

KB HOME  
Form PRE 14A  
February 11, 2005

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**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**

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(Name of Registrant as Specified In Its Charter)

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(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:

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2) Aggregate number of securities to which transaction applies:

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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):

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4) Proposed maximum aggregate value of transaction:

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- 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:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**Preliminary Proxy Materials  
Subject to Completion**

**KB HOME**

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

*Bruce Karatz  
Chairman and Chief Executive Officer*

*February 25, 2005*

Dear Fellow Stockholder:

Your officers and directors join me in inviting you to attend the Annual Meeting of Stockholders of KB Home at 9:00 a.m. on April 7, 2005 in the Garden Room at the Hotel Bel-Air, 701 Stone Canyon Road, in Los Angeles, California.

The matters expected to be acted on at the meeting are described in detail in the attached Notice of Annual Meeting of Stockholders and Proxy Statement. In addition to specific agenda items, by attending the meeting you will have an opportunity to hear about our plans for the future and to meet your officers and directors. Whether or not you plan to attend, please sign and date the enclosed Proxy Card and return it as soon as possible in the envelope provided to ensure that your shares will be represented. You may also vote by calling the 800-number listed on your Proxy Card. We look forward to seeing you on April 7.

Sincerely,  
Bruce Karatz  
*Chairman and Chief Executive Officer*

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**Preliminary Proxy Materials  
Subject to Completion**

**Notice of Annual Meeting  
of Stockholders**

*To Be Held April 7, 2005*

To the Holders of the Common Stock  
of KB Home:

The Annual Meeting of Stockholders of KB Home will be held on Thursday, April 7, 2005 at 9:00 a.m. Los Angeles time in the Garden Room of the Hotel Bel-Air, 701 Stone Canyon Road in Los Angeles, California for the following purposes:

- (1) To elect three Class I Directors;
- (2) To vote on increasing the number of authorized Common Stock shares from 100 million to 300 million;
- (3) To ratify the appointment of Ernst & Young LLP as KB Home's independent auditors for the fiscal year ending November 30, 2005;
- (4) To consider the stockholder proposal included in the accompanying Proxy Statement; and
- (5) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors fixed the close of business on February 14, 2005 as the record date for determination of holders of Common Stock entitled to notice of, and to vote at, the meeting or any adjournment thereof. If you plan to attend the meeting you may be asked to present photo identification and you may be accompanied by one guest only. If you hold your shares in a brokerage account (in street name), you will need to bring a copy of a brokerage statement reflecting the shares that you owned on February 14, 2005.

**Whether or not you expect to attend the meeting, please complete, date and sign the enclosed Proxy Card and mail it promptly in the envelope provided. You may also vote by calling the 800-number listed on your Proxy Card. Your prompt return of the Proxy Card or telephone vote will ensure that your shares are represented at the meeting and will save the Company the additional expense of soliciting proxies.**

**By Order of the Board of Directors,**

William A. Richelieu  
*Assistant Corporate Secretary*  
*Los Angeles, California*  
*February 25, 2005*

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**Preliminary Proxy Materials  
Subject to Completion**

KB HOME  
*10990 Wilshire Boulevard  
Los Angeles, California 90024*

Proxy Statement  
*for*  
Annual Meeting of Stockholders

*To Be Held April 7, 2005*

**General Information**

Your Board of Directors furnishes this Proxy Statement in connection with its solicitation of your proxy to be used at the Company's Annual Meeting of Stockholders to be held on Thursday, April 7, 2005, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. A copy of the Company's 2004 Annual Report to Stockholders and Annual Report on Form 10-K for the fiscal year ended November 30, 2004, including audited financial statements, are also being mailed to stockholders concurrently with this Proxy Statement. It is anticipated that the mailing will commence on or about February 25, 2005.

You are cordially invited to attend the Annual Meeting. Whether or not you plan to attend, please date, sign and promptly return your Proxy Card in the envelope provided. You may also vote by calling the 800-number listed on your Proxy Card. You may revoke your proxy at any time prior to its exercise at the Annual Meeting by written notice to the Company's Corporate Secretary at the address on page 7, and, if you attend the Annual Meeting, you may vote your shares in person.

Only holders of record of the [ ] shares of Common Stock outstanding at the close of business on February 14, 2005 will be entitled to vote at the Annual Meeting. Each holder of Common Stock is entitled to one vote for each share held. The Company's Grantor Stock Trust, established to assist the Company in meeting its stock-related obligations under various employee benefit programs, held [ ] shares of Common Stock outstanding for voting purposes as of the record date. These shares are voted by the trustee of the Grantor Stock Trust in accordance with instructions received from employees participating in the Company's employee stock plans. There is no right to cumulative voting.

The representation in person or by proxy of at least a majority of the outstanding shares entitled to vote is necessary to provide a quorum at the Annual Meeting. All shares of Common Stock represented by valid proxies received pursuant to this solicita-

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tion and not revoked will be voted in accordance with the choices specified. In the election of directors, you may vote for all nominees or your vote may be withheld with respect to one or more of the nominees; votes that are withheld will be counted as present and will have the effect of a negative vote because the election of each director will require affirmative vote of a majority of shares present. On the increase in authorized shares of Common Stock, the ratification of the appointment of the Company's independent auditors and the stockholder proposal, you may vote for, against, or abstain.

Under the rules of the New York Stock Exchange, brokers who hold shares in street name for customers have the authority to vote on certain items when they have not received instructions from beneficial owners. Brokers that do not receive instructions are entitled to vote on the election of directors and on the ratification of the appointment of the independent auditors. Under applicable Delaware law, a broker non-vote will have no effect on the outcome of the matters presented for a stockholder vote. Since the proxy confers discretionary authority to vote upon other matters that properly may come before the meeting, shares represented by signed proxies returned to the Company will be voted in accordance with the judgment of the person or persons voting the proxies. Where no specification is made with respect to any item submitted to a vote, such shares will be voted for the election as directors of the Company of the three individuals named under Election of Directors on pages 10-11, for the increase in authorized shares of Common Stock, for the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending November 30, 2005, and against the stockholder proposal included in this Proxy Statement.

The persons named as proxies on the enclosed Proxy Card are Bruce Karatz, Chairman and Chief Executive Officer, and Kimberly N. King, Vice President, Associate General Counsel and Corporate Secretary.



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**Corporate Governance Principles and Board Matters**

KB Home has had a long-standing commitment to sound corporate governance practices. These practices provide an important framework within which the Board of Directors and management can pursue strategic objectives, maintain the Company's integrity in the marketplace and ensure long-term stockholder value. The Company's Corporate Governance Principles define the key elements of the Board's governance philosophy. The Principles are reviewed regularly by the Nominating and Corporate Governance Committee of the Board, and changes are approved by the full Board as appropriate.

In addition, employees and directors of the Company are expected to apply the highest ethical standards in their representation of the Company and its interests. All KB Home employees and members of the Board of Directors are subject to the Company's Business Ethics Policy. The Business Ethics Policy is reviewed regularly by the Audit and Compliance Committee of the Board, and changes are approved by the full Board as appropriate.

**Director Qualifications and Board Independence**

The Board of Directors has articulated certain criteria in the Corporate Governance Principles that must be met to serve as a director of the Company. Determinations regarding the eligibility of director candidates are made by the Nominating and Corporate Governance Committee. Among other things:

directors must possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the Company's stockholders,

all directors are expected to be financially literate,

no more than one employee of the Company may serve on the Board at any given time, and

consultants, lawyers or bankers who do a significant amount of business with the Company are ineligible to serve as a director.

The Board further believes that a substantial majority of directors should be independent, and has adopted criteria and guidelines, consistent with those established by the New York Stock Exchange, to assist it in determining independence. In accordance with these criteria, the Board has determined that all currently incumbent KB Home directors, and all nominees for director, are independent except Mr. Karatz, Chairman and Chief Executive Officer of the Company. The independence criteria applied by the Board specify that no director who is a current employee of KB Home may be considered independent. Further, a director will not be considered independent if, within the preceding three years:

the director or an immediate family member of the director received more than \$100,000 in direct compensation from KB Home or any subsidiary, or joint venture or partnership with KB Home, other than fees directly related to service on KB Home's Board or on the Board of Kaufman & Broad S.A., the Company's publicly-held French subsidiary,

the director was employed by or affiliated with KB Home's principal independent auditors,

an immediate family member of the director was employed by KB Home as an executive officer or by KB Home's principal independent auditors in a professional capacity,

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an executive officer of KB Home was on the compensation committee of the board of directors of a company which employed the director, or which employed an immediate family member of the director as an officer, or

the director was an executive officer or employee of, or an immediate family member of the director was an executive officer of, another company that does business with KB Home and the annual revenues derived from that business by either company accounts for more than (a) \$1,000,000 or (b) two percent (2%) of the consolidated gross annual revenues of such company, whichever is greater.

Under the Company's Corporate Governance Principles, the following commercial or charitable relationships are not, by themselves, considered material relationships that impair a director's independence:

the director is an executive officer of another company that does business with KB Home, provided the annual revenues derived from that business by either company accounts for less than (a) \$1,000,000 or (b) two percent (2%) of the consolidated gross annual revenues of such company, whichever is greater, or

the director serves as an officer, director or trustee of a charitable organization, and KB Home makes discretionary charitable contributions to that organization, provided such contributions are less than the greater of (a) \$100,000 or (b) two percent (2%) of that organization's total annual charitable receipts.

In accordance with the foregoing independence criteria, the Board has determined that all non-employee directors, incumbent and standing for election, are independent. The Board has determined that all Board members are financially literate. Furthermore, the Board has also determined that all Committees of the Board, except the Executive Committee, which does not regularly meet, are entirely composed of independent directors within the meaning of the rules of both the Securities and Exchange Commission and the New York Stock Exchange. The Executive Committee is comprised of Messrs. Irani and Nogales, both of whom are independent, and Mr. Karatz, Chairman and Chief Executive Officer of the Company.

**Board Structure and Committee Composition**

As of the date of this Proxy Statement, the Board has eleven incumbent directors, and the following four committees: (1) Audit and Compliance, (2) Management Development and Compensation, (3) Nominating and Corporate Governance, and (4) Executive. The membership during fiscal 2004 and the function of each of the Committees are described on pages 5-7.

During 2004, the Board held five meetings. Every KB Home director attended 100% of all Board meetings and meetings of the Committees on which he or she served, except Mr. Moonves, who was absent for one Board and one Committee meeting. Directors are expected to attend Annual Meetings of KB Home stockholders. All directors who were serving at the time attended the 2004 Annual Meeting of KB Home stockholders, which was held on April 1, 2004.

The chart on page 5 shows the various Committees of the KB Home Board of Directors, the current members of those Committees, and the number of meetings each Committee held during the year.

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<b>Name of Director</b>	<b>Audit and Compliance</b>	<b>Management Development and Compensation</b>	<b>Nominating and Corporate Governance</b>	<b>Executive</b>
<b><i>Independent Directors</i></b>				
Ronald W. Burkle	X		X	
Dr. Ray R. Irani		X*		X*
Kenneth M. Jastrow, II			X	
James A. Johnson(a)		X	X*	
J. Terrence Lanni(b)		X	X	
Melissa Lora(c)	X			
Michael G. McCaffery(d)	X		X	
Leslie Moonves(e)		X		
Dr. Barry Munitz	X*	X		
Luis G. Nogales(f)	X	X		X
<b><i>Employee Director</i></b>				
Bruce Karatz				X
<b><i>Number of Meetings in Fiscal 2004</i></b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>0</b>

X = Member    \* = Chair    = Presiding Director

- (a) Mr. Johnson's first meeting as a member of the Management Development and Compensation Committee was on July 1, 2004.
- (b) Mr. Lanni's first meeting as a member of the Nominating and Corporate Governance Committee was on July 1, 2004.
- (c) Ms. Lora's first meeting as a member of the Audit and Compliance Committee was on July 1, 2004.
- (d) Mr. McCaffery's first meeting as a member of the Nominating and Corporate Governance Committee was on July 1, 2004.
- (e) Mr. Moonves' first meeting as a member of the Management Development and Compensation Committee was on July 1, 2004.
- (f) Mr. Nogales' first meeting as a member of the Audit and Compliance Committee was on July 1, 2004. Mr. Nogales served on the Nominating and Corporate Governance Committee until April 1, 2004.

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*Audit and Compliance Committee.* KB Home has a separately-designated standing Audit and Compliance Committee established in accordance with the Securities Exchange Act of 1934, as amended. The Audit and Compliance Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of the Company's internal audit function and independent auditors, and risk assessment and risk management. Among other things, the Committee prepares the Audit and Compliance Committee report for inclusion in the annual proxy statement; appoints, evaluates and determines the compensation of the Company's independent auditors; reviews and approves the scope of the annual audit, the audit fee and the financial statements; pre-approves audit and permitted non-audit services by the Company's independent auditors; reviews the Company's disclosure controls and procedures, internal controls, information security policies, internal audit function, and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; reviews other risks that may have a significant impact on the Company's financial statements; and annually evaluates its performance and its charter. The Audit and Compliance Committee works closely with management as well as the Company's independent auditors. The Audit and Compliance Committee has the authority to obtain advice and assistance from, and receive appropriate funding from the Company for, outside legal, accounting or other advisors as it deems necessary to carry out its duties. The Board has determined that Ms. Lora qualifies as an audit committee financial expert within the meaning of Securities and Exchange Commission regulations.

The report of the Audit and Compliance Committee is included in this Proxy Statement on page 43.

*Management Development and Compensation Committee.* The Management Development and Compensation Committee discharges the Board's responsibilities relating to compensation of the Company's executives; produces an annual report on executive compensation for inclusion in the Company's annual proxy statement; provides general oversight of the Company's compensation structure, including the Company's equity compensation plans and benefits programs; and has the authority to retain compensation consultants, outside counsel and other advisors as it deems necessary to carry out its duties. Other specific duties and responsibilities of the Management Development and Compensation Committee include: administering the Chairman and Chief Executive Officer's employment agreement and compensation against performance, as well as establishing appropriate levels of short-term and long-term compensation levels for other executive officers and senior management; reviewing and reporting to the Board on the utilization of stock-based incentive plans within the Company; exercising the authority given to it under the Company's various stock plans, including the determination of the nature and amount of awards to be granted thereunder; reviewing and reporting to the Board on the Company's activity related to attracting qualified executives and the development of such executives within the Company; and annually evaluating its performance and its charter.

The report of the Management Development and Compensation Committee is included in this Proxy Statement beginning on page 26.

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*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, consistent with criteria set forth in the KB Home Corporate Governance Principles and as otherwise may be established by the Board; oversees the organization of the Board to discharge the Board's duties and responsibilities properly and efficiently; and makes recommendations to the Board concerning director compensation. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee include: regularly assessing the size and composition of the Board; developing membership qualifications for Board Committees; reviewing and recommending to the full Board changes to the Corporate Governance Principles; recruiting new members to the Board; reviewing and recommending proposed changes to the Company's charter or bylaws; assessing periodically and recommending action with respect to the Company's stockholder rights plan or other stockholder protections; recommending Board committee assignments; overseeing the evaluation of the Board; and annually evaluating its performance and its charter.

*Executive Committee.* The Executive Committee of the Board has the authority of the Board of Directors to act between meetings of the full Board of Directors, except to the extent that such authority may be limited by applicable law. The purpose of the Executive Committee is to provide director oversight and action between regular meetings of the Board to the extent necessary for the Company to operate efficiently. The Executive Committee typically acts only pursuant to authority specifically delegated to it by the full Board of Directors, and all actions taken by the Executive Committee between Board meetings are considered and ratified at the next regular meeting of the full Board. The Executive Committee did not meet in 2004, but acted periodically by written consent.

### **Copies of Corporate Governance Principles, Business Ethics Policy and Board Committee Charters**

Copies of the Company's Corporate Governance Principles, Business Ethics Policy and the Charters for all Board Committees can be viewed on and downloaded from our website at <http://www.kbhome.com/investor/main>. In addition, print copies of the Company's Corporate Governance Principles, Business Ethics Policy and the Charters for all Board Committees are available without charge to any stockholder who requests a copy by writing to the Corporate Secretary at the address listed below on this page.

### **Consideration of Director Nominees**

*Stockholder Nominees.* The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board as described on page 8 under

Identifying and Evaluating Nominees for Directors. In evaluating such nominations, the Nominating and Corporate Governance Committee seeks to maximize the knowledge, experience and capability on the Board and to address the membership criteria set forth under Director Qualifications and Board Independence on pages 3 and 4. Any stockholder nominations proposed for consideration by the Nominating and Corporate Governance Committee should include the nominee's name and qualifications for Board membership and should be addressed to:

Corporate Secretary  
KB Home  
10990 Wilshire Boulevard  
Los Angeles, California 90024

In addition, the bylaws of the Company permit stockholders to nominate directors for consideration at an annual stockholder meeting. Please see

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Stockholder Proposals for 2006 Annual Meeting on page 45.

*Identifying and Evaluating Nominees for Directors.* The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event vacancies are anticipated or arise, the Nominating and Corporate Governance Committee considers various potential candidates to serve as director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board members, professional search firms, or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year. As described above, the Nominating and Corporate Governance Committee will consider properly submitted stockholder nominations for candidates for the Board.

### **Executive Sessions of Independent Directors**

Executive sessions of the Company's independent, non-employee directors are held at least twice a year. The sessions are scheduled and chaired by the Chair of the Nominating and Corporate Governance Committee, who acts as the Presiding Director. Any non-employee director can request an additional executive session.

### **Communications with the Board**

Individuals may communicate with the Board of Directors by writing to the Corporate Secretary at the address set forth on page 7.

### **Communications with the Independent Directors**

Stockholders and other individuals may communicate specifically with non-management directors by submitting written correspondence to the Corporate Secretary at the address set forth on page 7. The Corporate Secretary reviews all such correspondence promptly upon receipt. Correspondence concerning matters within a specific Board committee's or the Board's purview, per the Corporate Secretary's determination, is forwarded to the appropriate committee chair or Board member and/or to the Presiding Director (presently, the Nominating and Corporate Governance Committee chair). Board recipients of such correspondence determine how to address any subject raised therein, including responses to senders and/or related parties, Board committee and/or Board action and follow-up with internal Company management (if any).

### **Compensation Paid to Board Members**

Only non-employee directors receive compensation for their Board service; therefore, Mr. Karatz receives no additional compensation for serving on the Board of KB Home or on the Board of Kaufman & Broad S.A. KB Home directors are compensated on a Director Year basis, which is the period between annual meetings of stockholders. Accordingly, the 2004 Director Year commenced on April 1, 2004, the date of the Company's 2004 Annual Meeting of Stockholders, and will conclude on April 7, 2005, the date of the Company's 2005 Annual Meeting of Stockholders.

*Annual Retainer.* Each KB Home director receives an annual retainer of \$80,000. A director may elect to receive the annual retainer (i) in cash, (ii) in Stock Units (as described on page 9) or (iii) in Stock Options. If a director chooses to receive the retainer in cash, it is paid in quarterly

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installments of \$20,000 over the course of the Director Year.

If a director elects to receive the retainer in Stock Units, the units are granted at the beginning of the Director Year at a value equal to 120% of the cash value of the retainer on the date of grant. A Stock Unit is a contract right to receive a share of Common Stock or a cash payment equal to the fair market value of a share of Common Stock. Directors earn the equivalent of cash dividends on, but do not have voting or investment power with respect to, the shares of Common Stock represented by their Stock Units. The shares of Common Stock represented by Stock Units are distributed in-kind or in cash, at the election of the participating director, when the director retires or otherwise leaves the Board.

If a director elects to receive the annual retainer in Stock Options rather than in cash, the options are granted as of the beginning of the Director Year, have an exercise price equal to the closing price of the Company's Common Stock on the New York Stock Exchange on the date of grant, and the number granted are determined by a Black-Scholes ratio of 25%. The Stock Options are fully vested when granted, but cannot be exercised until the earlier to occur of (i) the director's acquisition and continued ownership of at least 5,000 shares of the Company's Common Stock or (ii) the director's retirement or otherwise ceasing to serve on the Board. Stock Options granted to directors have a term of fifteen years, consistent with the Company's employee stock options.

*Annual Stock Unit Grant.* Every non-employee director receives an annual grant of 2,000 Stock Units at the beginning of each Director Year. Directors may elect to receive their annual grant in Stock Options rather than in Stock Units, in which case the Stock Options are granted pursuant to the same terms and conditions as described on page 8 under Annual Retainer.

*Committee Chair Retainer.* At the beginning of each Director Year, the Chair of the Audit and Compliance Committee receives an additional annual retainer of 500 Stock Units. Chairs of all other Committees of the Board receive annual retainers of 300 Stock Units. Committee Chairs may elect to receive their retainer in Stock Options rather than in Stock Units, in which case the Stock Options are granted pursuant to the same terms and conditions as described on page 8 under Annual Retainer.

*Charitable Giving.* The Company also maintains a Directors' Legacy Program under which the Company will make a charitable donation up to \$1,000,000 to be allocated to up to five charitable organizations or educational institutions of the director's choice upon his or her death. The program has no direct compensation value to directors or their families because they do not receive any cash compensation or tax savings. Accordingly, all directors, including employee directors, are eligible to participate in the program. Directors vest in the full donation in five equal annual installments of \$200,000; directors must serve on the Board for five consecutive years to be fully vested in the program. To be eligible to receive a donation, a recommended organization must be an educational institution or charitable organization and must qualify to receive tax-deductible donations under the Internal Revenue Code. The program is funded by life insurance contracts maintained by the Company on the lives of the participating directors. This funding is structured such that the life insurance proceeds are expected to equal the cost to the Company of maintaining the program.

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**Proposals to Be Voted On**

**Proposal 1:  
Election of Directors**

At the Annual Meeting, the Board of Directors will present as nominees and recommend to stockholders that the three persons listed below be elected to the Board of Directors. Messrs. Johnson, Lanni and Munitz are nominated as Class I Directors to serve for a three-year term ending at the 2008 Annual Meeting of Stockholders. Each such Class I director is currently a director of KB Home and is standing for re-election. Should any of these nominees become unable to serve as a director prior to the Annual Meeting, the persons named on the enclosed Proxy Card will, unless otherwise directed, vote for the election of such other person as the Board of Directors may recommend in place of such nominee.

**Vote Required**

The election of each nominee will require the affirmative vote of a majority of shares represented at the Annual Meeting.

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

**James A. Johnson**, age 61, has been Vice Chairman of Perseus LLC, a merchant banking and private equity firm since 2001. In 2000, Mr. Johnson served as Chairman and Chief Executive Officer of Johnson Capital Partners, a private investment company. Mr. Johnson was employed by Fannie Mae from 1990 through 1999, where he served as Vice Chairman in 1990, Chairman and Chief Executive Officer from 1991 through 1998 and Chairman of the Executive Committee of the Board in 1999. He serves on the boards of Gannett, Inc., Target Corporation, UnitedHealth Group, The Goldman Sachs Group, Inc., and Temple-Inland Inc. Mr. Johnson has been a member of the Board of Directors since 1992.



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**J. Terrence Lanni**, age 62, has been Chairman of MGM MIRAGE since July 1995, and Chief Executive Officer from June 1995 to December 1999, and since March 2000. Before joining MGM MIRAGE, Mr. Lanni was President and Chief Operating Officer of Caesars World, Inc. from April 1981 to February 1995 and a director from January 1982 to February 1995. Mr. Lanni was elected to the Company's Board of Directors in August 2003.

**Dr. Barry Munitz**, age 63, is President and Chief Executive Officer of The J. Paul Getty Trust. From 1991 to 1997, Dr. Munitz was Chancellor of the California State University, the largest system of senior higher education in the United States. He is also a director for Sallie Mae. Dr. Munitz joined the Company's Board of Directors in 1999.

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The other directors of the Company and their respective principal occupations, business affiliations and other information for at least the past five years are as follows.

**Ron Burkle**, age 52, is the founder and managing partner of The Yucaipa Companies, a private investment firm based in Southern California. Yucaipa specializes in acquisitions, mergers and management of large retail, manufacturing and distribution companies. Mr. Burkle has served as Chairman of the Board and controlling shareholder of numerous companies including Alliance Entertainment, Dominick's, Fred Meyer, Ralphs and Food4Less. He is currently a member of the board of Occidental Petroleum Corporation, Yahoo! Inc. and Kaufman & Broad S.A., the Company's publicly-held French subsidiary. He has been a director of the Company since 1995 and his current term expires in 2007.

**Dr. Ray R. Irani**, age 70, is Chairman and Chief Executive Officer of Occidental Petroleum Corporation. He joined Occidental in 1983 as Chairman and Chief Executive Officer of Occidental Chemical Corporation, an Occidental subsidiary, and as Executive Vice President of Occidental. In 1984 he was elected to the Board of Directors of Occidental and was named President and Chief Operating Officer. He assumed the responsibilities of Chairman and Chief Executive Officer, in addition to President, in 1990. Dr. Irani was Chairman of the Board of Directors of Canadian Occidental Petroleum Ltd., an Occidental affiliate, from 1987 to 1999. Dr. Irani is a director of Lyondell Chemical Company. Dr. Irani has been a director of the Company since 1992 and his current term expires in 2007.

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**Kenneth M. Jastrow, II**, age 57, has been Chairman and Chief Executive Officer of Temple-Inland Inc. since 2000. Prior to that, Mr. Jastrow served as President and Chief Operating Officer in 1998 and 1999, Group Vice President from 1995 until 1998, and as Chief Financial Officer of Temple-Inland from November 1991 until 1999. Mr. Jastrow is also a director of MGIC Investment Corporation. He joined the Company's Board in December 2001 and his current term expires in 2006.

**Bruce Karatz**, age 59, has been Chairman of the Company since 1993 and Chief Executive Officer since 1986. Mr. Karatz joined the Company's predecessor in 1972, and from 1976 through 1980 was President of its French homebuilding subsidiary, Kaufman & Broad S.A. From 1980 until the formation of the Company in 1986, Mr. Karatz was President of Kaufman and Broad Development Group. Mr. Karatz is a director of Honeywell International Inc., Avery Dennison Corporation, Edison International, and Kaufman & Broad S.A., the Company's publicly-held French subsidiary. Mr. Karatz has been a director of the Company since 1986 and his current term expires in 2006. Mr. Karatz will step down from one of his outside boards prior to the 2006 Annual Meeting of Stockholders.

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**Melissa Lora**, age 42, is the Chief Financial Officer of Taco Bell Corp., a position that she has held since 2001. Ms. Lora joined Taco Bell Corp. in 1987 and has held various positions throughout the company, most recently acting as Regional Vice President and General Manager from 1998 to 2000 for Taco Bell's operations throughout the Northeastern United States. Ms. Lora joined the Company's Board of Directors in April 2004 and her current term expires in 2006.

**Michael G. McCaffery**, age 51, is President and Chief Executive Officer of the Stanford Management Company, which was established in 1991 to manage the \$10.9 billion endowment of Stanford University's financial and real estate investment assets. Previously Mr. McCaffery was Chairman and Chief Executive Officer of Robertson Stephens Investment Bankers, a position he held since 1993. Mr. McCaffery is a director of Western Technology Ventures, The Investment Fund for Foundations, RS Investment Trust and is a member of the Advisory Board of Accel Ventures. Mr. McCaffery was elected to the Company's Board of Directors in July 2003 and his current term expires in 2006.

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**Leslie Moonves**, age 55, is Co-President and Co-Chief Operating Officer of Viacom and most recently was President and Chief Executive Officer of CBS Corporation, which title he held from 1998 to June 2004, and Chairman since 2003 with responsibility for UPN since January 2002. He joined CBS in 1995 as President, CBS Entertainment. Prior to that, Mr. Moonves was President of Warner Bros. Television from 1993, when Warner Bros. and Lorimar Television combined operations. From 1989 to 1993, he was president of Lorimar Television. Mr. Moonves joined the Company's Board of Directors in April 2004 and his current term expires in 2007.

**Luis G. Nogales**, age 61, is the Managing Partner of Nogales Investors, LLC, a private equity investment firm. He was Chairman and Chief Executive Officer of Embarcadero Media, Inc. from 1992 to 1997, President of Univision Communications, Inc., from 1986 to 1988, and Chairman and Chief Executive Officer of United Press International from 1983 to 1986. He is a director of Southern California Edison Co., Edison International, Arbitron Inc., and Kaufman & Broad S.A., the Company's publicly-held French subsidiary. Mr. Nogales has been a director of the Company since 1995 and his current term expires in 2007.

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**Proposal 2:**

**Approval of an Amendment to the Amended Certificate of Incorporation of KB Home to Increase the Number of Authorized Shares of KB Home Common Stock from 100 Million to 300 Million**

The Company's Board of Directors proposes to amend the Company's Amended Certificate of Incorporation to increase the number of authorized shares of KB Home Common Stock. The purpose of the proposal is to enable the Company to effect a two-for-one split of the Common Stock to make it affordable to a broader base of stockholders and to use the Common Stock for other appropriate future corporate purposes. The proposed amendment would increase the number of authorized shares of Common Stock from 100,000,000 shares to 300,000,000 shares.

The Board of Directors adopted the following proposed amendment to the Company's Amended Articles of Incorporation at its December 2, 2004 meeting, subject to stockholder approval, and declared the proposed amendment to be advisable:

RESOLVED, that the Amended Certificate of Incorporation of the Corporation be amended to increase the authorized Common Stock and for this purpose Paragraph (a) of Article Fourth thereof shall be struck out in its entirety and shall be replaced with the following new Paragraph (a) of Article Fourth:

FOURTH: (a) The total number of shares of stock which the Corporation shall have authority to issue is 335,000,000, consisting of 300,000,000 shares of Common Stock, par value \$1.00 per share (the "Common Stock"), 25,000,000 shares of Special Common Stock, par value \$1.00 per share (the "Special Common Stock") and 10,000,000 shares of Preferred Stock, par value \$1.00 per share (the "Preferred Stock").

**Current Capital Structure**

As of the February 14, 2005 record date, [ ] shares of Common Stock were issued and outstanding. [ ] shares of Common Stock were reserved for (1) issuance upon exercise of outstanding stock options and restricted stock awards and (2) stock options and stock awards that may be granted in the future under the Company's stock option and other equity compensation and incentive programs. [ ] shares of Common Stock are held by the Company's grantor trust in connection with the Company's obligations under various employee benefit plans. Accordingly, there are only [ ] shares of Common Stock currently available for issuance. There are no shares of Special Common Stock or Preferred Stock currently outstanding.

**Reasons for the Proposed Amendment**

The Board of Directors believes it is desirable and in the best interests of the Company and stockholders to increase the number of authorized shares of Common Stock from 100 million shares to 300 million shares to pursue a two-for-one stock split in the form of a stock dividend to stockholders and to provide the Company with sufficient authorized shares for appropriate future corporate purposes (which may not require further stockholder action or approval), including, but not limited to, future stock dividends, raising capital through Common Stock offerings, issuing Common Stock in acquisitions or other strategic transactions, and funding future employee benefit plan obligations.

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Under the proposed amendment, each of the newly authorized shares of Common Stock will have the same rights and privileges as currently authorized shares of Common Stock. Adoption of the proposed amendment will not change the par value of the Common Stock. However, the issuance of additional shares of Common Stock under the proposed amendment could dilute the earnings and book value allocable to each share of Common Stock.

Authorized but unissued shares of Common Stock may also be used to oppose a hostile takeover attempt or to delay or prevent a change in control of the Company. However, the Company has no present intention to issue shares for such purpose. The proposed amendment is based on business and financial considerations. The Company is not aware of any threat of takeover or change in control, nor is the Company proposing to stockholders any anti-takeover measures.

No stockholder has any preemptive rights regarding future issuances of any shares of Common Stock and, except as stated herein, the Company does not have any current plans, understandings or agreements for the issuance or use of the proposed additional shares of Common Stock.

**Proposed Two-for-One Stock Split**

If the proposed amendment is adopted, it will become effective upon filing a Certificate of Amendment to the Company's Amended Certificate of Incorporation with the Secretary of State of the State of Delaware. Subject to market conditions, the Board of Directors then intends to immediately declare a dividend of one additional share of Common Stock for each share of Common Stock then issued so that the resulting post-split number of shares in each stockholder's account is twice the pre-split number of shares. Unless a stockholder requests certificated shares from the Company's transfer agent, the additional share of Common Stock would be issued in book entry form.

However, without stockholder approval of the proposed amendment, the Company would not have sufficient authorized shares to declare and carry out the proposed two-for-one stock split.

**Vote Required**

Approval of the proposed amendment to the Company's Amended Certificate of Incorporation requires an affirmative vote of the holders of a majority in voting power of all outstanding Common Stock.

**Your Board recommends a vote FOR the approval of the proposed amendment to the Company's Amended Certificate of Incorporation.**

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**Proposal 3:  
Ratification of Independent Auditors**

The Audit and Compliance Committee of the Board of Directors has appointed Ernst & Young LLP as independent auditors to audit the Company's consolidated financial statements for the fiscal year ending November 30, 2005. During fiscal 2004, Ernst & Young LLP served as the Company's independent auditors and also provided certain other audit related services. See "Independent Auditor Fees and Services" on page 44. Representatives of Ernst & Young LLP are expected to attend the Annual Meeting, where they are expected to be available to respond to appropriate questions and, if they desire, to make a statement.

Our organizational documents do not require that our stockholders ratify the appointment of Ernst & Young LLP as our independent auditors. We are doing so, as we have done in prior years, because we believe it is a matter of good corporate practice. If our stockholders do not ratify the appointment, the Audit and Compliance Committee will reconsider whether or not to retain Ernst & Young LLP, but still may retain them. Even if the appointment is ratified, the Audit and Compliance Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of KB Home and its stockholders.

**Vote Required**

Approval of the ratification of the appointment of Ernst & Young LLP requires the affirmative vote of the majority of shares of Common Stock represented at the Annual Meeting.

**Your Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the 2005 fiscal year.**



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**Stockholder Proposal**

**Stockholder Proposal Concerning Future Senior Executive Restricted Stock Grants to be Performance and Time Based.**

The Massachusetts Laborers Pension Fund, 14 New England Executive Park, Suite 200, P.O. Box 4000, Burlington, MA 01803-0900, holds 400 shares of Company Common Stock and intends to introduce the following proposal at the Annual Meeting:

**Resolved:** That the shareholders of KB Home ( Company ) hereby request that the Board of Directors Compensation Committee adopt a performance and time-based restricted share grant program for senior executives that includes the following features:

(1) Operational Performance-Vesting Measures The restricted share program should utilize justifiable operational performance criteria combined with challenging performance benchmarks for each criteria utilized. The performance criteria and associated performance benchmarks selected by the Compensation Committee should be clearly disclosed to shareholders.

(2) Time-Based Vesting A time-based vesting requirement of at least three years should also be a feature of the restricted shares program, so that operational performance and time-vesting requirements must be met in order for restricted shares to vest.

The Board and Compensation Committee should implement this restricted share program in a manner that does not violate any existing employment agreement or equity compensation plan.

**Supporting Statement:** The Company s executive compensation program should include a long-term equity compensation component with clearly defined operational performance criteria and challenging performance benchmarks. We believe that performance and time-vesting restricted shares should be an important component of such a program. In our opinion, performance and time-based restricted shares provide an effective means to tie equity compensation to meaningful operational performance beyond stock price performance.

A well-designed restricted share program can serve to help focus senior executives on achieving strong operational performance as measured over several years in areas determined by the Board to be important to the long-term success of the Company. The use of operational performance measures in a restricted share program can serve to comple-

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ment the stock price performance measures common in senior executive equity compensation plans. In addition to operational performance requirements, time vesting requirements of at least three years will help reinforce the long-term performance orientation of the plan.

Our proposal recognizes that the Compensation Committee is in the best position to determine the appropriate operational performance criteria and associated performance benchmarks. It is requested that detailed disclosure of the performance criteria be provided in the Compensation Committee Report. Further, clear disclosure should be provided on the performance benchmarks associated with each performance criteria to the extent this information can be provided without revealing proprietary information. This disclosure will enable shareholders to assess whether the long-term equity compensation portion of the executive compensation plan provides challenging performance targets for senior executives to meet.

We believe that a performance and time-based restricted share program with the features described above offers senior executives the opportunity to acquire significant levels of equity compensation commensurate with their contributions to long-term corporate performance. We believe such a system best advances the long-term interests of the Company, its shareholders, employees and other important constituents. We urge shareholders to support this important executive compensation reform.

### **The Board of Directors Statement in Opposition.**

The Board of Directors Management Development and Executive Compensation Committee, comprised exclusively of independent outside directors, is responsible for, among other things, discharging the Board's responsibility relating to executive compensation programs and policies. The Company's executive compensation program, of which restricted stock awards are an important component, is designed, in part, to attract, retain and motivate executives of the highest quality; encourage stock ownership by executives to directly align executive interests with stockholder interests; and balance compensation elements to encourage the achievement of both short-term business plans and long-term strategic objectives. Accordingly, the Board believes the Company's executive compensation program is already substantially based on performance, encourages executives to achieve long-term strategic goals and has effectively aligned management and stockholder interests.

Under the Company's current executive compensation program, annual compensation for each Company executive is substantially determined by the achievement of specific individual performance requirements established at the beginning of each fiscal year and by the pre-tax, pre-incentive profit of the Company or a particular business unit. Additional annual incentive awards are granted to executives for improved short-term performance relative to specific and demanding performance requirements established for each grantee.

Long-term compensation is comprised of the Company's Unit Performance Program and equity awards. Long-term equity awards are granted solely on the basis of individual performance results. Long-term incentive awards are based on the Company's cumulative earnings per share and the Company's (or a particular business unit's) average pre-tax return on investment over a specified period of years and consist primarily of stock option grants, restricted stock and Performance Unit awards under the Company's Unit Performance Program. Restricted stock grants currently have a three-year vesting schedule, which, in combination with the aforementioned basis of such awards, underscores

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the long-term, performance-based nature and focus of the grant.

The Board believes that conditioning the vesting of restricted stock granted for meeting performance targets on meeting further performance targets could undermine or distort the incentives for senior executives to improve performance that the grants were designed to foster and diminish the retention benefits of a time-based vesting program.

In addition, the Board believes that the Management Development and Compensation Committee needs to maintain the flexibility to determine the form and nature of restricted stock that may be granted to senior executives in the future and should not be limited to the terms set forth in the proposal. Moreover, requiring the Company to grant restricted stock with vesting conditions that are inconsistent with compensation practices followed by the Company's competitors could place the Company at a significant disadvantage in recruiting and retaining senior executives.

The proposed modifications to restricted stock awards are not appropriate at this time. The Company's current equity plans give the Management Development and Compensation Committee the flexibility to design restricted stock awards in the manner it believes to be necessary to attract and retain senior executives essential to the Company's future success and to align the interests of those senior executives with the Company's stockholders. The Board believes that restricting this flexibility is not in the best interests of the stockholders.

**Vote Required**

Approval of this stockholder proposal requires the affirmative vote of the majority of shares of Common Stock represented at the Annual Meeting.

**Your Board recommends a vote AGAINST this stockholder proposal.**

**Table of Contents****Beneficial Ownership of Company Stock****Directors and Management**

The following information is furnished, as of February 14, 2005, to indicate the beneficial ownership of the Company's Common Stock by each director, nominee for director and each of the executive officers named in the Summary Compensation Table (the "Named Executive Officers") individually, and by all directors, Named Executive Officers and other executive officers as a group. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power. No director, nominee for director, Named Executive Officer or other executive officer owns more than 1% of the Company's Common Stock, other than Mr. Karatz, who owns [ ]%, and Jeffrey T. Mezger, who owns [ ]%. As a group, all directors, Named Executive Officers and other executive officers of the Company own in the aggregate [ ]% of the Company's Common Stock.

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership(a) (c)</b>
Ronald W. Burkle	[ ]
Dr. Ray R. Irani	[ ]
Kenneth M. Jastrow, II	[ ]
James A. Johnson	[ ]
Bruce Karatz	[ ]
J. Terrence Lanni	[ ]
Melissa Lora	[ ]
Michael G. McCaffery	[ ]
Leslie Moonves	[ ]
Dr. Barry Munitz	[ ]
Luis G. Nogales	[ ]
Jeffrey T. Mezger	[ ]
Robert Freed	[ ]
Jay Moss	[ ]
Leah S. W. Bryant	[ ]
All directors, Named Executive Officers and other executive officers as a group (25 people)	[ ]