. Johnson has been a member of the Board of Directors since 1992 and his current term expires in 2008.

J. Terrence Lanni, age 63, has been Chairman of MGM MIRAGE since July 1995, and Chief Executive Officer from June 1995 to December 1999, and since March 2000. Before joining MGM MIRAGE, Mr. Lanni was President and Chief Operating Officer of Caesars World, Inc. from April 1981 to February 1995. Mr. Lanni has been a Director of the Company since 2003 and his current term expires in 2008.

Table of Contents

Melissa Lora, age 44, is the Chief Financial Officer of Taco Bell Corp., a position that she has held since 2001. Ms. Lora joined Taco Bell Corp. in 1987 and has held various positions throughout the company, most recently acting as Regional Vice President and General Manager from 1998 to 2000 for Taco Bell's operations throughout the Northeastern United States. Ms. Lora joined the Board of Directors in April 2004 and her current term expires in 2009.

Michael G. McCaffery, age 53, is the Chief Executive Officer of Makena Capital Management. From 2000 to 2006, Mr. McCaffery was President and CEO of the Stanford Management Company (SMC), which was established in 1991 to manage Stanford University's financial and real estate investments. Previous to joining SMC, Mr. McCaffery was President and Chief Executive Officer of Robertson Stephens Investment Bankers from January 1993 to December 1999, and also served as Chairman from January 2000 to December 2000. Mr. McCaffery is a director of the Lucile Salter Packard Children's Hospital, Thomas Weisel Partners Group, Inc., Western Technology Ventures, Savvian, LLC and RS Investment Trust, and is a member of the Advisory Boards of Accel Ventures, Silver Lake Partners, Stanford University's Graduate School of Business and Princeton University's Bendheim Institute of Finance. Mr. McCaffery was elected to the Board of Directors in 2003, and his current term expires in 2009.

Table of Contents

Jeffrey T. Mezger, age 51, has been President and Chief Executive Officer of the Company since November 2006. Prior to becoming President and Chief Executive Officer, Mr. Mezger served as the Executive Vice President and Chief Operating Officer of the Company, a position he assumed in 1999. From 1995 until 1999, Mr. Mezger held a number of executive posts in the Company's southwest region, including Division President, Phoenix Division, and Senior Vice President and Regional General Manager over Arizona and Nevada. Mr. Mezger joined the Company in 1993 as president of the Antelope Valley Division in Southern California. Mr. Mezger is a member of the executive board of the USC Lusk Center for Real Estate and is on the Policy Advisory Board for the Harvard Joint Center for Housing Studies. He is also a member of the NAHB High Production Builders Council and has served as an officer on numerous boards of the NAHB. Mr. Mezger is a director of Kaufman & Broad SA, the Company's publicly-traded French subsidiary. Mr. Mezger has been a Director of the Company since November 2006, and his current term expires in 2009.

Table of Contents

Proposal 2:

Approval of an Amendment to the Amended Certificate of Incorporation of KB Home to Declassify the Board of Directors and Provide for the Annual Election of Directors