

KB HOME
Form DEF 14A
March 09, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

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:

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

KB HOME

(Name of Registrant as Specified In Its Charter)

(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)(1) 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:

- o Fee paid previously with preliminary materials.
- o 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

Table of Contents

KB HOME

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

u

March 9, 2009

Dear Fellow Stockholder:

Your officers and directors join me in inviting you to attend the 2009 Annual Meeting of Stockholders of KB Home at 9:00 a.m. Pacific Time on April 2, 2009 at our headquarters in Los Angeles, California.

The expected items of business for the meeting are described in detail in the attached Notice of 2009 Annual Meeting of Stockholders and Proxy Statement. We also will discuss our 2008 results and our plans for the future.

We look forward to seeing you on April 2.

Sincerely,

Jeffrey T. Mezger
President and Chief Executive Officer

Table of Contents

Notice of 2009 Annual Meeting of Stockholders

u

Time and Date: 9:00 a.m. Pacific Time on Thursday, April 2, 2009.

Location: KB Home Headquarters, 10990 Wilshire Boulevard, Los Angeles, CA 90024.

- Agenda:**
- (1) Elect seven directors, each to serve for a one-year term;
 - (2) Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm;
 - (3) Adopt an amendment to our Restated Certificate of Incorporation to help protect the tax benefits of our net operating losses (the Protective Amendment);
 - (4) Approve the Successor Rights Plan to help protect the tax benefits of our net operating losses;
 - (5) Approve the KB Home Annual Incentive Plan for Executive Officers;
 - (6) Consider three stockholder proposals, if properly presented at the meeting; and
 - (7) Transact any other business that may properly come before the meeting or any adjournment or postponement of the meeting.

The accompanying Proxy Statement describes these items in more detail. We have not received notice of any other matters that may be properly presented at the meeting.

Record Date: You can vote at the meeting and at any postponement or adjournment of the meeting if you were a stockholder of record on February 14, 2009.

Voting: **Please vote as soon as possible, even if you plan to attend the meeting, to ensure that your shares will be represented. You do not need to attend the meeting to vote if you vote your proxy before the meeting. If you are a holder of record, you may vote via mail, telephone or the Internet. If your shares are held by a broker or financial institution, you must vote your shares as instructed by your broker or financial institution.**

Annual Report Copies of our Annual Report on Form 10-K for the fiscal year ended November 30, 2008 (the Annual Report), including audited financial statements, are being mailed to stockholders concurrently with this Proxy Statement. We anticipate that this mailing will commence on or about March 9, 2009.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on April 2, 2009. This Proxy Statement and the Annual Report are available online at www.kbhome.com/investor/proxy.

By Order of The Board of Directors,

Wendy C. Shiba
*Executive Vice President, General Counsel and
Corporate Secretary
Los Angeles, California
March 9, 2009*

u
Table of Contents

u

<u>General Information</u>	1
<u>Voting Information</u>	2
<u>Corporate Governance and Board Matters</u>	3
<u>Access to Corporate Governance Documents</u>	3
<u>Communications with the Board</u>	3
<u>Board Committee Composition and 2008 Fiscal Year Meetings</u>	4
<u>Board Committee Responsibilities and Related Matters</u>	4
<u>Director Qualifications</u>	6
<u>Director Independence</u>	6
<u>Consideration of Director Candidates</u>	7
<u>Director Compensation</u>	8
<u>Items of Business</u>	12
<u>Proposal 1: Election of Directors</u>	12
<u>Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm</u>	15
<u>Background to Proposals 3 and 4</u>	16
<u>Proposal 3: Adopt the Protective Amendment to KB Home's Restated Certificate of Incorporation</u>	17
<u>Proposal 4: Approve the Successor Rights Plan</u>	21
<u>Certain Considerations Related to the Protective Amendment and the Successor Rights Plan</u>	23
<u>Proposal 5: Approve the KB Home Annual Incentive Plan for Executive Officers</u>	25
<u>Proposal 6: Stockholder Proposal</u>	28
<u>Proposal 7: Stockholder Proposal</u>	30
<u>Proposal 8: Stockholder Proposal</u>	32
<u>Ownership of KB Home Securities</u>	34
<u>Ownership of Directors and Management</u>	34
<u>Beneficial Owners of More Than Five Percent of Our Common Stock</u>	35
<u>Stock Ownership Requirements</u>	36
<u>Executive Compensation</u>	37
<u>Management Development and Compensation Committee Report</u>	37
<u>Compensation Discussion and Analysis</u>	37
<u>General Overview</u>	37
<u>Compensation in Context: Fiscal Year 2008</u>	38
<u>NEO Compensation for the 2008 Fiscal Year</u>	39
<u>Post-Termination Arrangements</u>	44
<u>Other Material Tax and Accounting Implications of the Executive Compensation Program</u>	46
<u>Other Compensation Policies</u>	46
<u>Summary Compensation Table</u>	47
<u>Grants of Plan-Based Awards During Fiscal Year 2008</u>	48
<u>Outstanding Equity Awards at Fiscal Year-End 2008</u>	50
<u>Option Exercises and Stock Vested During Fiscal Year 2008</u>	52
<u>Pension Benefits During Fiscal Year 2008</u>	52

<u>Non-Qualified Deferred Compensation During Fiscal Year 2008</u>	53
<u>Potential Payments upon Termination of Employment or Change in Control</u>	53
<u>Audit and Compliance Committee Report</u>	63
<u>Independent Auditor Fees and Services</u>	64
<u>Other Matters</u>	65
<u>Certain Relationships and Related Party Transactions</u>	65
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	66
<u>Stockholder Proposals for Our 2010 Annual Meeting of Stockholders</u>	66
<u>Protective Amendment to KB Home s Restated Certificate of Incorporation</u>	Attachment A
<u>Successor Rights Plan</u>	Attachment B
<u>KB Home Annual Incentive Plan for Executive Officers</u>	Attachment C

Table of Contents

KB HOME

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

Proxy Statement
for the
2009 Annual Meeting of Stockholders

u
General Information

u

What Is This Proxy Statement For?

Your Board of Directors (the Board) is furnishing this Proxy Statement to you to solicit your proxy for our 2009 Annual Meeting of Stockholders. The items of business for the Annual Meeting are described in the accompanying Notice of 2009 Annual Meeting of Stockholders. This Proxy Statement contains information to help you determine how you want your shares to be voted.

Who Can Vote?

Holders of record of the 77,746,137 shares of common stock outstanding at the close of business on the record date (February 14, 2009) are entitled to one vote for each share held. The trustee of our Grantor Stock Ownership Trust (the GSOT) will vote the 11,861,782 shares the GSOT held on the record date based on the instructions received from our employees who hold unexercised options under our employee equity compensation plans. Accordingly, a total of 89,607,919 shares are entitled to vote at the Annual Meeting. There is no right to cumulative voting.

Attending the Annual Meeting

Date: Thursday, April 2, 2009

Place: KB Home Headquarters
10990 Wilshire Boulevard
Los Angeles, CA 90024

To Attend: You and one guest may attend. You will need to show proof that you were a stockholder on February 14, 2009 and a valid photo ID. Parking is available at the garage for the meeting location, which is accessed from Veteran Avenue. You may be subject to a security check.

Note: **No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted. Additional rules of conduct will apply at the meeting.**

Who is a Holder of Record ?

If your shares are registered directly in your name with our transfer agent, BNY Mellon Shareowner Services, 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 a beneficial owner of those shares held in street name. If you are a beneficial owner, for ease of reference, this Proxy Statement will use the term broker to describe the person or institution that is the holder of record of your shares.

Proxy Solicitation Costs

We will pay the cost to solicit proxies for the Annual Meeting. In addition to this Proxy Statement, our officers, directors and other employees may solicit proxies personally or in writing or by telephone, facsimile or email for no additional compensation. We will, if requested, reimburse banks, brokerage houses and other custodians, nominees and certain fiduciaries for their reasonable expenses in providing material to their principals. We have hired Georgeson Inc., a professional soliciting organization, to assist us in proxy solicitation and in distributing proxy materials. For these services, we will pay Georgeson a fee of \$8,500, plus reimbursement for out-of-pocket expenses.

Table of Contents

u

Voting Information

u

Quorum Requirement	For stockholders to take action at the Annual Meeting, a majority of the shares of our common stock outstanding on the record date must be present or represented at the Annual Meeting. Abstentions and broker non-votes are counted for this purpose.
Broker Non-Votes	A broker non-vote arises when a broker does not receive instructions from a beneficial owner and does not have the discretionary authority to vote. We understand that brokers have discretionary authority to vote only on the election of directors and the proposal to ratify the appointment of our independent registered public accounting firm.
Proxy Voting	Holders of record may vote by proxy via mail, telephone or the Internet as described on the proxy materials provided to you. If you are a beneficial owner, your broker will send you proxy voting instructions.
Voting at the Annual Meeting	Holders of record (or someone designated by a signed legal proxy) may vote in person at the Annual Meeting. If you are a beneficial owner, you must obtain a legal proxy from your broker and present it with your ballot. Voting at the Annual Meeting will replace any prior proxy voting.
Voting By Named Proxies	The named proxies for the Annual Meeting Jeffrey T. Mezger and Wendy C. Shiba (or their duly authorized designees) will follow submitted proxy voting instructions. They will vote as the Board recommends as to any submitted proxy voting instructions that do not direct how to vote on any item, and will vote on any other matters properly presented at the Annual Meeting in their judgment.
Closing of Polls	Polls will close at approximately 9:30 a.m., Pacific Time, on April 2, 2009. Holders of record may vote via Internet and telephone until 11:59 p.m., Eastern Time, on April 1, 2009. Proxy voting instructions for shares held by the KB Home Common Stock Fund in our 401(k) Savings Plan or the GSOT must be received by 11:59 p.m., Eastern Time on March 30, 2009. Each broker sets proxy voting deadlines for its beneficial owners.
Changing Your Vote	Holders of record may revoke proxy votes at any time before polls close by submitting a later vote (i) in person at the Annual Meeting, (ii) via mail, telephone or the Internet before the above-listed deadlines, or (iii) to our Corporate Secretary at the address listed below under the heading Communications with the Board by our close of business on April 1, 2009. If you are a beneficial owner, you must contact your broker to revoke any prior voting instructions.
Votes Required to Approve or Adopt Proposals	<p><i>Election of Directors.</i> To be elected, each director nominee must receive a majority of votes cast in favor (<i>i.e.</i>, the votes cast for a nominee's election must exceed the votes cast against the nominee's election). Shares that are not present or represented at the Annual Meeting and abstentions will not affect the election outcome.</p> <p><i>Other Proposals.</i> Adoption of the Protective Amendment to our Restated Certificate of Incorporation requires the affirmative vote of a majority of the outstanding shares of our common stock. Abstentions and broker non-votes will have the same effect as an against</p>

vote. Approval of each of the other proposals in this Proxy Statement, including the stockholder proposals, requires the affirmative vote of a majority of the shares present or represented at the Annual Meeting and entitled to vote thereon. Abstentions will have the same effect as an against vote, but broker non-votes will not affect the outcomes.

Inspectors of Elections

We have engaged our transfer agent to count the votes and act as an independent inspector of election. William A. Richelieu, Assistant Corporate Secretary, will also act as an inspector of election.

Table of Contents

u
Corporate Governance and Board Matters

u

Role of the Board of Directors

The Board is elected by our stockholders to oversee the management of our business and to assure that the long-term interests of our stockholders are being served. The Board carries out this role subject to Delaware law and our Certificate of Incorporation, By-laws and Corporate Governance Principles.

Corporate Governance Principles

Our Corporate Governance Principles provide a framework within which we conduct our business and pursue our strategic goals. The Nominating/Governance Committee regularly reviews our Corporate Governance Principles, and the full Board approves changes as it deems 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 our senior executive management, and our directors must comply with our Ethics Policy.

The Audit Committee regularly reviews our Ethics Policy and approves changes that it deems necessary or appropriate. The Audit Committee most recently approved changes to our Ethics Policy that became effective as of October 17, 2008.

Board Meetings

The Board and the Board Committees hold regular meetings during our fiscal year on a set schedule, and may hold interim meetings and act by written consent from time to time as necessary or appropriate.

The Board held seven meetings in our 2008 fiscal year. Stephen F. Bollenbach, the Non-Executive Chairman of the Board, presides over all meetings of the Board when he is present.

Executive Sessions of Non-Employee Directors

As part of the Board's regularly scheduled meetings, the non-employee directors meet in executive session. Any non-employee director can request additional executive sessions. As Non-Executive Chairman of the Board, Mr. Bollenbach is responsible for scheduling and chairing the executive sessions.

Access to Corporate Governance Documents

You can view, print and download copies of the following corporate governance documents at www.kbhome.com/investor/corporategovernance:

Certificate of Incorporation

By-laws

Corporate Governance Principles
Board Committee Charters
Ethics Policy

You may request free print copies of these documents by writing to our Corporate Secretary at the address listed below under Communications with the Board.

Board Committees

Three standing Board Committees assist the Board

Audit and Compliance (Audit Committee)

Management Development and Compensation (Compensation Committee)

Nominating and Corporate Governance (Nominating/Governance Committee)

The Board appoints the members of and has adopted a charter for each Committee. The Board and each Committee conducts an annual evaluation of its performance.

Board Membership and Attendance

As of the date of this Proxy Statement, the Board has 10 members. Except for Jeffrey T. Mezger, our President and Chief Executive Officer (CEO), no director is an employee. In our 2008 fiscal year, each director attended at least 75% of the meetings of the Board and the Board Committees on which he or she served. We expect directors to attend our annual stockholder meetings. Except for Mr. Burkle, all directors serving at the time attended our 2008 Annual Meeting of Stockholders, held on April 3, 2008.

Communications with the Board

Any interested party may write to the Board or to any non-employee director in care of our Corporate Secretary at KB Home, 10990 Wilshire Boulevard, Los Angeles, California 90024. She or the Assistant Secretary will review and forward letters, as they determine appropriate, to one or more directors. Directors determine whether and how to respond. They will not forward items unrelated to Board duties.

Table of Contents**Board Committee Composition and 2008 Fiscal Year Meetings**

The chart below shows the current members of the standing Board Committees as of the date of this Proxy Statement and the number of meetings each Board Committee held during our 2008 fiscal year. Mr. Mezger does not serve on any Board Committees.

Director	Audit	Compensation	Nominating/ Governance
Stephen F. Bollenbach(a)		X	X
Ronald W. Burkle(b)			X
Timothy W. Finchem	X	X	
Kenneth M. Jastrow, II			X
Robert L. Johnson(c)	X		
Melissa Lora(d)	Chair		X
Michael G. McCaffery(e)	X	Chair	
Leslie Moonves			Chair
Luis G. Nogales	X	X	
<i>Number of Meetings:</i>	10(f)	7	5

- (a) Mr. Bollenbach joined both the Compensation Committee and the Nominating/Governance Committee on April 3, 2008.
- (b) Mr. Burkle served on the Audit Committee until April 3, 2008.
- (c) Mr. Robert Johnson joined the Board on July 10, 2008. He was appointed to the Audit Committee on October 2, 2008.
- (d) Ms. Lora was designated Audit Committee Chair on December 5, 2008. She served on the Audit Committee throughout our 2008 fiscal year.
- (e) Mr. McCaffery was designated Compensation Committee Chair on December 5, 2008. He served on the Compensation Committee throughout our 2008 fiscal year. He served as Audit Committee Chair throughout our 2008 fiscal year and until December 5, 2008.
- (f) Includes conference calls with our management to review our quarterly earnings releases prior to their issuance.

Board Committee Responsibilities and Related Matters

The Board has delegated certain responsibilities and authority to each Board Committee as described below. At each regularly-scheduled Board meeting, each Committee Chair (or another designated Committee member) reports to the full Board on his or her Committee's activities.

Audit Committee. The Audit Committee is responsible for general oversight of our (i) accounting and reporting practices; (ii) internal control over financial reporting and disclosure controls and procedures; (iii) 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 (iv) compliance with legal and regulatory requirements and management of matters in which we have or may have material liability exposure. In addition, the Audit Committee may act for the Board to authorize us or our subsidiaries or affiliates to incur, guarantee or redeem debt or debt securities.

The Audit Committee also oversees the preparation of a required report to be included in our annual proxy statements and is charged with the duties and responsibilities listed in its charter. The Audit Committee's report is provided below under the heading **Audit and Compliance Committee Report**. The Audit Committee is a separately designated standing audit committee as defined in Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

Table of Contents

The Board has determined that each current member of the Audit Committee is independent under our Corporate Governance Principles (as described below under the heading *Director Independence*), New York Stock Exchange (NYSE) listing standards and Securities and Exchange Commission (SEC) rules. The Board has also determined that each current member of the Audit Committee is financially literate under NYSE listing standards, and that Ms. Lora qualifies as an *audit committee financial expert* under SEC rules.

Compensation Committee. The Compensation Committee is responsible for (i) the evaluation and compensation of the CEO and his direct reports; (ii) oversight and approval of the general design of our executive compensation and benefit programs; (iii) our efforts to attract, develop, promote and retain qualified senior executive talent; and (iv) the evaluation and determination of non-employee director compensation. The Compensation Committee oversees the preparation of the compensation discussion and analysis to be included in our annual proxy statements, recommends to the Board whether to so include the compensation discussion and analysis, provides an accompanying report to be included in our annual proxy statements, and is charged with the duties and responsibilities listed in its charter. The compensation discussion and analysis for this Proxy Statement is provided below under the heading *Compensation Discussion and Analysis*, and the Compensation Committee's report is provided below under the heading *Management Development and Compensation Committee Report*.

The Board has determined that each current Compensation Committee member is independent under our Corporate Governance Principles and NYSE listing standards, is a *non-employee director* under SEC rules and is an *outside director* under Section 162(m) of the Internal Revenue Code (the *Code*).

Overview of Executive Officer and Non-Employee Director Compensation Processes and Procedures. Under our By-laws, the Board has the authority to fix the compensation of our executive officers and non-employee directors. The Board has delegated this authority to the Compensation Committee as provided in the Compensation Committee's charter. Per its charter, the Compensation Committee annually reviews and approves the goals and objectives relevant to our CEO's compensation, evaluates his performance in light of those goals and objectives and other criteria, and, either as a committee or together with the other independent directors (as directed by the Board), determines and approves our CEO's compensation based on the evaluation. The Compensation Committee also evaluates, in conjunction with our CEO, the performance of his direct reports, and reviews and approves their compensation.

The Compensation Committee exercises the Board's authority with respect to our employee compensation and benefits plans (including our employee equity compensation plans) and policies, except to the extent that the Board, in its discretion, reserves its authority. This delegation includes the authority to select eligible participants, recommend and approve grants and awards, set performance targets and other award eligibility criteria, approve an aggregate incentive pool for any annual or long-term incentive awards, interpret the plans' terms, delegate certain responsibilities and adopt or modify as necessary any rules and procedures to implement the plans, including any rules and procedures that condition the approval of grants and awards. The Compensation Committee also periodically reviews our compensation and benefit plans and, from time to time, will recommend to the Board new plans or modifications to existing plans. The Compensation Committee's exercise of this authority, including specific considerations applied and determinations made, with respect to the compensation and benefits awarded to our named executive officers under our plans is discussed below under the heading *Compensation Discussion and Analysis*.

The Compensation Committee, from time to time, reviews and makes recommendations to the Board regarding non-employee director compensation consistent with the goals of recruiting the highest caliber directors to serve on the Board, aligning directors' and stockholders' interests, and fairly paying directors for the work required to serve stockholder interests given our size, scope and complexity of operations.

In its oversight of executive officer and non-employee director compensation, the Compensation Committee seeks assistance from our management and has engaged an outside compensation consultant, Semler Brossy Consulting

Group LLC (Semler Brossy), as further described below under the heading Compensation Discussion and Analysis. The Compensation Committee may delegate to a subcommittee or to our management any duties and responsibilities as the Compensation Committee deems to be appropriate and in our best interests, but it cannot delegate to our management the authority to grant equity-based awards.

Compensation Committee Interlocks and Insider Participation. All current Compensation Committee members served throughout our 2008 fiscal year, except for Mr. Bollenbach, who joined the Compensation

Table of Contents

Committee on April 3, 2008. J. Terrence Lanni served as the Compensation Committee Chair throughout our 2008 fiscal year until November 13, 2008, when he resigned from the Board. Mr. McCaffery was designated Compensation Committee Chair on December 5, 2008. No member of the Compensation Committee during our 2008 fiscal year was part of a compensation committee interlock as described under SEC rules. In addition, none of our executive officers served as a director or member of the compensation committee of another entity that would constitute a compensation committee interlock.

Nominating/Governance Committee. The Nominating/Governance Committee is responsible for (i) providing oversight of our corporate governance policies and practices; (ii) identifying, evaluating and recommending to the Board individuals who are qualified to become directors; and (iii) performing ongoing assessments of the Board's size, operations, structure, needs and effectiveness. The Nominating/Governance Committee also reviews and makes recommendations to the full Board on proposed changes to our Certificate of Incorporation and By-laws, periodically assesses and recommends action with respect to stockholder rights plans and other stockholder protections, reviews and approves or ratifies (as applicable) related party transactions, as further described below under the heading Certain Relationships and Related Party Transactions, and is charged with the duties and responsibilities listed in its charter.

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

Director Qualifications

We believe 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. Our directors should also have an inquisitive and objective perspective, and be able and willing to dedicate the time necessary to Board and Board Committee service.

The Nominating/Governance Committee regularly assesses the skills and characteristics of current and potential directors and may consider the attributes listed to the right, among others.

Director Independence

We believe that a substantial majority of our directors should be independent. To be independent, the Board must affirmatively determine that a director does not have any material relationship with us based on all relevant facts and circumstances.

Selected Director Attributes

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.

Independence and an absence of conflicting time commitments.

The Board makes independence determinations annually based on information supplied by directors and other sources, the Nominating/Governance Committee's prior review and recommendation, and certain categorical standards contained in our Corporate Governance Principles. These standards are consistent with NYSE listing standards. The Board has determined that all non-employee directors who served during our 2008 fiscal year and all current director nominees are independent under the Board's director independence standards. Accordingly, Messrs. Bollenbach, Burkle, Finchem, Jastrow, Robert Johnson, McCaffery, Moonves, and Nogales and Ms. Lora are independent. In addition, the Board has determined that all of the Board Committees are entirely composed of independent directors.

In making its independence determinations, the Board considered the following transactions during our 2008 fiscal year: (a) radio and billboard advertising expenditures we made at market rates with CBS Corporation (at which Mr. Moonves serves as Chief Executive Officer), and (b) building materials purchased at market prices from Temple-Inland Inc. (at which Mr. Jastrow served as Chief Executive Officer through December 2007), and for which we received standard purchase rebates, for use in our homebuilding operations. In each case, the transactions considered were in the ordinary course of our business and the business of the counterpart company and fell well within the categorical independence standards contained in our Corporate Governance

Table of Contents

Principles. In each case, Messrs. Jastrow and Moonves were deemed to not have a direct or indirect material interest in the expenditures, and did not participate in the transactions in an individual capacity.

Consideration of Director Candidates

The Nominating/Governance Committee is responsible for identifying and evaluating director candidates. Candidate evaluations may occur at regular or special meetings of the Nominating/Governance Committee and at any point during the year. The general qualifications for director candidates are described above under the heading Director Qualifications, and in the box above titled Selected Director Attributes.

The Nominating/Governance Committee has retained professional search firms from time to time to assist it with recruiting potential director candidates to the Board based on criteria the Nominating/Governance Committee provides to the firm. These firms help identify, evaluate and select director candidates and are typically paid an agreed upon fee plus expenses for their work. A professional search firm helped recruit Mr. Robert Johnson to the Board in 2008. Current directors or other persons may recommend candidates to the Nominating/Governance Committee.

Any security holder may recommend a director candidate for the Nominating/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. Director candidates recommended by a security holder are considered in the same manner as any other recommended candidates.

Table of Contents

u
Director Compensation

u

The Board sets non-employee director compensation based on recommendations from the Compensation Committee. Mr. Mezger is not paid for his service as a director. The Compensation Committee has retained Semler Brossy to assist it with designing our compensation and benefit programs, including our non-employee director compensation program. Non-employee director compensation is currently provided under our 2003 Non-Employee Directors Stock Plan (Director Plan). The key components are described below.

Key Director Plan Components

Each non-employee director is entitled to receive:

§ An \$80,000 cash retainer, paid in four equal quarterly installments during a Director Year; and

§ 4,000 stock units

Director Year

A Director Year is the period between our annual meetings of stockholders. The 2008 Director Year began on April 3, 2008 and ends on April 1, 2009.

To promote greater alignment of non-employee director and stockholder interests, a non-employee director may elect to receive the cash retainer in:

§ Stock units in an amount equal to the number of shares of our common stock that can be purchased with 120% of the retainer's value based on the common stock's grant date closing price. The additional incentive over the retainer's cash value is intended to induce non-employee directors to elect stock units; or

§ Stock options in an amount equal to approximately four times the shares of our common stock that can be purchased with the retainer's value based on the common stock's grant date closing price. In the Board's judgment, the four-to-one ratio represents an appropriate trade-off for selecting stock options in lieu of cash.

A non-employee director may also elect to receive the stock units in the form of stock options in an amount equal to four times the number of stock units, reflecting what the Board believes is an appropriate trade-off for the greater potential volatility in the value of a stock option over time.

Stock units and stock options are granted on the date of each annual meeting of stockholders. Stock options are granted with an exercise price equal to our common stock's closing price on that date.

Each of the Chairs of the Compensation Committee and the Nominating/Governance Committee is entitled to an additional retainer of 600 stock units. The Chair of the Audit Committee is entitled to an additional retainer of 1,000 stock units.

A non-employee director who joins the Board or who becomes a Board Committee Chair during a Director Year receives pro-rated compensation based on the time remaining in the Director Year, with stock units granted on the date of the relevant event. A non-employee director who resigns from the Board during a Director Year must return a pro-rated amount of any cash retainer received, and forfeit a pro-rated amount of any stock units or Director Plan stock options granted, for that Director Year.

Each Director Plan stock unit provides a right to receive the fair market value of a share of our common stock and a cash dividend equivalent payment at the same time and in the same amount as any cash dividend paid on our common stock. Based on each non-employee director's compensation election, Director Plan stock units will be paid out in cash only, with the amount paid equal to the total number of stock units held multiplied by our common stock's closing price on the date a non-employee director leaves the Board.

Director Plan stock options are fully vested when granted and have a 15-year term. A non-employee director cannot exercise Director Plan stock options until the earlier of (a) the director's acquisition and continued ownership of at least 10,000 shares of our common stock and/or Director Plan stock units and (b) the date the director leaves the Board. Director Plan stock options must be exercised within one year of the date a non-employee director leaves the Board. Based on each non-employee director's compensation election, Director Plan stock options will be paid out in cash only, with the amount paid equal to the

Table of Contents

positive difference between a stock option's exercise price and the closing price of our common stock on the applicable exercise date. Accordingly, Director Plan stock options are equivalent in nature to stock appreciation rights.

Chairman Retainer. Mr. Bollenbach is paid an additional annual cash retainer of \$300,000 for his service as the Non-Executive Chairman of the Board. He may keep any retainer payment if removed from the Board without cause.

Expenses. We pay the non-employee directors' expenses, including travel, accommodations and meals, for attending Board and Board Committee meetings and our annual stockholders meetings and any other activities related to our business. They do not receive additional compensation for attending Board-related or annual meetings.

Director Compensation During Fiscal Year 2008

Name	Fees Earned or Paid in Cash \$(a)	Stock Awards \$(b)	Option Awards \$(b)	All Other Compensation \$(c)	Total (\$)
Mr. Bollenbach	\$ 300,000	\$ 0	\$ 145,046	\$ 0	\$ 445,046
Mr. Burkle	95,653	3,965	0	0	99,618
Mr. Finchem	14,689	0	0	16,390	31,079
Mr. Jastrow	40,255	0	0	13,545	53,800
Mr. Robert Johnson	2,368	88,132	0	0	90,500
Ms. Lora	25,408	0	59,690	9,960	95,058
Mr. McCaffery	10,299	12,107	4,726	13,545	40,677
Mr. Moonves	26,006	0	97,888	16,390	140,284
Mr. Nogales	60,647	0	0	0	60,647

**Former Non-Employee
Directors**

Mr. James Johnson	27,404	417,629	4,162	0	449,195
Mr. Lanni	26,242	0	0	0	26,242

(a) *Fees Earned or Paid in Cash:* Except for Messrs. Bollenbach and Burkle, these amounts are the total Director Plan stock unit dividend equivalent payments paid during our 2008 fiscal year. Non-employee directors with larger stock unit holdings based on their tenure and compensation elections received greater dividend equivalent payments. The amount shown for Mr. Bollenbach is solely his Chairman retainer. The amount shown for Mr. Burkle includes annual cash retainer payments.

(b) *Stock and Option Awards*: These amounts are the aggregate compensation expense we recognized in our 2008 fiscal year for Director Plan stock unit and stock option awards granted to our non-employee directors in 2008 and in prior years, computed in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), except that, in accordance with applicable SEC rules and guidance, we have disregarded estimates of forfeitures related to service-based vesting conditions and reversals in excess of amounts previously expensed in 2007 for the non-employee directors who appeared in the Director Compensation Table for that year. We account for the Director Plan stock unit and stock option awards as liability awards for purposes of SFAS No. 123(R) because they will be settled in cash in the manner described above under the heading *Key Director Plan Components*. For Director Plan stock unit awards, the SFAS No. 123(R) compensation expense was calculated based on the price of our common stock on November 30, 2008, which was \$11.63. For Director Plan stock option awards, the SFAS No. 123(R) compensation expense was calculated using the Black-Scholes option-pricing model with the following assumptions as of November 30, 2008: a risk-free interest rate from 2.0% to 4.1% (depending on when the specific stock option was granted); an expected volatility factor for the market price of our common stock of 56.7%; a dividend yield of 2.2%; and an expected life from five to

Table of Contents

15 years (depending on when the specific stock option was granted). Except for Mr. Robert Johnson, the Director Plan stock units and stock options were granted on April 3, 2008. Mr. Robert Johnson was granted a pro-rated amount of stock units upon his election to the Board on July 10, 2008. Mr. James Johnson served on the Board until April 3, 2008, when he retired, and was not granted any Director Plan stock units or stock options in our 2008 fiscal year. Below are the stock units and stock options granted to each non-employee director per the director's election and the corresponding grant date fair value calculated in accordance with SFAS No. 123(R). The stock options' fair value was calculated using the Black-Scholes option-pricing model with the following assumptions: a risk-free interest rate of 5.0%; an expected volatility factor for the market price of our common stock of 43.9%; a dividend yield of 3.5%; and an expected life of 15 years.

Name	Stock Units (#)	Stock Options (#)	Grant Date Fair Value (\$)
Mr. Bollenbach	0	27,220	\$296,698
Mr. Burkle	4,000	0	114,040
Mr. Finchem	7,367	0	210,033
Mr. Jastrow	7,367	0	210,033
Mr. Robert Johnson	7,578	0	119,202
Ms. Lora	4,000	11,220	236,338
Mr. McCaffery	8,367	0	238,543
Mr. Moonves	3,367	18,400	296,553
Mr. Nogales	7,367	0	210,033

Former Non-Employee Director

Mr. Lanni	7,967	0	227,139
-----------	-------	---	---------

Mr. Lanni received an additional 600 stock units for his service as the Compensation Committee Chair and Mr. McCaffery received an additional 1,000 stock units for his service as Audit Committee Chair. Mr. Moonves received 2,400 stock options for his service as Nominating/Governance Committee Chair by electing to receive his 600 stock unit Chair retainer grant in Director Plan stock options. All other stock unit and stock option amounts reflect the Director Plan cash retainer and stock unit grant the non-employee directors elected to receive in stock units or, for Messrs. Bollenbach and Moonves and Ms. Lora, in Director Plan stock options. Upon his retirement effective April 3, 2008, and in accordance with his compensation elections and the Director Plan's terms, we paid Mr. James Johnson \$1,562,548 for the 54,807 stock units he held on that date based on the \$28.51 closing price of our common stock on that date. Mr. James Johnson also held 143,957 Director Plan stock options on April 3, 2008 with various exercise prices, and has until April 3, 2009 to exercise these Director Plan stock options. As of the date of this Proxy Statement, he has not exercised any of these Director Plan stock options. Upon his resignation from the Board effective November 13, 2008, and in accordance with his compensation elections and the Director Plan's terms, we paid Mr. Lanni \$399,461 for the 31,553 stock units he held on that date based on the \$12.66 closing price of our

common stock on that date. Due to his resignation, Mr. Lanni forfeited 2,656 of the 7,967 stock units that were granted to him on April 3, 2008 for the 2008 Director Year. Mr. Lanni did not hold any Director Plan stock options.

Listed below are each non-employee director's total Director Plan stock unit and stock option holdings as of February 23, 2009. Ms. Lora's total stock unit holdings reflect an additional 333 stock units granted to her upon her designation as Audit Committee Chair on December 5, 2008, reflecting the applicable pro-rated amount for the remainder of the 2008 Director Year.

Table of Contents

Name	Stock Units (#)	Stock Options (#)	Total Holdings (#)
Mr. Bollenbach	0	50,760	50,760
Mr. Burkle	37,320	165,155	202,475
Mr. Finchem	20,759	0	20,759
Mr. Jastrow	44,821	0	44,821
Mr. Robert Johnson	7,578	0	7,578
Ms. Lora	28,011	11,220	39,231
Mr. McCaffery	17,568	73,609	91,177
Mr. Moonves	27,645	18,400	46,045
Mr. Nogales	64,013	2,130	66,143

Former Non-Employee Director

Mr. James Johnson	0	143,957	143,957
-------------------	---	---------	---------

(c) *All Other Compensation:* These amounts are the premium payments for the life insurance policies we maintain to fund charitable donations under the Directors Legacy Program, which is described below under the heading Directors Legacy Program. Messrs. Bollenbach, Robert Johnson and Lanni do not participate in the program. No additional premium payments are currently required for the program donations for each of Messrs. Burkle and Nogales. In our 2008 fiscal year, we paid a total of \$201,214 in life insurance premiums for all participants, including former directors. Premium payments vary depending on participants' respective ages and other factors. The total dollar amount payable under the program at November 30, 2008 was \$16.4 million. If all current participating directors were vested in the full donation amount, the total dollar amount payable under the program at November 30, 2008 would have been \$17.2 million.

Directors Legacy Program. We established a Directors Legacy Program in 1995 to recognize our and our directors' interests in supporting worthy educational institutions and other charitable organizations. In making adjustments to our philanthropic activities, the Board elected in 2007 to close the program to new participants. Messrs. Bollenbach, Robert Johnson, Lanni and Mezger do not participate in the program. Under the program, we will make a charitable donation on each participating director's behalf of up to \$1 million. 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 donate the maximum amount. A participating director may allocate the donation to up to five qualifying institutions or organizations. Donations are paid in ten equal annual installments directly to designated organizations after a participating director's death with proceeds from the life insurance policies we maintain on each participating director's life. Participating directors and their families do not receive any proceeds, compensation or tax savings associated with the program.

Table of Contents

u
Items of Business

u

Proposal 1:

Election of Directors

u

At the Annual Meeting, the Board will present as nominees and recommend to stockholders that Messrs. Bollenbach, Finchem, Jastrow, Robert Johnson, McCaffery and Mezger and Ms. Lora each be elected as directors to serve for a one-year term ending at our 2010 Annual Meeting of Stockholders. Each nominee is currently a director, has consented to being nominated and has agreed to serve as a director if elected. Each nominee is standing for re-election, except Mr. Robert Johnson, who was elected to the Board subsequent to our 2008 Annual Meeting of Stockholders. Should any of these nominees become unable to serve as a director prior to the Annual Meeting, the persons named as proxies on the proxy cards for the Annual Meeting will, unless otherwise directed, vote for the election of such other person as the Board may recommend in place of such nominee.

On the date of the Annual Meeting, the Board will have 10 members.

Vote Required

Under our By-laws, the election of each director nominee will require a majority of votes cast at the Annual Meeting to be in favor of the nominee (*i.e.*, the votes cast for a nominee's election must exceed the votes cast against the nominee's election).

Consistent with this director election standard, our Corporate Governance Principles require that each director nominee in an uncontested election at an annual meeting of stockholders receive more votes cast for than against his or her election or re-election in order to be elected or re-elected to the Board. An uncontested election is one in which no director candidates on the ballot were nominated by a stockholder in accordance with our By-laws. This election is an uncontested election.

Our Corporate Governance Principles also provide that a director nominee who fails to win election or re-election to the Board in an uncontested election is expected to tender his or her resignation from the Board. If an incumbent director fails to receive the required vote for election or re-election in an uncontested election, the Nominating/Governance Committee will act promptly to determine whether to accept the director's resignation and will submit its recommendation for consideration by the Board. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation. The Nominating/Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a director's resignation.

Your Board recommends a vote FOR the election to the Board of each of the nominees.

Table of Contents

A brief summary of each director nominee's and each incumbent director's principal occupation, recent professional experience and the director's directorships at other public companies, if any, is provided below.

Stephen F. Bollenbach, age 66, is our Non-Executive Chairman of the Board. He was the Co-Chairman and Chief Executive Officer of Hilton Hotels Corporation, a hotel developer and operator, positions he held from May 2004 and February 1996, respectively. He retired from Hilton in October of 2007. Prior to joining Hilton, Mr. Bollenbach was Senior Executive Vice President and Chief Financial Officer for The Walt Disney Company from 1995 to 1996. Before Disney, Mr. Bollenbach was President and Chief Executive Officer of Host Marriott Corporation from 1993 to 1995, and served as Chief Financial Officer of Marriott Corporation from 1992 to 1993. From 1990 to 1992, Mr. Bollenbach was Chief Financial Officer of the Trump Organization. Mr. Bollenbach serves as a director of Harrah's Entertainment, Inc., Time Warner Inc., Macy's, Inc. and American International Group, Inc. Mr. Bollenbach joined the Board as Non-Executive Chairman in 2007.

Ron Burkle, age 56, 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 boards of Occidental Petroleum Corporation and Yahoo! Inc. He has been a director since 1995 and his current term expires in 2010.

Timothy W. Finchem, age 61, has been Commissioner of the PGA TOUR, a membership organization for professional golfers, 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 2005.

Kenneth M. Jastrow, II, age 61, is Non-Executive Chairman, Forestar Group Inc., a real estate and natural resources company. He served as Chairman and Chief Executive Officer of Temple-Inland Inc., a manufacturing company and the former parent of Forestar Group, from 2000 to 2007. 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 2001.

Robert L. Johnson, age 62, is founder and chairman of The RLJ Companies, a business network that owns or holds interests in a diverse portfolio of companies in the financial services, real estate, hospitality/restaurant, professional sports, film production, gaming, recording and automotive industries. Prior to forming The RLJ Companies, Mr. Johnson was founder and chief executive officer of Black Entertainment Television (BET), which was

acquired by Viacom Inc. in 2001. He continued to serve as chief executive officer of BET until 2006. Mr. Johnson currently serves on the board of directors of the Lowe's Companies, Inc., IMG Worldwide, Inc., and Strayer Education, Inc. He joined the Board in 2008.

Table of Contents

Melissa Lora, age 46, has since 2001 been the Chief Financial Officer of Taco Bell Corp., a quick service restaurant chain. 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. She joined the Board in 2004.

Michael G. McCaffery, age 55, is the Chief Executive Officer of Makena Capital Management, an investment management firm. 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 Thomas Weisel Partners Group, Inc. He joined the Board in 2003.

Jeffrey T. Mezger, age 53, has been our President and Chief Executive Officer since November 2006. Prior to becoming President and Chief Executive Officer, Mr. Mezger served as our Executive Vice President and Chief Operating Officer, a position he assumed in 1999. From 1995 until 1999, Mr. Mezger held a number of executive posts in our southwest region, including Division President, Phoenix Division, and Senior Vice President and Regional General Manager over Arizona and Nevada. Mr. Mezger joined us in 1993 as president of the Antelope Valley Division in Southern California. He joined the Board in 2006.

Leslie Moonves, age 59, is President and Chief Executive Officer and a Director of CBS Corporation, a mass media company. Prior to that, he was Co-President and Co-Chief Operating Officer of Viacom, a mass media company and the former parent of CBS, 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. 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. He joined the Board in 2004 and his current term expires in 2010.

Luis G. Nogales, age 65, has been the Managing Partner of Nogales Investors, LLC, a private equity investment firm, since 2001. 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 Southern California Edison Co., Edison International and Arbitron Inc. He joined the Board in 1995 and his current term expires in 2010.

Table of Contents

Proposal 2:

Ratification of Appointment of Independent Registered Public Accounting Firm

u

The Audit Committee has appointed Ernst & Young LLP as our independent registered public accounting firm to audit our consolidated financial statements for our fiscal year ending November 30, 2009. During our 2008 fiscal year, Ernst & Young LLP served as our independent registered public accounting firm and also provided certain other audit-related services, as further discussed below under the heading Independent Auditor Fees and Services. Representatives of Ernst & Young LLP are expected to attend the Annual Meeting, be available to respond to appropriate questions and, if they desire, make a statement.

Although we are not required to do so, we are seeking stockholder ratification of Ernst & Young LLP's appointment as our independent registered public accounting firm as a matter of good corporate governance. If Ernst & Young LLP's appointment is not ratified, the Audit Committee will reconsider whether to retain Ernst & Young LLP, but still may retain them. Even if the appointment is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in our and our stockholders' best interests.

Vote Required

Approval of the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending November 30, 2009 requires the affirmative vote of the majority of shares of common stock present or represented, and entitled to vote thereon, at the Annual Meeting.

Your Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending November 30, 2009.

15

Table of Contents

Background to Proposals 3 and 4

Since the end of our 2007 fiscal year, we have generated significant net operating losses and unrealized tax losses (collectively, NOLs), and may have additional NOLs in our 2009 fiscal year. Under federal tax laws, we can use NOLs and certain related tax credits to offset ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, when they expire for such purposes. Until they expire, we can carry forward NOLs and certain related tax credits that we do not use in any particular year to offset income tax in future years. Although we were able to use certain NOLs that we had generated up to November 30, 2008 to offset the income taxes we paid in our last two tax years, as of the date of this Proxy Statement, we still have an approximately \$880 million net deferred tax asset related to NOLs we have generated but have not yet realized for tax purposes. This net deferred tax asset represents NOLs that we believe could be used to potentially offset approximately \$2.2 billion of future taxable income. While we cannot estimate the exact amount of NOLs that we can use to reduce future income tax liability because we cannot predict the amount and timing of our future taxable income, we consider our NOLs to be a very valuable asset.

The benefits of our NOLs would be reduced or eliminated, and our use of our NOLs would be substantially delayed, if we experience an ownership change, as determined under Section 382 of the Code. A Section 382 ownership change occurs if a stockholder or a group of stockholders who are deemed to own at least 5% of our common stock under Section 382 (each, a 5-percent stockholder) increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of our NOLs we can use to offset income tax equal to the product of the total value of our outstanding equity immediately prior to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of special rules apply to calculating this annual limit.

We believe that if an ownership change were to occur, the limitations Section 382 imposes could result in a material amount of our NOLs expiring unused and, therefore, significantly impair the value of our NOLs. While the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if no action is taken, we believe that we could experience an ownership change.

After careful consideration, your Board believes the most effective way to preserve the benefits of our NOLs to long-term stockholder value is to adopt the Protective Amendment to our Restated Certificate of Incorporation and the Successor Rights Plan. The Protective Amendment, which is designed to block transfers of our common stock that could result in an ownership change, is described below under Proposal 3 and its full terms can be found in the accompanying Attachment A. The Successor Rights Plan, pursuant to which we have issued certain stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change, is described below under Proposal 4 and its full terms can be found in the accompanying Attachment B.

Your Board urges stockholders to read carefully each proposal, the items discussed below under the heading Certain Considerations Related to the Protective Amendment and the Successor Rights Plan, and the full terms of the Protective Amendment and the Successor Rights Plan. Your Board unanimously adopted both measures on January 22, 2009, but the Protective Amendment requires stockholder adoption to be put into effect, and the Successor Rights Plan requires stockholder approval to remain effective after March 5, 2010.

It is important to note that neither measure offers a complete solution, and an ownership change may occur even if the Protective Amendment is adopted and the Successor Rights Plan is approved. There are limitations on the enforceability of the Protective Amendment against stockholders who do not vote to adopt it that may allow an ownership change to occur, and the Successor Rights Plan may deter, but ultimately cannot block, transfers of our common stock that might result in an ownership change. The limitations of these measures are described in more detail below. Because of their individual limitations, your Board believes that both measures are needed and that they will serve as important tools to help prevent an ownership change that would reduce or eliminate the significant long-term potential benefits of our NOLs, and substantially delay our use of our NOLs. Accordingly, your Board strongly recommends that stockholders adopt the Protective Amendment and approve the Successor Rights Plan.

Table of Contents

Proposal 3:

**Adopt the Protective Amendment to
KB Home's Restated Certificate of Incorporation**

u

For the reasons discussed above under Background to Proposals 3 and 4, your Board recommends that stockholders adopt the Protective Amendment to our Restated Certificate of Incorporation. The Protective Amendment is designed to prevent certain transfers of our common stock that could result in an ownership change under Section 382 and therefore materially inhibit our ability to use our NOLs to reduce our future income tax liability. Your Board believes it is in our and our stockholders' best interests to adopt the Protective Amendment to help avoid this result.

The Protective Amendment contains provisions that restrict direct and indirect transfers of our common stock if such transfers will affect the percentage of stock that a 5-percent stockholder is deemed to own. In addition, the Protective Amendment includes a mechanism to block the impact of such transfers while allowing purchasers to receive their money back from prohibited purchases. In order to implement these transfer restrictions, the Protective Amendment must be adopted. The Protective Amendment is contained in a proposed new Article Ninth to our Restated Certificate of Incorporation, which can be found in the accompanying [Attachment A](#) and is incorporated by reference herein. Existing Article Ninth to our Restated Certificate of Incorporation will become new Article Tenth if our stockholders adopt the Protective Amendment. Your Board has adopted resolutions approving and declaring the advisability of amending our Restated Certificate of Incorporation as described below and as provided in accompanying [Attachment A](#), subject to stockholder adoption.

Description of Protective Amendment

The following description of the Protective Amendment is qualified in its entirety by reference to the full text of the Protective Amendment, which is contained in a proposed new Article Ninth of our Restated Certificate of Incorporation and can be found in the accompanying [Attachment A](#). **Please read the Protective Amendment in its entirety as the discussion below is only a summary.**

Prohibited Transfers. Subject to certain exceptions pertaining to existing 5-percent stockholders, the Protective Amendment generally will restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to:

increase the direct or indirect ownership of our stock by any person (or any public group of stockholders, as that term is defined under Section 382) from less than 5% to 5% or more of our common stock;

increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or

create a new public group.

Restricted transfers include sales to persons or public groups whose resulting percentage ownership (direct or indirect) of our common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of our common stock would by attribution cause another person or public group to exceed such threshold. Complicated common stock ownership rules will apply in determining whether a person or group of persons constitute

a 5-percent stockholder under Section 382 and whether less than 5-percent stockholders will be treated as one or more public groups, each of which is a 5-percent stockholder under Section 382. A transfer from one member of the public group to another member of the public group does not increase the percentage of our common stock owned directly or indirectly by the public group and, therefore, such transfers are not restricted. For purposes of determining the existence and identity of, and the amount of our common stock owned by, any stockholder, we are entitled to rely on the existence or absence of certain public securities filings as of any date, subject to our actual knowledge of the ownership of our common stock. The Protective Amendment includes the right to require a proposed transferee, as a condition to registration of a transfer of our common stock, to provide all information reasonably requested regarding such person's direct and indirect ownership of our common stock. These transfer restrictions may result in the

Table of Contents

delay or refusal of certain requested transfers of our common stock, or prohibit ownership (thus requiring dispositions) of our common stock due to a change in the relationship between two or more persons or entities or to a transfer of an interest in an entity other than us that, directly or indirectly, owns our common stock. The transfer restrictions will also apply to proscribe the creation or transfer of certain options (which are broadly defined by Section 382) in respect of our common stock to the extent that, in certain circumstances, the creation, transfer or exercise of the option would result in a proscribed level of ownership.

Treatment of Pre-Existing 5-percent Stockholders. The Protective Amendment contains exceptions permitting certain transfers by pre-existing 5-percent stockholders. Pre-existing 5-percent stockholders are:

any person or entity who has publicly filed a Schedule 13D or 13G with respect to their ownership of our common stock on or before the date of adoption of the Protective Amendment; and

certain persons and entities with specified ownership interests in the foregoing persons or entities.

In contrast to the treatment of persons who become 5-percent stockholders after adoption of the Protective Amendment, who will be prohibited from disposing of any shares of our common stock without the express consent of your Board, a direct or indirect transfer of shares of our common stock by (but not to) a pre-existing 5-percent stockholder will be permitted so long as such a transfer would not:

increase the ownership of our common stock by any person (other than a public group) to 5% or more of our common stock; or

increase the percentage of our common stock owned by a person (other than a public group) owning 5% or more of our common stock.

These permitted transfers include transfers to a public group even though the public group becomes a new public group as a result of such transfer and is treated as a 5-percent stockholder under Section 382. In addition, the transferred shares of our common stock must be owned by the pre-existing 5-percent stockholder prior to the date of adoption of the Protective Amendment. These provisions will permit pre-existing 5-percent stockholders to dispose of shares owned by them, subject to the conditions above.

Consequences of Prohibited Transfers. Upon adoption of the Protective Amendment, any direct or indirect transfer attempted in violation of the Protective Amendment would be void as of the date of the prohibited transfer as to the purported transferee (or, in the case of an indirect transfer, the ownership of the direct owner of our common stock would terminate simultaneously with the transfer), and the purported transferee (or in the case of any indirect transfer, the direct owner) would not be recognized as the owner of the shares owned in violation of the Protective Amendment for any purpose, including for purposes of voting and receiving dividends or other distributions in respect of such common stock, or in the case of options, receiving our common stock in respect of their exercise. In this Proxy Statement, our common stock purportedly acquired in violation of the Protective Amendment is referred to as excess stock.

In addition to a prohibited transfer being void as of the date it is attempted, upon demand, the purported transferee must transfer the excess stock to our agent along with any dividends or other distributions paid with respect to such excess stock. Our agent is required to sell such excess stock in an arms length transaction (or series of transactions) that would not constitute a violation under the Protective Amendment. The net proceeds of the sale, together with any other distributions with respect to such excess stock received by our agent, after deduction of all costs incurred by the agent, will be distributed first to the purported transferee in an amount, if any, up to the cost (or in the case of gift, inheritance or similar transfer, the fair market value of the excess stock on the date of the prohibited transfer) incurred

by the purported transferee to acquire such excess stock, and the balance of the proceeds, if any, will be distributed to a charitable beneficiary. If the excess stock is sold by the purported transferee, such person will be treated as having sold the excess stock on behalf of the agent, and will be required to remit all proceeds to our agent (except to the extent we grant written permission to the purported transferee to retain an amount not to exceed the amount such person otherwise would have been entitled to retain had our agent sold such shares).

To the extent permitted by law, any stockholder who knowingly violates the Protective Amendment will be liable for any and all damages we suffer as a result of such violation, including damages resulting from any limitation in our ability to use our NOLs and any professional fees incurred in connection with addressing such violation.

Table of Contents

With respect to any transfer of common stock that does not involve a transfer of our securities within the meaning of the Delaware General Corporation Law but that would cause any 5-percent stockholder to violate the Protective Amendment, the following procedure will apply in lieu of those described above. In such case, no such 5-percent stockholder shall be required to dispose of any interest that is not our security, but such 5-percent stockholder and/or any person whose ownership of our securities is attributed to such 5-percent stockholder will be deemed to have disposed of (and will be required to dispose of) sufficient securities, simultaneously with the transfer, to cause such 5-percent stockholder not to be in violation of the Protective Amendment, and such securities will be treated as excess stock to be disposed of through the agent under the provisions summarized above, with the maximum amount payable to such 5-percent stockholder or such other person that was the direct holder of such excess stock from the proceeds of sale by the agent being the fair market value of such excess stock at the time of the prohibited transfer.

Modification and Waiver of Transfer Restrictions. Your Board will have the discretion to approve a transfer of our common stock that would otherwise violate the transfer restrictions if it determines that the transfer is in our and our stockholders' best interests. If your Board decides to permit such a transfer, that transfer or later transfers may result in an ownership change that could limit our use of our NOLs. In deciding whether to grant a waiver, your Board may seek the advice of counsel and tax experts with respect to the preservation of our federal tax attributes pursuant to Section 382. In addition, your Board may request relevant information from the acquirer and/or selling party in order to determine compliance with the Protective Amendment or the status of our federal income tax benefits, including an opinion of counsel selected by your Board (the cost of which will be borne by the transferor and/or the transferee) that the transfer will not result in a limitation on the use of the NOLs under Section 382. If your Board decides to grant a waiver, it may impose conditions on the acquirer or selling party.

Your Board may establish, modify, amend or rescind by-laws, regulations and procedures for purposes of determining whether any transfer of common stock would jeopardize our ability to use our NOLs.

Implementation and Expiration of the Protective Amendment

If our stockholders adopt the Protective Amendment, we intend to promptly file the Protective Amendment with the Secretary of State of the State of Delaware, whereupon such amendment will become effective. We intend to immediately thereafter enforce the restrictions in the Protective Amendment to preserve the future use of our NOLs. We also intend to include a legend reflecting the transfer restrictions included in the Protective Amendment on certificates representing newly issued or transferred shares and to disclose such restrictions to persons holding our common stock in uncertificated form.

The Protective Amendment would expire on the earliest of (i) your Board's determination that the Protective Amendment is no longer necessary for the preservation of our NOLs because of the amendment or repeal of Section 382 or any successor statute, (ii) the beginning of a taxable year to which your Board determines that none of our NOLs may be carried forward and (iii) such date as your Board otherwise determines that the Protective Amendment is no longer necessary for the preservation of our NOLs. Your Board may also accelerate or extend the expiration date of the Protective Amendment in the event of a change in the law.

Effectiveness and Enforceability

Although the Protective Amendment is intended to reduce the likelihood of an ownership change, we cannot eliminate the possibility that an ownership change will occur even if the Protective Amendment is adopted given that:

Your Board can permit a transfer to an acquirer that results or contributes to an ownership change if it determines that such transfer is in our and our stockholders' best interests.

A court could find that part or all of the Protective Amendment is not enforceable, either in general or as to a particular fact situation. Under the laws of the State of Delaware, our jurisdiction of incorporation, a corporation is conclusively presumed to have acted for a reasonable purpose when restricting the transfer of its securities in its certificate of incorporation for the purpose of maintaining or preserving any tax attribute (including NOLs). Delaware law provides that transfer

Table of Contents

restrictions with respect to shares of our common stock issued prior to the effectiveness of the restrictions will be effective against (i) stockholders with respect to shares that were voted in favor of this proposal and (ii) purported transferees of shares that were voted for this proposal if (A) the transfer restriction is conspicuously noted on the certificate(s) representing such shares or (B) the transferee had actual knowledge of the transfer restrictions (even absent such conspicuous notation). We intend to cause shares of our common stock issued after the effectiveness of the Protective Amendment to be issued with the relevant transfer restriction conspicuously noted on the certificate(s) representing such shares and therefore under Delaware law such newly issued shares will be subject to the transfer restriction. We also intend to disclose such restrictions to persons holding our common stock in uncertificated form. For the purpose of determining whether a stockholder is subject to the Protective Amendment, we intend to take the position that all shares issued prior to the effectiveness of the Protective Amendment that are proposed to be transferred were voted in favor of the Protective Amendment, unless the contrary is established. We may also assert that stockholders have waived the right to challenge or otherwise cannot challenge the enforceability of the Protective Amendment, unless a stockholder establishes that it did not vote in favor of the Protective Amendment. Nonetheless, a court could find that the Protective Amendment is unenforceable, either in general or as applied to a particular stockholder or fact situation.

Despite the adoption of the Protective Amendment, there is still a risk that certain changes in relationships among stockholders or other events could cause an ownership change under Section 382. We cannot assure you that the Protective Amendment is enforceable in all circumstances, particularly against stockholders who do not vote in favor of this proposal or who do not have notice of the acquisition restrictions at the time they subsequently acquire their shares. Accordingly, we cannot assure you that an ownership change will not occur even if the Protective Amendment is made effective. However, your Board has adopted the Successor Rights Plan, which is intended to act as a deterrent to any person becoming a 5-percent stockholder and endangering our ability to use our NOLs.

As a result of these and other factors, the Protective Amendment serves to reduce, but does not eliminate, the risk that we will undergo an ownership change.

Section 382 Ownership Change Determinations

The rules of Section 382 are very complex, and are beyond the scope of this summary discussion. Some of the factors that must be considered in determining whether a Section 382 ownership change has occurred include the following:

All stockholders who each own less than 5% of our common stock are generally (but not always) treated as a single 5-percent stockholder. Transactions in the public markets among stockholders who are not 5-percent stockholders are generally (but not always) excluded from the Section 382 calculation.

There are several rules regarding the aggregation and segregation of stockholders who otherwise do not qualify as 5-percent stockholders. Ownership of stock is generally attributed to its ultimate beneficial owner without regard to ownership by nominees, trusts, corporations, partnerships or other entities.

Acquisitions by a person that cause the person to become a 5-percent stockholder generally result in a 5% (or more) change in ownership, regardless of the size of the final purchase(s) that caused the threshold to be exceeded.

Certain constructive ownership rules, which generally attribute ownership of stock owned by estates, trusts, corporations, partnerships or other entities to the ultimate indirect individual owner thereof, or to related individuals, are applied in determining the level of stock ownership of a particular stockholder. Special rules

can result in the treatment of options (including warrants) or other similar interests as having been exercised if such treatment would result in an ownership change.

Our redemption or buyback of our common stock will increase the ownership of any 5-percent stockholders (including groups of stockholders who are not themselves 5-percent stockholders) and

Table of Contents

can contribute to an ownership change. In addition, it is possible that a redemption or buyback of shares could cause a holder of less than 5% to become a 5-percent stockholder, resulting in a 5% (or more) change in ownership.

Vote Required

Adoption of the Protective Amendment requires the affirmative vote of a majority of the outstanding shares of our common stock. The Protective Amendment, if adopted, would become effective upon the filing of a Certificate of Amendment with the Secretary of State of the State of Delaware, which we expect to do as soon as practicable after the Protective Amendment is adopted.

Your Board recommends a vote FOR the adoption of the Protective Amendment to KB Home's Restated Certificate of Incorporation.

Proposal 4:

Approve the Successor Rights Plan

u

Background on Our Existing Rights Plan

We have an existing stockholder rights plan that was adopted in February 1999 (the Existing Rights Plan). At the time of its adoption, the Existing Rights Plan was intended to reduce our vulnerability to certain potentially coercive takeover practices and takeover bids that are inadequate or otherwise inconsistent with our interests and our stockholders' interests, and to encourage potential acquirors to negotiate with your Board. The rights issued under the Existing Rights Plan, as originally adopted, would generally be triggered if a person or group acquired a number of shares of our common stock that were entitled to 15% or more of our outstanding voting power. On January 22, 2009, your Board amended the Existing Rights Plan to decrease the triggering threshold of the rights from 15% or more of our outstanding voting power to 4.9% or more of our outstanding common stock, among other things. This amendment to the Existing Rights Plan was intended to help preserve the long-term value to us of our NOLs by deterring the acquisition of our stock in excess of amounts that could reduce or eliminate our ability to use our NOLs under Section 382 (as described above under Background to Proposals 3 and 4). The rights issued pursuant to the Existing Rights Plan expired on March 5, 2009. The Successor Rights Plan is intended to continue to help preserve the long-term value to us of our NOLs by deterring acquisitions of our stock that, under Section 382, could inhibit our ability to use our NOLs to reduce our future income tax liability.

The Successor Rights Plan

On January 22, 2009, your Board adopted the Successor Rights Plan to replace the Existing Rights Plan effective as of the expiration date of its rights on March 5, 2009. The rights issued under the Successor Rights Plan will expire on March 5, 2010, if our stockholders have not approved the Successor Rights Plan by that date. Subject to certain limited exceptions, the Successor Rights Plan is designed to deter any person from buying our common stock (or any interest in our common stock) if the acquisition would result in a stockholder (or several stockholders, in the aggregate, who hold their stock as a group under the federal securities laws) owning 4.9% or more of our then-outstanding common stock.

The Successor Rights Plan is intended to protect stockholder value by attempting to preserve our ability to use our NOLs to reduce our future income tax liability. Because of the limitations of the Protective Amendment in preventing

transfers of our common stock that may result in an ownership change, as further described above under Proposal 3, your Board believes it is in our and our stockholders' best interests to approve the Successor Rights Plan. Your Board of Directors has adopted the Successor Rights Plan and is recommending that stockholders approve the Successor Rights Plan at the Annual Meeting.

The following description of the Successor Rights Plan is qualified in its entirety by reference to the text of the Successor Rights Plan, which can be found in the accompanying Attachment B. **Please read the Successor Rights Plan in its entirety as the discussion below is only a summary.**

Table of Contents

Description of Successor Rights Plan

The Successor Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding common stock (an Acquiring Person) without the approval of your Board. Stockholders who owned 4.9% or more of our common stock as of the close of business on March 5, 2009 will not trigger the Successor Rights Plan so long as they do not (i) acquire any additional shares of our common stock or (ii) fall under 4.9% ownership of our common stock and then re-acquire 4.9% or more of our common stock. The Successor Rights Plan does not exempt any acquisitions of our common stock after March 5, 2009 by such persons. Any rights held by an Acquiring Person are void and may not be exercised. Your Board of Directors may, in its sole discretion, exempt any person or group from being deemed an Acquiring Person for purposes of the Successor Rights Plan. The terms of the Successor Rights Plan are substantially similar to those of the Existing Rights Plan, as amended by your Board on January 22, 2009.

The Rights. Your Board authorized the issuance of one right per each outstanding share of our common stock payable to our stockholders of record as of the close of business on March 5, 2009. Subject to the terms, provisions and conditions of the Successor Rights Plan, if these rights become exercisable, each right would initially represent the right to purchase from us one one-hundredth of a share of our 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 our 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.

Exercisability. The rights will not be exercisable until the earlier of (i) ten calendar days after a public announcement by us that a person or group has become an Acquiring Person and (ii) ten 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 our outstanding common stock.

In this Proxy Statement, we refer to the date on which the rights become exercisable as the Distribution Date. Until the Distribution Date, common stock certificates will evidence the rights and may contain a notation to that effect. Any transfer of shares of our 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 our 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 our common stock having a market value of two times the Purchase Price.

Exchange. After the later of the Distribution Date and the time we publicly announce that an Acquiring Person has become such, your Board 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.

Redemption. At any time prior to the later of the Distribution Date and the time we publicly announce that an Acquiring Person becomes such, your Board 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 action, unless the Board 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 Board 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.

Anti-Dilution Provisions. The Purchase Price of the preferred shares, the number of preferred shares issuable and the number of outstanding rights are subject to adjustment to prevent dilution that may occur as a result of certain events, including among others, a stock dividend, a stock split or a reclassification of the preferred shares or common stock. No adjustments to the Purchase Price of less than 1% will be made.

Table of Contents

Amendments. Prior to the time the rights cease to be redeemable, your Board may amend or supplement the Successor Rights Plan without the consent of the holders of the rights. From and after the time the rights cease to be redeemable, your Board may amend or supplement the Successor Rights Plan only to cure an ambiguity, to correct or supplement inconsistent provisions, to alter time period provisions, or to make any other changes to the Successor Rights Plan, but only to the extent that those changes do not impair or adversely affect any rights holder as such (other than an Acquiring Person or an affiliate or associate thereof), and no amendment may cause the rights to become redeemable or amendable other than in accordance with this sentence.

Expiration. The rights issued pursuant to the Successor Rights Plan will expire on the earliest of (i) the close of business on March 5, 2019, (ii) the time at which the rights are redeemed, (iii) the time at which the rights are exchanged, (iv) the time at which your Board determines that the Protective Amendment is no longer necessary, (v) the close of business on the first day of a taxable year of the company to which your Board determines that no tax benefits may be carried forward, and (vi) the close of business on March 5, 2010, if prior to such time the Successor Rights Plan has not been approved by our stockholders.

Vote Required

Approval of the Successor Rights Plan requires the affirmative vote of the majority of shares of common stock present or represented, and entitled to vote thereon, at the Annual Meeting.

Your Board recommends a vote FOR the approval of the Successor Rights Plan.

Certain Considerations Related to the Protective Amendment and the Successor Rights Plan

Your Board believes that attempting to protect the tax benefits of our NOLs as described above under Background to Proposals 3 and 4 is in our and our stockholders' best interests. However, we cannot eliminate the possibility that an ownership change will occur even if the Protective Amendment is adopted and the Successor Rights Plan is approved. Please consider the items discussed below in voting on Proposals 3 and 4.

The Internal Revenue Service (IRS) could challenge the amount of our NOLs or claim we experienced an ownership change, which could reduce the amount of our NOLs that we can use or eliminate our ability to use them altogether

The IRS has not audited or otherwise validated the amount of our NOLs. The IRS could challenge the amount of our NOLs, which could limit our ability to use our NOLs to reduce our future income tax liability. In addition, the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly traded stock make it difficult to determine whether an ownership change has occurred. Therefore, we cannot assure you that the IRS will not claim that we experienced an ownership change and attempt to reduce or eliminate the benefit of our NOLs even if the Protective Amendment and the Successor Rights Plan are in place.

Continued Risk of Ownership Change

Although the Protective Amendment and the Successor Rights Plan are intended to reduce the likelihood of an ownership change, we cannot assure you that they would prevent all transfers of our common stock that could result in such an ownership change. In particular, absent a court determination, we cannot assure you that the Protective Amendment's restrictions on acquisition of our common stock will be enforceable against all our stockholders, and they may be subject to challenge on equitable grounds, as discussed above under Proposal 3.

Potential Effects on Liquidity

The Protective Amendment will restrict a stockholder's ability to acquire, directly or indirectly, additional shares of our common stock in excess of the specified limitations. Furthermore, a stockholder's ability to

Table of Contents

dispose of our common stock may be limited by reducing the class of potential acquirers for such common stock. In addition, a stockholder's ownership of our common stock may become subject to the restrictions of the Protective Amendment upon actions taken by persons related to, or affiliated with, them. Stockholders are advised to carefully monitor their ownership of our stock and consult their own legal advisors and/or us to determine whether their ownership of our stock approaches the restricted levels.

Potential Impact on Value

If the Protective Amendment is adopted, your Board intends to include a legend reflecting the transfer restrictions included in the Protective Amendment on certificates representing newly issued or transferred shares and to disclose such restrictions to persons holding our common stock in uncertificated form. Because certain buyers, including persons who wish to acquire more than 5% of our common stock and certain institutional holders who may not be comfortable holding our common stock with restrictive legends, may not be able to purchase our common stock, the Protective Amendment could depress the value of our common stock in an amount that could more than offset any value preserved from protecting our NOLs. The Successor Rights Plan could have a similar effect if investors object to holding our common stock subject to the terms of the Successor Rights Plan.

Anti-Takeover Impact

The reason your Board adopted the Protective Amendment and the Successor Rights Plan is to preserve the long-term value of our NOLs. The Protective Amendment, if adopted by our stockholders, could be deemed to have an anti-takeover effect because, among other things, it will restrict the ability of a person, entity or group to accumulate more than 5% of our common stock and the ability of persons, entities or groups now owning more than 5% of our common stock from acquiring additional shares of our common stock without the approval of your Board. Similarly, the Successor Rights Plan is not intended to prevent a takeover, but because an Acquiring Person may be diluted upon the occurrence of a triggering event, it does have a potential anti-takeover effect. Accordingly, the overall effects of the Protective Amendment, if adopted by our stockholders, and the Successor Rights Plan may be to render more difficult, or discourage, a merger, tender offer, proxy contest or assumption of control by a substantial holder of our securities. The Protective Amendment and the Successor Rights Plan proposals are not part of a plan by us to adopt a series of anti-takeover measures, and we do not presently intend to propose or adopt any other anti-takeover measures. We are presently not aware of any potential takeover transaction.

Stockholders should be aware that we are subject to Section 203 of the Delaware General Corporation Law, which provides, in general, that a transaction constituting a business combination within the meaning of Section 203 involving a person owning 15% or more of our outstanding voting stock (referred to as an interested stockholder), cannot be completed for a period of three years after the date on which the person became an interested stockholder unless (i) our Board approved either the business combination or the transaction that resulted in the person becoming an interested stockholder prior to such business combination or transaction, (ii) upon consummation of the transaction that resulted in the person becoming an interested stockholder, that person owned at least 85% of our outstanding voting stock (excluding shares owned by persons who are both directors and officers of KB Home and shares owned by certain of our employee benefit plans), or (iii) the business combination was approved by our Board and by the affirmative vote of the holders of at least 66-2/3% of our outstanding voting stock not owned by the interested stockholder.

In addition, our Restated Certificate of Incorporation and our By-laws contain the following provisions that may be deemed to have a potential anti-takeover effect:

Cumulative voting is not permitted in the election of directors;

Stockholders have no preemptive right to acquire our securities;

Stockholders may not call or request special meetings of stockholders;

Stockholders may not take action by written consent in lieu of a meeting of stockholders;

The maximum number of directors is fixed at 12; and

24

Table of Contents

Your Board may fix the designation, rights, preferences and limitations of the shares of each series of our preferred stock.

Effect of the Protective Amendment if you vote for it and already own more than 5% of our common stock

If you already own more than 5% of our common stock, you would be able to transfer only shares of our common stock that you acquired prior to the effective date of the Protective Amendment and only if the transfer does not increase the percentage stock ownership of another holder of 5% or more of our common stock or create a new holder of 5% or more of our common stock (other than certain transfers that create a new public group). Shares acquired in any such transaction will be subject to the Protective Amendment's transfer restrictions.

Effect of the Protective Amendment if you vote for it and own less than 5% of our common stock

The Protective Amendment will apply to you, but so long as you own less than 5% of our common stock you can transfer your shares to a purchaser who, after the sale, also would own less than 5% of our common stock.

Effect of the Protective Amendment if you vote against it

Delaware law provides that transfer restrictions of the Protective Amendment with respect to shares of our common stock issued prior to its effectiveness will be effective as to (i) stockholders with respect to shares that were voted in favor of adopting the Protective Amendment and (ii) purported transferees of such shares if (A) the transfer restriction is conspicuously noted on the certificate(s) representing such shares or (B) the transferee had actual knowledge of the transfer restrictions (even absent such conspicuous notation). We intend to cause shares of our common stock issued after the effectiveness of the Protective Amendment to be issued with the relevant transfer restriction conspicuously noted on the certificate(s) representing such shares and therefore under Delaware law such newly issued shares will be subject to the transfer restriction. We also intend to disclose such restrictions to persons holding our common stock in uncertificated form. For the purpose of determining whether a stockholder is subject to the Protective Amendment, we intend to take the position that all shares issued prior to the effectiveness of the Protective Amendment that are proposed to be transferred were voted in favor of the Protective Amendment, unless the contrary is established. We may also assert that stockholders have waived the right to challenge or otherwise cannot challenge the enforceability of the Protective Amendment, unless a stockholder establishes that it did not vote in favor of the Protective Amendment. Nonetheless, a court could find that the Protective Amendment is unenforceable, either in general or as applied to a particular stockholder or fact situation.

Proposal 5:

Approve the KB Home Annual Incentive Plan for Executive Officers

u

In order to allow us to obtain the benefit of a federal income tax deduction for the performance-based compensation we pay to our executive officers, we are seeking stockholder approval of the KB Home Annual Incentive Plan for Executive Officers (the Plan).

Generally, Section 162(m) of the Code prevents us from receiving a federal income tax deduction for the compensation we pay to certain executive officers in excess of \$1 million for any year unless, among other things, that compensation is performance-based and has been paid pursuant to a plan approved by our stockholders. Currently, our only stockholder-approved compensation plan that allows for deductible performance-based cash incentives to

executive officers is the Amended and Restated 1999 Incentive Plan, which will expire as to new incentives on April 2, 2009.

Accordingly, the Plan is intended to replace the Amended and Restated 1999 Incentive Plan with respect to future performance-based cash incentives that could qualify for tax deductibility under Section 162(m). The Plan must be approved by our stockholders to be used. If the Plan is not approved, no awards will be made under it.

Table of Contents

A copy of the Plan can be found in the accompanying Attachment C, and the following summary of the Plan's material terms is qualified in its entirety by reference to the full text. **Stockholders are urged to read the full Plan as set forth in Attachment C.**

Summary of the Plan

The purpose of the Plan is to promote our success by providing participating executive officers with incentives that qualify as performance-based compensation under Section 162(m). The Plan will become effective upon approval by our stockholders, and will remain in effect until terminated by the Compensation Committee.

Administration. The Compensation Committee will administer and interpret the Plan. All determinations of the Compensation Committee shall be final and binding.

Eligibility. Participation in the Plan will be limited to our executive officers who are selected for participation by the Compensation Committee. We typically have between five and ten senior level employees whom we consider to be executive officers in this context.

Performance Measures and Targets. Before 25% of an applicable performance period has elapsed (but in no event later than 90 days after the performance period begins), the Compensation Committee will determine the executive officers eligible to receive an incentive award under the Plan and the specific performance goals, one or more of which must be objectively achieved during the performance period in order for an award to pay out. The Compensation Committee shall also establish a target amount for each award, and may also establish a lower minimum threshold and/or a higher maximum amount, as well as any other terms and conditions of the award that it deems appropriate. In all cases, the Compensation Committee shall establish an objective formula for computing the amount to be paid under each award if the specified goals are achieved; provided, that the Compensation Committee may, in its discretion, reduce or eliminate (but not increase) the amount actually paid to a participant under an award, based on our performance, individual performance or other criteria. The Compensation Committee may also determine that only a threshold level relating to a goal must be met for awards to pay out, and if multiple goals are selected, that awards will be paid upon achievement of threshold levels of any one or more of such goals. The specific goal or goals shall relate to one or more of the following performance measures:

Income/Loss (*e.g.*, operating income/loss, EBIT or similar measures, net income/loss, earnings/loss per share, residual or economic earnings)

Cash Flow (*e.g.*, operating cash flow, total cash flow, EBITDA, cash flow in excess of cost of capital or residual cash flow, cash flow return on investment and cash flow sufficient to achieve financial ratios or a specified cash balance)

Returns (*e.g.*, on revenues, investments, assets, capital and equity)

Working Capital (*e.g.*, working capital divided by revenues)

Margins (*e.g.*, variable margin, profits divided by revenues, gross margins and margins divided by revenues)

Liquidity (*e.g.*, total or net debt, debt reduction, debt-to-capital, debt-to-EBITDA and other liquidity ratios)

Revenues, Cost Initiative and Stock Price Metrics (*e.g.*, revenues, stock price, total shareholder return, expenses, cost structure improvements and costs divided by revenues or other metrics)

Strategic Metrics (*e.g.*, market share, customer satisfaction, employee satisfaction, service quality, orders, backlog, traffic, homes delivered, cancellation rates, productivity, operating efficiency, inventory management, community count, goals related to acquisitions, divestitures or other transactions and goals related to KBnxt operational business model principles, including goals based on a per-employee, per-home delivered or other basis)

Performance Period. The performance period for awards under the Plan shall be our fiscal year, unless another time period is selected by the Compensation Committee.

Table of Contents

Limitation on Benefits. The maximum amount paid to any participant in any fiscal year cannot exceed \$5 million.

Determination and Payment of Awards. After the end of each performance period, the Compensation Committee will review performance against the pre-established goal or goals. The Compensation Committee will then certify the extent, if any, to