



2007 ANNUAL REPORT

## A LETTER FROM KB HOME PRESIDENT AND CHIEF EXECUTIVE OFFICER

Dear KB Home Stockholder:

As an investor in KB Home, you already know that 2007 was a challenging year for the homebuilding industry. We were confronted with several factors, including excess inventory of new and resale homes, reduced affordability, tightening in the mortgage and credit markets, and decreased consumer confidence. While it is the nature of virtually all businesses to experience periodic market advances and declines, the rapid speed and severity with which these events unfolded in 2007 created significant challenges for all of the nation's homebuilders. We want to assure you, as an owner of our company, that KB Home is aggressively taking action in the current environment to achieve renewed success, continuing our legacy as a peak performing company. Having just celebrated our landmark 50th anniversary, KB Home has skillfully managed through many market cycles, each time emerging as an even stronger company — and we believe we will once again.

We recognized early signs of the market shift and moved quickly to adopt strategies to mitigate its effects. Our first priority was to strengthen our balance sheet with an emphasis on reducing debt and building strong cash reserves for the future. In the past year alone, through a series of decisive moves, we have cut debt by nearly \$.8 billion and bolstered cash on hand to over \$1.3 billion. We achieved these results by delivering homes, reducing inventory that no longer met our investment standards, trimming our workforce, curtailing land purchases, consolidating or closing out of underperforming markets and communities, and opportunistically selling our French operations. Today, our ample liquidity allows us to address the challenges of the current housing market, while positioning us to take advantage of future opportunities.

KB Home's core strength has always been understanding the needs and desires of first-time, first move-up and active adult homebuyers. Looking ahead, favorable demographics and continuing population growth in our existing markets should provide an expanding pool of these important homebuyers. We have been relentless in our pursuit of offering more affordable products to serve this growing segment. We continue to fine tune and value engineer our home designs. We are renegotiating supplier contracts for improved terms. And we continue to focus on featuring design elements that blend low cost with high value, putting the custom home experience within reach of our homebuyers. We have achieved these market-focused changes without compromising our commitment to quality. In fact, KB Home is the only builder to have received the NAHB Research Center's National Housing Quality certification nationwide.

KB Home's "Built to Order™" approach clearly differentiates us in the marketplace. Since this is an era where personal choice and customization are part of everyday life, why should anyone be satisfied with cookie-cutter choices when making their biggest purchase? In contrast to many of our competitors who build homes before they have a buyer and make design decisions for them, we empower our customers to tailor their homes to their personal tastes, needs and budget. They choose their home site, floor plan, square footage, architectural style and structural options like room conversions and outdoor living spaces. At the KB Home Studios, our retail-like design showrooms, homebuyers select additional details and features to make their new home truly their own. This customer-focused model sets us apart from the competition in both the resale and new home markets, because we offer a customized home at an affordable price. While giving our customers maximum choice, our Built to Order approach is also designed to provide consistent and predictable financial results to our stockholders.

We are diligent in our pursuit of long-term strategies that enhance KB Home's position as the most recognized brand in homebuilding. These include offering unique home designs and home products in partnership with some of the world's leading brands. We now have Martha Stewart communities in six states across the country, combining KB Home's quality new home construction with Martha Stewart's creative sense of design. And in 2007, we launched a new partnership with the preeminent family brand—Disney—to offer an imaginative line of home products designed especially for KB homebuyers. We are also making tremendous progress in our "My Home. My Earth.™" environmental initiatives, with the goal of becoming a leading environmentally friendly national builder. In addition to offering eco-conscious options in our KB Home Studios, we recently became the first national builder to announce that we will build homes exclusively with Energy Star® qualified appliances. Prior to this national initiative, KB Home had already built more than 42,000 Energy Star designated homes, which incorporate a wide range of energy-saving features into the home. According to estimates by the U.S. Environmental Protection Agency, the cumulative energy savings produced by our Energy Star homes is equivalent to removing over 17,000 cars from the roads each year, while saving homeowners an average of \$12 million per year in utility bills. All of these brand-building initiatives provide unique choices that our homebuyers value, while differentiating KB Home in the marketplace.

In 2008, we will continue to execute our proven business model and we are committed to what makes us a great company—being the builder of choice for today's first-time, first move-up and active adult homebuyers. We also remain steadfast in our dedication to deliver value to our stockholders. Looking ahead to our Company's next 50 years, I am proud of the talented team we have in place. Because of their hard work and expertise, KB Home is well positioned for future opportunities. As we build homes for our customers today, we continue to build our Company for tomorrow.

Sincerely,

A handwritten signature in black ink that reads "Jeff Mezger". The signature is written in a cursive, flowing style.

Jeffrey T. Mezger  
President and Chief Executive Officer

## A LETTER FROM KB HOME CHAIRMAN OF THE BOARD

Dear KB Home Stockholder:

It is a pleasure to write this letter to you during my first year as Chairman of KB Home's Board of Directors. In my career, I have been fortunate to work with some of the nation's most distinguished companies. I am now very pleased to add KB Home to this list.

I have chosen to serve on KB Home's Board because I am impressed by the Company's unique customer-driven approach, its tremendous potential for future growth and management's willingness to make the sometimes difficult decisions to ensure KB Home's long-term success.

I feel a great sense of honor and responsibility as the Company's first independent non-executive Chairman, and I speak for the entire Board when I say that our job is to serve the interests of you, our stockholders. Through your ownership of KB Home, you participate in making homeownership possible for tens of thousands of people. This is a noble mission that all of us involved with the Company seek to advance, not only today but for generations to come.

Thank you for your support of KB Home, a proud leader of a vital industry.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Bollenbach", with a long horizontal flourish extending to the right.

Stephen F. Bollenbach  
Chairman of the Board

## BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

### BOARD OF DIRECTORS

Stephen F. Bollenbach  
Non-Executive  
Chairman of the Board,  
KB Home  
Los Angeles, CA

Ronald W. Burkle  
Managing Partner,  
The Yucaipa Companies  
Los Angeles, CA

Timothy W. Finchem  
Commissioner,  
PGA TOUR  
Ponte Vedra Beach, FL

Kenneth M. Jastrow, II  
Non-Executive Chairman,  
Guaranty Financial Group Inc. and  
Forestar Real Estate Group Inc.  
Austin, TX

James A. Johnson  
Vice Chairman,  
Perseus, LLC  
Washington, D.C.

J. Terrence Lanni  
Chairman and  
Chief Executive Officer,  
MGM MIRAGE  
Las Vegas, NV

Melissa Lora  
Chief Financial Officer,  
Taco Bell Corporation  
Irvine, CA

Michael G. McCaffery  
Chief Executive Officer,  
Makena Capital Management  
Menlo Park, CA

Jeffrey T. Mezger  
President and  
Chief Executive Officer,  
KB Home  
Los Angeles, CA

Leslie Moonves  
Director, President and  
Chief Executive Officer,  
CBS Corporation  
Los Angeles, CA

Luis G. Nogales  
Managing Partner,  
Nogales Investors, LLC  
Los Angeles, CA

*All directors, except Mr. Mezger, are independent as defined under the New York Stock Exchange's listing standards and KB Home's Corporate Governance Principles. The Corporate Governance Principles are available at kbhome.com.*

---

### EXECUTIVE OFFICERS

Glen Barnard  
Senior Vice President,  
KBnxt Group

Domenico Cecere  
Executive Vice President  
and Chief Financial Officer

William R. Hollinger  
Senior Vice President and  
Chief Accounting Officer

Kelly Masuda  
Senior Vice President  
and Treasurer

Jeffrey T. Mezger  
President and  
Chief Executive Officer

Wendy C. Shiba  
Executive Vice President,  
General Counsel  
and Corporate Secretary

John M. Staines  
Senior Vice President,  
Human Resources

## STOCKHOLDER INFORMATION

### COMMON STOCK PRICES

	2007		2006	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$56.08	\$47.69	\$81.99	\$64.80
Second Quarter	50.90	40.89	69.10	50.40
Third Quarter	47.57	28.00	52.65	37.89
Fourth Quarter	31.69	18.44	52.18	38.66

### DIVIDEND DATA

KB Home paid quarterly cash dividends of \$.25 per common share in 2007 and 2006.

### ANNUAL STOCKHOLDERS' MEETING

The 2008 Annual Stockholders' meeting will be held at the Company's offices at 10990 Wilshire Boulevard, Seventh Floor, in Los Angeles, California, at 9:00 a.m. on Thursday, April 3, 2008.

### STOCK EXCHANGE LISTING

KB Home's common stock is traded on the New York Stock Exchange. The ticker symbol is KBH.

### TRANSFER AGENT

BNY Mellon Shareowner Services  
480 Washington Boulevard  
Jersey City, New Jersey 07310-1900  
(888) 667-7640 United States  
(201) 680-6578 Foreign  
(800) 231-5469 TDD for Hearing Impaired  
(201) 680-6610 TDD for Foreign Stockholders  
bnymellon.com/shareowner/isd

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
Los Angeles, California

### FORM 10-K

The Company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by written request to the investor contact below. It is also available online at [kbhome.com/investor](http://kbhome.com/investor).

### HEADQUARTERS

KB Home  
10990 Wilshire Boulevard  
Los Angeles, California 90024  
(310) 231-4000  
(310) 231-4222 fax  
Location and community information:  
[kbhome.com](http://kbhome.com)  
(888) KB-HOMES

### INVESTOR CONTACT

Kelly Masuda  
Senior Vice President and Treasurer  
10990 Wilshire Boulevard  
Los Angeles, California 90024  
(310) 231-4000  
[investorrelations@kbhome.com](mailto:investorrelations@kbhome.com)

### BONDHOLDER SERVICES

U.S. Bank Corporate Trust Services  
1349 W. Peachtree Street, NW  
Two Midtown Plaza, Suite 1050  
Mail Exchange EX-GA-ATPT  
Atlanta, Georgia 30309  
(404) 898-8822  
[usbank.com](http://usbank.com)

8 5/8% \$200 million Senior Subordinated Notes – Due 2008  
7 3/4% \$300 million Senior Subordinated Notes – Due 2010  
6 3/8% \$350 million Senior Notes – Due 2011  
5 3/4% \$250 million Senior Notes – Due 2014  
5 7/8% \$300 million Senior Notes – Due 2015  
6 1/4% \$450 million Senior Notes – Due 2015  
7 1/4% \$300 million Senior Notes – Due 2018

**KB HOME**

10990 WILSHIRE BOULEVARD  
LOS ANGELES, CALIFORNIA 90024  
kbhome.com 888-KB-HOMES



As part of KB Home's commitment to sustainability and the responsible use of natural resources, this report has been printed on paper certified by the Forest Stewardship Council (FSC). This certification supports the development of responsible forest management worldwide by adhering to strict standards for paper sources. The wood in this paper comes from FSC-certified well-managed forests, company-controlled sources and/or recycled material.