KB HOME
Form PRE 14A
February 26, 2009

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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 þ
Filed by a Party other than the Registrant o
Check the appropriate box:

þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o 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)

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(3) Filing Party:

(4) Date Filed:

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

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

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Notice of 2009 Annual Meeting of Stockholders

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

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

Proxy Statement
for the
2009 Annual Meeting of Stockholders

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General Information

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.

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Voting Information

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	*Election of Directors*. To be elected, each director nominee must receive a majority of votes cast in favor (*i.e.*, 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.

Other Proposals. 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 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.

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Corporate Governance and Board Matters

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.

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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	
***Number of Meetings*:**	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.

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 on April 3, 2008.

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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

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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.

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Director Compensation

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

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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

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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 pro-rated amount for the remainder of the 2008 Director Year.

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.

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Items of Business

Proposal 1:

Election of Directors

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.

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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.

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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.

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Proposal 2:

Ratification of Appointment of Independent Registered Public Accounting Firm

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.

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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 $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 (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.

Proposal 3:

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

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 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 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

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 (as defined in Section 382) 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.

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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 net operating losses). Delaware law provides that transfer

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

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

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.**

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 of Directors 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 the 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 of Directors may exchange the rights, other than rights that are or were beneficially owned by an Acquiring Person, which will be void, in whole or in part, at an exchange ratio of one share of common stock per right, subject to adjustment.

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.

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

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

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

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.

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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.

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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 which the goal or goals have been met. Then, after the final amounts have been determined, awards will be paid in cash as soon as practicable, but in no event later than March 15 of the year following the calendar year in which the performance period concluded.

Termination of Employment. Generally, if a participant ceases to be employed by us for any reason prior to the date on which an award is paid, the award will be canceled and the participant will not be entitled to any payment with respect to that award.

Change of Ownership. In the event of a change of ownership, the Plan provides that the performance goals for outstanding awards are deemed to have been met at the target level, and a participant will become entitled to promptly receive a pro-rated portion of the target level pay out amount, based on the percentage of the performance period that has elapsed at the time of the change of ownership. Any such payment would not satisfy the requirements for tax deductibility under Section 162(m) if the performance goals have not actually been met. The Plan contains a definition of change of ownership that is substantially identical to the one in the Amended and Restated 1999 Incentive Plan.

Amendments. The Compensation Committee may amend, suspend or terminate the Plan at any time; provided that, except for technical amendments to comply with the deferred compensation rules under Section 409A of the Code, no such amendment, suspension or termination shall, without the consent of a participant, adversely affect any right of the participant under the participant s outstanding awards.

Non-Exclusivity. The Plan is not the exclusive means by which we can provide our executive officers with incentives, although discretionary bonuses and incentives under plans that have not been approved by our stockholders may not be tax deductible for certain of our executive officers under Section 162(m).

Estimate of Benefits. The specific awards to individual participants have not been determined under the Plan, and instead will be specified by the Compensation Committee from time to time. The framework of the Plan is substantially similar to that contained in the cash award portion of the Amended and Restated 1999 Incentive Plan. Accordingly, for an estimate of what our named executive officers would have received under the Plan in our 2008 fiscal year had the Plan been in effect instead of the Amended and Restated 1999 Incentive Plan, please refer to the non-equity incentive plan compensation shown below in the Summary Compensation Table. The aggregate amount of incentive compensation paid to our named executive officers for our 2008 fiscal year under the Amended and Restated 1999 Incentive Plan was $3,745,000.

Federal Income Tax Consequences

Under present federal income tax laws, participants will realize ordinary income in the year they receive a cash pay out under an award. We will be entitled to deduct a corresponding amount, provided that the Plan and the award satisfy the requirements of Section 162(m). It is our intention that the Plan be construed and administered in a manner that maximizes the tax deductibility of compensation under Section 162(m).

Vote Required

Approval of the KB Home Annual Incentive Plan for Executive Officers 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 you vote FOR this proposal to approve the KB Home Annual Incentive Plan for Executive Officers.

Proposal 6:

Stockholder Proposal

The Central Laborers   Pension, Welfare and Annuity Funds, P.O. Box 1267, Jacksonville, IL 62651, the beneficial owner of 450 shares of our common stock, has notified us that it intends to present a proposal at the Annual Meeting. The proposal is set forth below, along with the recommendation of the Board that you vote AGAINST the proposal. We accept no responsibility for the accuracy of the proposal or the proponent s supporting statement.

Stockholder Proposal

RESOLVED: That the shareholders of KB Home (Company) request that the Board of Director s Executive Compensation Committee adopt a Pay for Superior Performance principle by establishing an executive compensation plan for senior executives (Plan) that does the following:

Sets compensation targets for the Plan s annual and long-term incentive pay components at or below the peer group median;

Delivers a majority of the Plan s target long-term compensation through performance-vested, not simply time-vested, equity awards;

Provides the strategic rationale and relative weightings of the financial and non-financial performance metrics or criteria used in the annual and performance-vested long-term incentive components of the Plan;

Establishes performance targets for each Plan financial metric relative to the performance of the Company s peer companies; and

Limits payment under the annual and performance-vested long-term incentive components of the Plan to when the Company s performance on its selected financial performance metrics exceeds peer group median performance.

Proponent s Supporting Statement

We feel it is imperative that executive compensation plans for senior executives be designed and implemented to promote long-term corporate value. A critical design feature of a well-conceived executive compensation plan is a close correlation between the level of pay and the level of corporate performance. The pay-for-performance concept has received considerable attention, yet all too often executive pay plans provide generous compensation for average or below average performance. We believe the failure to tie executive compensation to superior corporate performance has fueled the escalation of executive compensation and detracted from the goal of enhancing long-term corporate value.

We believe that the Pay for Superior Performance principle presents a straightforward formulation for senior executive incentive compensation that will help establish more rigorous pay for performance features in the Company s Plan. A strong pay and performance nexus will be established when reasonable incentive compensation target pay levels are established; demanding performance goals related to strategically selected financial performance

metrics are set in comparison to peer company performance; and incentive payments are awarded only when median peer performance is exceeded.

We believe the Company s Plan fails to promote the Pay for Superior Performance principle in several important ways. Our analysis of the Company s executive compensation plan reveals the following features that do not promote the Pay for Superior Performance principle:

The company does not target total compensation at any particular level;

Bonus payments for 2007 were discretionary, with no specific performance targets, except for a special grant of performance shares to the CEO;

Long-term awards do not include a peer group comparison;

The performance vesting condition for Stock Appreciation Rights (SAR) and phantom share awards is based on a one-year performance cycle;

SARs vest ratably over three years; and

Stock options are fixed price only.

We believe a plan designed to reward superior corporate performance relative to peer companies will help moderate executive compensation and focus senior executives on building sustainable long-term corporate value. We urge shareholders to vote **FOR** our proposal.

Recommendation of the Board AGAINST the Proposal

Your Board recommends a vote AGAINST this proposal, which stockholders rejected by a significant margin at last year s annual meeting. As with last year s proposal, your Board believes that the proposal does NOT establish a pay-for-performance plan and, therefore, it does not serve the best interests of KB Home or its stockholders.

We share the proponent s view that executive incentive compensation should appropriately reward performance that creates and sustains enterprise and stockholder value, and believe that this view is reflected in our current executive compensation philosophy and programs. These are discussed in detail below under the heading Compensation Discussion and Analysis.

By requiring us to set incentive compensation targets at or below peer group median, however, we believe implementing this proposal would seriously undermine incentive pay s role in promoting value creation at this critical time. We also believe it would severely impair our ability to attract, motivate and retain high-caliber executive talent. Indeed, we cannot conceive how offering to reward someone with just average or below-average pay for delivering above-average results would provide an incentive for them to come to or stay with us, or motivate them to deliver such results. This is particularly true during a period when we are experiencing a severe industry downturn.

We continue to believe the proposal essentially fails to accomplish what its proponent asserts is a critical design feature of a well-conceived executive compensation plan a close correlation between the level of pay and the level of corporate performance. In our view, restricting incentive compensation to a level below the level of performance required to earn it does not establish a close correlation between pay and performance. Therefore, we think the executive compensation approach in this proposal is clearly not well-conceived, even from the view of the proponent s own standards.

We believe that our current executive compensation programs and practices, as further discussed below under the heading Compensation Discussion and Analysis, provide primarily performance-based pay consistent with the proponent s compensation principle, while enabling us to remain competitive in attracting, motivating and retaining quality executive talent and a solid management team. As a result, we do not believe that adopting this proposal is necessary or desirable for KB Home or its stockholders.

Vote Required

Approval of this stockholder proposal requires the affirmative vote of the majority of shares of common stock present or represented, and entitled to vote thereon, at the Annual Meeting. However, the proposal is a request to the Board to consider a matter. If the proposal passes, the Board may consider, in its business judgment, whether to take the requested action or not, but it is not legally obligated to do so.

Your Board recommends that you vote AGAINST this proposal.

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Proposal 7:

Stockholder Proposal

The New York City Employees Retirement System, the New York City Teachers Retirement System, the New York City Police Pension Fund, the New York City Fire Department Pension Fund, and the New York City Board of Education Retirement System, collectively the beneficial owners of 214,935 shares of our common stock, have notified us that they intend to present a proposal at the Annual Meeting. The proposal is set forth below, along with the recommendation of the Board that you vote AGAINST the proposal. We accept no responsibility for the accuracy of the proposal or the proponents supporting statement.

Stockholder Proposal

RESOLVED: that the shareholders of KB Home request the board of directors to adopt a policy that provides shareholders the opportunity at each annual shareholder meeting to vote on an advisory resolution, proposed by management, to ratify the compensation of the named executive officers (NEOs) set forth in the proxy statement s Summary Compensation Table (the SCT) and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

Proponent s Supporting Statement

Investors are increasingly concerned about mushrooming executive compensation especially when it is insufficiently linked to performance. In 2008, shareholders filed close to 100 Say on Pay resolutions. Votes on these resolutions have averaged 43% in favor, with ten votes over 50%, demonstrating strong shareholder support for this reform.

An Advisory Vote establishes an annual referendum process for shareholders about senior executive compensation. We believe the results of this vote would provide the board and management with useful information about shareholder views on the company s senior executive compensation.

In its 2008 proxy Aflac submitted an Advisory Vote resulting in a 93% vote in favor, indicating strong investor support for good disclosure and a reasonable compensation package. Daniel Amos, Chairman and CEO said, An advisory vote on our compensation report is a helpful avenue for our shareholders to provide feedback on our pay-for-performance compensation philosophy and pay package.

To date eight other companies have also agreed to an Advisory Vote, including Verizon, MBIA, H&R Block, Blockbuster, and Tech Data. TIAA-CREF, the country s largest pension fund, has successfully utilized the Advisory Vote twice.

Influential proxy voting service RiskMetrics Group recommends votes in favor, noting: RiskMetrics encourages companies to allow shareholders to express their opinions of executive compensation practices by establishing an annual referendum process. An advisory vote on executive compensation is another step forward in enhancing board accountability.

The Council of Institutional Investors has endorsed advisory votes and a bill to allow annual advisory votes passed the House of Representatives by a 2-to-1 margin. As presidential candidates, Senators Obama and McCain supported the Advisory Vote.

We believe that existing U.S. Securities and Exchange Commission rules and stock exchange listing standards do not provide shareholders with sufficient mechanisms for providing input to boards on senior executive compensation. In contrast, in the United Kingdom, public companies allow shareholders to cast a vote on the directors remuneration report, which discloses executive compensation. Such a vote isn t binding, but gives shareholders a clear voice that could help shape senior executive compensation.

We believe that a company that has a clearly explained compensation philosophy and metrics, reasonably links pay to performance, and communicates effectively to investors would find a management sponsored Advisory Vote a helpful tool.

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We urge our board to allow shareholders to express their opinion about senior executive compensation through an Advisory Vote.

Recommendation of the Board AGAINST the Proposal

Your Board recognizes the importance of communicating with stockholders about executive pay. Because your Board believes this proposal would not enhance its interaction with stockholders, however, it recommends a vote AGAINST the proposal.

Your Board takes stockholders views seriously and is committed to maintaining an open dialogue on KB Home s business and affairs. In the past few years, your Board has adopted a number of corporate governance reforms in response to sound stockholder suggestions and as best practices. It has also enhanced the transparency of corporate governance processes and decision-making. For example, your Board believes the Compensation Discussion and Analysis below provides a considerable amount of information on KB Home s executive pay philosophy, programs and determinations, and on the Board s oversight of those subjects.

Stockholders have many ways to communicate directly to the Board and to management their specific ideas or concerns regarding executive pay or other matters. These include contacting the Board, the Compensation Committee, and/or individual directors through the Corporate Secretary, as described above under the heading Communications with the Board, and contacting our investor relations professionals. Your Board believes these are effective channels for stockholders to fully express their views on executive pay or corporate governance.

The proponents cite various statistics (including this proposal s 90% failure rate), abstract principles, outside party opinions, and the experiences of other countries to support their proposal. But they do not explain how the proposed advisory vote would specifically benefit KB Home and its stockholders over current communication channels or otherwise strengthen KB Home s corporate governance or the Board s oversight of executive pay. After careful consideration, your Board believes the proposed up-or-down advisory vote would not be helpful because it would not provide useful information or actionable feedback. In addition, compared to the ways stockholders may currently communicate with the Board, your Board believes the proposed advisory vote (if adopted) could actually hinder constructive dialogue with stockholders about executive pay.

The outcome of an advisory vote would not identify the particular aspects of executive pay that stockholders like or don t like, nor specify what should be changed, if anything. It would also not provide any information on why stockholders voted for or against named executive officer compensation. Without knowing the reasons for a particular outcome or having any way to assess the likely diverse, and possibly conflicting, stockholder preferences and motivations, your Board could not, consistent with its fiduciary duties to all stockholders, effectively respond to stockholders who voted one way or the other. Accordingly, your Board believes the proposed advisory vote would not help it or the Compensation Committee carry out their executive pay oversight role or improve KB Home s corporate governance.

Vote Required

Approval of this stockholder proposal requires the affirmative vote of the majority of shares of common stock present or represented, and entitled to vote thereon, at the Annual Meeting. However, the proposal is a request to the Board to consider a matter. If the proposal passes, the Board may consider, in its business judgment, whether to take the requested action or not, but it is not legally obligated to do so.

Your Board recommends that you vote AGAINST this proposal.

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Proposal 8:

Stockholder Proposal

The AFL-CIO Reserve Fund, the beneficial owner of 400 shares of our common stock, has notified us that it intends to present a proposal at the Annual Meeting. The proposal is set forth below, along with the recommendation of the Board that you vote AGAINST the proposal. We accept no responsibility for the accuracy of the proposal or the proponent s supporting statement.

Stockholder Proposal

RESOLVED: Shareholders of KB Home (the Company) urge the Board of Directors to adopt principles for health care reform based upon principles reported by the Institute of Medicine:

1. Health care coverage should be universal.

2. Health care coverage should be continuous.

3. Health care coverage should be affordable to individuals and families.

4. The health insurance strategy should be affordable and sustainable for society.

5. Health insurance should enhance health and well being by promoting access to high-quality care that is effective, efficient, safe, timely, patient-centered, and equitable.

Proponent s Supporting Statement

The Institute of Medicine, established by Congress as part of the National Academy of Sciences, issued five principles for reforming health insurance coverage in a report, Insuring America s Health: Principles and Recommendations (2004). We believe principles for health care reform, such as those set forth by the Institute of Medicine, are essential if public confidence in our Company s commitment to health care coverage is to be maintained.

Access to affordable, comprehensive health care insurance is the most significant social policy issue in America according to polls by NBC News/The Wall Street Journal, the Kaiser Foundation and The New York Times/CBS News. In our opinion, health care reform also is a central issue in the presidential campaign of 2008.

Many national organizations have made health care reform a priority. In 2007, representing a stark departure from past practice, the American Cancer Society redirected its entire $15 million advertising budget to consequences of inadequate health coverage in the United States (The New York Times, 8/31/07).

John Castellani, president of the Business Roundtable (representing 160 of the country s largest companies), has stated that 52 percent of the Business Roundtable s members say health costs represent their biggest economic challenge. The cost of health care has put a tremendous weight on the U.S. economy, according to Castellani, The current situation is not sustainable in global, competitive workplace. (BusinessWeek, July 3, 2007).

The National Coalition on Health Care (whose members include some of the largest publicly-held companies, institutional investors and labor unions) also has created principles for health insurance reform. According to the National Coalition on Health Care, implementing its principles would save employers presently providing health insurance coverage an estimated $595-$848 billion in the first 10 years of implementation.

We believe that the 47 million Americans without health insurance results in higher costs, causing an adverse effect on shareholder value for our Company, as well as all other U.S. companies which provide health insurance to their employees. Annual surcharges as high as $1,160 for the uninsured are added to the total cost of each employee s health insurance, according to Kenneth Thorpe, a leading health economist at Emory University. Moreover, we feel that increasing health care costs further reduces shareholder value when it leads companies to shift costs to employees, thereby reducing employee productivity, health and morale.

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Recommendation of the Board AGAINST the Proposal

Your Board recognizes that health care reform is an important national priority and strongly supports efforts to improve the availability, quality and affordability of health care and health care insurance. Your Board believes, however, that health care reform is an issue that can be addressed only through state and federal legislative and agency action and is not a proper subject for the Annual Meeting. Your Board also believes that it is not in KB Home s best interests to adopt the principles of a single organization given the complex nature of health care reform and the current wide-ranging policy debate on the issue. KB Home s adoption of these principles would not help resolve this debate, aid in government efforts to enact and implement effective health care reforms, or otherwise benefit KB Home or its stockholders. Accordingly, your Board recommends that stockholders vote AGAINST this proposal.

KB Home has a strong commitment to supporting its employees with quality health care insurance coverage and other health and wellness benefits. It provides employees and their families with a comprehensive set of reasonably-priced medical, dental and vision care coverage options, opportunities to establish reimbursement accounts for health care and dependent care, and income protection vehicles, and makes available employee assistance and work/life support services programs to meet employees needs.

Vote Required

Approval of this stockholder proposal requires the affirmative vote of the majority of shares of common stock present or represented, and entitled to vote thereon, at the Annual Meeting. However, the proposal is a request to the Board to consider a matter. If the proposal passes, the Board may consider, in its business judgment, whether to take the requested action or not, but it is not legally obligated to do so.

Your Board recommends that you vote AGAINST this proposal.

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Ownership of KB Home Securities

Ownership of Directors and Management

The following table shows, as of February 23, 2009, the beneficial ownership of our common stock by each current director and each of the current executive officers named below in the Summary Compensation Table, and by all current directors and executive officers as a group. Except as stated in footnote (c) to the table, beneficial ownership is direct and each director and executive officer has sole voting and investment power over his or her shares.

Non-Employee Directors	Amount and Nature of Beneficial Ownership (a - e)	Percent of Class
Mr. Bollenbach		*
Mr. Burkle	1,000	*
Mr. Finchem		*
Mr. Jastrow		*
Mr. Robert Johnson		*
Ms. Lora	2,043	*
Mr. McCaffery		*
Mr. Moonves		*
Mr. Nogales	7,400	*
Named Executive Officers		
Jeffrey T. Mezger	2,191,926	2.4%
Wendy C. Shiba	10,000	*
William R. Hollinger	260,510	*
Glen W. Barnard	58,881	*
Kelly K. Masuda	50,956	*
All current directors and executive officers as a group (15 people)	2,582,716	2.8%

(a) Included are shares of common stock that can be acquired within 60 days of February 23, 2009 through the exercise of stock options granted under our employee equity compensation plans in the following amounts: Mr. Mezger 1,808,140; Ms. Shiba 0; Mr. Hollinger 176,058; Mr. Barnard 54,000; Mr. Masuda 45,000; and all current executive officers as a group 2,083,198.

(b) Included in Mr. Mezger s beneficial ownership total are 54,000 shares of restricted common stock. Mr. Mezger is the only current executive officer who holds shares of restricted common stock.

(c) Ms. Lora holds 2,043 shares of our common stock in a trust in which she and her spouse are trustees and sole beneficiaries and over which they jointly exercise voting and investment power.

(d) Not shown in the table are the non-employee directors equity-based holdings under the Director Plan, which are shown above under the heading Director Compensation, and certain equity-based holdings of our NEOs, which are shown below under Grants of Plan-Based Awards During Fiscal Year 2008 and Outstanding Equity Awards at Fiscal Year-End 2008.

(e) Based on records available to us, Mr. Domenico Cecere, our former Executive Vice President and Chief Financial Officer, beneficially owned as of February 14, 2009, 177,880 shares of our common stock. Included in this amount are 170,800 shares of common stock that can be acquired within 60 days of February 14, 2009 through the exercise of stock options granted under our employee equity compensation plans. Mr. Cecere s beneficial ownership is not included in the total shown in the above table.

* Indicates less than one percent ownership.

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Beneficial Owners of More Than Five Percent of Our Common Stock

The following table shows each person or entity known to us as of February 23, 2009 to be the beneficial owner of more than five percent of our common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
KB Home Grantor Stock Ownership Trust(a) Wachovia Executive Benefits Group One West Fourth Street - NC 6251 Winston-Salem, North Carolina 27101	11,861,782	13.24%
FMR LLC and Edward C. Johnson 3d(c) 82 Devonshire Street Boston, Massachusetts 02109	11,509,157	14.8%(b)
AXA Financial, Inc., et al.(d) 1290 Avenue of the Americas New York, NY 10104	6,014,979	6.7%(b)
State Street Bank and Trust Company(e) One Lincoln Street Boston, MA 02111	4,441,890	5.7%(b)

(a) The KB Home Grantor Stock Ownership Trust (GSOT) holds all of the shares of our common stock shown above per a trust agreement with Wachovia Bank, N.A., as trustee. The GSOT shares are held to help us meet certain obligations to employees under our employee benefit plans. Both the GSOT and the trustee disclaim beneficial ownership of the shares reported. The trustee has no discretion over the manner in which the GSOT shares are voted. Under the GSOT trust agreement, employees who hold unexercised options under our

employee equity compensation plans will determine how the GSOT shares are voted.

The trustee will vote the GSOT shares as directed by those eligible employees who submit voting instructions for the shares. The number of GSOT shares as to which any one employee can direct the vote depends on how many employees submit voting instructions to the trustee. Employees who are also directors cannot vote GSOT shares; therefore, Mr. Mezger cannot direct the vote of any GSOT shares. If all eligible employees submit voting instructions to the trustee, the other named executive officers who are employed by us at the date of the Annual Meeting can direct the vote of the following amounts of GSOT shares: Ms. Shiba 0, Mr. Hollinger 1,593,021, Mr. Barnard 488,607, Mr. Masuda 407,172, and all current executive officers as a group (excluding Mr. Mezger) 2,488,800. Under the GSOT trust agreement, votes on GSOT shares received by the trustee will be held in confidence and will not be disclosed to any person, including to us.

(b) These percent of class figures are furnished in reliance on the respective Schedule 13G filings or amended Schedule 13G filings by FMR LLC and Edward C. Johnson 3d, AXA Financial, Inc. et al., and State Street Bank and Trust Company.

(c) The stock holding information reported in the table above and in this footnote is based solely on an amendment to Schedule 13G dated February 17, 2009 that FMR LLC filed with the Securities and Exchange Commission to report beneficial ownership of FMR LLC (f/k/a FMR Corp.) and Mr. Edward C. Johnson 3d, FMR LLC s Chairman, as of December 31, 2008. The shares are beneficially owned by the following direct or indirect wholly-owned subsidiaries of FMR LLC: (i) Fidelity Management & Research Company (11,151,287 shares, with one investment company, Magellan Fund, the beneficial

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owner of 4,088,000 of those shares, amounting to a reported ownership of 5.3% of our outstanding common stock), and (ii) Pyramis Global Advisors Trust Company (354,626 shares); and by FIL Limited (3,244 shares), an entity of which Edward C. Johnson 3d is Chairman and in which his family owns an indirect interest. FMR LLC and Mr. Edward C. Johnson 3d each have sole dispositive power as to all of the shares reported and sole voting power as to 354,626 shares. Mr. Edward C. Johnson 3d, through controlled partnerships or trusts, has sole voting power as to 3,244 shares.

(d) The stock holding information reported in the table above and in this footnote is based solely on amendment to Schedule 13G dated February 13, 2009 that AXA Financial, Inc., et al. filed with the Securities and Exchange Commission pursuant to a joint filing agreement to report beneficial ownership as of December 31, 2008. The shares are beneficially owned by the following AXA Financial, Inc. subsidiaries: AllianceBernstein L.P., an investment advisor, and AXA Equitable Life Insurance Company, an insurance company and an investment advisor. Of the amount reported as beneficially owned: (i) AllianceBernstein L.P. had sole voting power as to 4,421,622 shares of our common stock, and had sole dispositive power as to 6,012,755 shares; and (ii) AXA Equitable Life Insurance Company had sole voting and dispositive power as to 2,224 shares of our common stocks. AXA is a parent holding company for AXA Financial, Inc. AXA Assurances I.A.R.D. Mutuelle and AXA Assurances Vie Mutuelle, as a group (collectively, Mutuelles AXA), are the parent holding company that controls AXA. The address of Mutuelles AXA is 26, rue Drouot, 75009 Paris, France. The address of AXA is 25, avenue Matignon, 75008 Paris, France.

(e) The stock holding information reported in the table above and in this footnote is based solely on a Schedule 13G dated February 13, 2009 that State Street Bank and Trust Company, a bank, filed with the Securities and Exchange Commission to report beneficial ownership as of December 31, 2008. Of the amount reported as beneficially owned, State Street Bank and Trust Company had sole voting power as to 4,441,890 shares of our common stock and had shared dispositive power as to 4,441,890 shares.

Stock Ownership Requirements

We have established stock ownership requirements for our non-employee directors and senior management to better align their interests with those of our stockholders. Our Corporate Governance Principles require each of our non-employee directors to own at least 5,000 shares of our common stock or common stock equivalents within three years of joining the Board. Our Executive Stock Ownership Policy applies to members of our senior management team and requires executives at various levels to own a number of shares with a value equal to a range of one-to-five times base salary. Executives are expected to demonstrate meaningful progress toward satisfying their ownership requirement and to comply fully within five years of becoming subject to the policy, or be subject to consequences for non-compliance. The policy, as applied to our named executive officers, is discussed in additional detail below under the heading Equity Stock Ownership Policy.

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Executive Compensation

Management Development and Compensation Committee Report

The Management Development and Compensation Committee of the Board of Directors has reviewed and discussed the following Compensation Discussion and Analysis with KB Home management. Based on this review and discussion, the Management Development and Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Management Development and Compensation Committee
Michael G. McCaffery, Chair
Stephen F. Bollenbach
Timothy W. Finchem
Luis G. Nogales

Compensation Discussion and Analysis

General Overview

We believe our KBnxt operational business model provides us with a distinct competitive advantage over other homebuilders. This disciplined, fact-based and process-driven approach to homebuilding, founded on a constant and systematic assessment of consumer preferences and market opportunities, is designed to generate operational efficiencies and return on investment for our business. To execute our KBnxt operational business model optimally, it is critical that we attract, motivate and retain a talented workforce in a highly competitive labor market.

Our executive compensation and benefit programs, including our arrangements with our named executive officers (NEOs), are structured to meet this need. They also aim to appropriately reward the contributions our NEOs and other executives make in creating and sustaining enterprise and stockholder value, taking into account each executive s specific roles, responsibilities, experience, skill sets, and individual performance; the market for comparable jobs; the existing and expected business environment; and our overall financial and operational results. We believe that this focus on rewarding contributions that create and sustain enterprise and stockholder value establishes a clear alignment of executive and stockholder interests.

Compensation Committee Oversight Role. The Compensation Committee, with support from our management and outside advisors, oversees our executive compensation and benefit programs, including the specific arrangements we have with our NEOs. The Compensation Committee evaluates and, as necessary, adjusts these arrangements to ensure consistency with our compensation and benefit programs goals.

In addition to providing general oversight, the Compensation Committee annually reviews and approves goals and objectives for our CEO, evaluates our CEO s performance in light of those goals and objectives and other criteria, and determines and approves our CEO s compensation based on that performance evaluation, as discussed above under the heading Overview of Executive Officer and Non-Employee Director Compensation Processes and Procedures. The Compensation Committee also reviews and approves the compensation of the other NEOs.

Compensation Committee Consultant Role. Semler Brossy serves as the Compensation Committee s independent compensation consultant, providing advice and perspective to the Compensation Committee on executive and non-employee director compensation and benefits. Under the Compensation Committee s charter, and to maintain its independence and avoid any conflict of interests, Semler Brossy may not work directly for our management unless the Compensation Committee pre-approves the work, including fees. No such work was performed or fees paid in 2008.

CEO and Management s Role. The Compensation Committee frequently asks for recommendations, input and support from our CEO and certain members of top management, particularly regarding compensation and benefit program design and implementation, employee feedback, and compliance and disclosure requirements. At the Compensation Committee s request, the CEO reviews and discusses the performance and compensation of our other NEOs and makes recommendations to the Compensation Committee as to their annual base

salaries, annual incentives and long-term incentives. Our management is responsible for implementing our compensation and benefit programs under the Compensation Committee s oversight. Our management has retained a compensation consultant, Towers Perrin, for the purpose of providing compensation and benefits related information, analysis and support.

Use of Tally Sheets. Our management typically provides the Compensation Committee with a tally sheet for each NEO at the beginning of each fiscal year, and may do so at other times in connection with NEO compensation decisions. The tally sheets that are typically provided at the beginning of each fiscal year contain up to five years of data on various compensation components, including base salary, annual incentives and long-term incentives. The tally sheets provided at other times may contain all or some of this data. The Compensation Committee uses the tally sheets as one tool in making decisions on these compensation components. It also uses advice and input from Semler Brossy and our CEO and certain members of top management, and subjectively considers the factors described above under the heading General Overview, and general market and peer group data.

Use of General Market and Peer Group Data. Our peer group which is listed to the right consists of companies that are engaged, as we are, in high production home building. Our annual revenues approximate the group median. The Compensation Committee uses peer group and general industry market survey data to get a general sense of whether our NEO compensation is reasonable and competitive with the compensation paid to executives with similar responsibilities at companies both within and outside the homebuilding industry that we consider to be similar to us based on revenues and nature of operations.

Our Peer Group

Beazer Homes	Centex Corporation
DR Horton	Hovnanian Enterprises
Lennar Corporation	MDC Holdings
NVR Incorporated	Pulte Homes
Ryland Group	Standard Pacific
Toll Brothers	

Although the Compensation Committee finds this data helpful in assessing the overall competitiveness of our compensation and benefit programs to attract and retain executive talent, the Compensation Committee does not benchmark or target compensation and benefits at any specific level within a general industry or our peer group. This is largely because the Compensation Committee considers the individual performance of responsibilities unique to our business operations and KBnxt operational business model to be a more significant factor in making NEO compensation decisions.

CEO Employment Agreement. The terms of our CEO s compensation are governed by his Employment Agreement. The Employment Agreements specifies that our CEO be paid an annual salary of no less than $1 million. It also specifies that he is eligible to receive an annual incentive and entitled to participate in our long-term incentive

compensation arrangements on terms and conditions that are no less favorable than those that apply to our other senior executives. The Board believes the Employment Agreement provides compensation that is in line with CEO compensation practices in the homebuilding industry. Our CEO is the only NEO with whom we have an employment agreement.

Compensation in Context: Fiscal Year 2008

In our 2008 fiscal year, due to the severe and sustained downturn in the housing market and the significant deterioration in the general economy in the second half of the year, we continued, and in some instances, accelerated, several strategic actions designed to help us maintain a strong cash position and balance sheet, generate positive cash flows, restore the profitability of our homebuilding operations and reposition our business to capitalize on an eventual housing market recovery when it occurs. These actions included significantly reducing our overhead, including our workforce levels, inventory investments and community counts, transitioning to new, value-engineered product, and consolidating operations or selectively exiting certain markets in line with the principles of our KBnxt operational business model. We ended the year with more than $1.25 billion of cash (including restricted cash), which exceeded our goals, no borrowings under our revolving credit facility, a lower year-over-year operating loss, lower overall debt levels, and market positions that we believe provide us with a solid foundation for growth as business conditions become more favorable. During our 2008 fiscal year, we experienced lower year-over-year net orders, homes delivered and

revenues, and we expect those trends to continue into our 2009 fiscal year. These operational and financial results are discussed in greater detail in our Annual Report.

Given the prevailing business conditions and uncertainty as to the timing of a housing market recovery, the primary focus for our executive compensation and benefits program for 2008 was to retain and motivate, in a cost-effective manner, our top executive talent to achieve our strategic initiatives, recognizing that many are working with fewer resources and greater duties and responsibilities due to overhead and workforce reductions. The following discussion provides additional information and analysis regarding our executive compensation and benefit programs and the specific arrangements we have with our NEOs.

NEO Compensation for the 2008 Fiscal Year

NEO Compensation and Benefit Components	Description/Purpose
Base Salary	Semi-monthly cash payments that provide competitive fixed income for performance of day-to-day position responsibilities.
Annual Incentives	Lump sum cash payments made after a relevant fiscal year to build accountability and reward achievement of annual business goals.
Long-Term Incentives	Stock- or cash-settled stock options/stock appreciation rights (SARs) and restricted stock/phantom shares that are designed to promote retention and align executive compensation and stockholder value creation over a multi-year time period.
Executive Health Benefits	Provide 100% reimbursement of out-of-pocket medical, dental and vision expenses.
Executive Death Benefits	Provide a death benefit to an executive s beneficiary through a Death Benefit Only Plan that was closed to new participants in 2004 and/or through company-owned or company-paid term life insurance.
Deferred Compensation Plan	Permits deferred receipt of earned compensation into a non-qualified savings plan similar to our 401(k) Savings Plan; we match dollar-for-dollar deferrals under this plan and our 401(k) Savings Plan up to a total of six percent of base salary.
Retirement Plan (closed)	Provides an annuity benefit after retirement; not all NEOs participate in the plan and no participants have been added to the plan since 2004.

Perquisites. In 2007, we discontinued substantially all perquisites to our NEOs, including automobile allowances, company-paid automobile fuel cards, and reimbursement of expenses for automobile insurance, annual financial planning and tax preparation services, and one-time estate planning services. The few perquisites we provided to our NEOs in 2008 are described below under the heading Perquisites.

Mix and Levels of Compensation Elements. The Compensation Committee uses its own judgment when approving the mix and levels of the above-listed compensation and benefit components for our NEOs, generally taking into account individual NEO performance and the other factors described above under the heading General Overview. The Compensation Committee also takes into account the totality of compensation that may be paid to an NEO in approving the NEO s specific annual base salary, annual incentives and long-term incentives so that the overall compensation these components may provide is in line with what the Compensation Committee believes is appropriate. Reflecting its generally subjective approach to making NEO compensation and benefit determinations, the Compensation Committee does not follow a set formula or set a specific allocation for any one component within the total amount of a NEO s overall compensation and benefits.

Consistent with our focus on aligning our executive compensation and benefit programs with stockholder interests, the Compensation Committee has generally weighted NEO compensation significantly toward variable, performance-based annual and long-term incentives. As a result, each NEO s total compensation can vary from year-to-year and from other NEOs compensation in any year depending on individual performance and our overall financial and operational results. To reflect the CEO s key role in setting and executing long-term business strategies, the Compensation Committee has awarded the CEO a greater proportion of long-term incentives and greater overall compensation compared to the other NEOs.

Base Salaries. Base salary is a fixed element of compensation for our CEO and our other NEOs. The Compensation Committee annually reviews and may approve NEO base salary adjustments based on a number of factors, including each NEO s experience and specific responsibilities; individual performance and expectations; our current and expected financial and operational results; equity of salary relative to our executives who are at the same internal management level, but who are not NEOs; market rates to ensure competitiveness; our general budgetary guidelines for base salary increases as set by the Compensation Committee; and our overall financial and operational results. Based on its subjective weighing of these considerations, the Compensation Committee maintained our CEO s base salary for 2008 at $1 million, the minimum set in his Employment Agreement, and approved annual base salary increases in 2008 for our other NEOs of between two and four percent. The Compensation Committee believes these increases for our other NEOs appropriately balanced the need to maintain market-competitive pay levels to promote retention with our financial and operational performance and current business conditions.

Annual Incentives. In 2008, each of our NEOs, other than Mr. Cecere, who announced in 2007 that he would retire in 2008, was eligible for an objective performance-based annual incentive based on the level of our pretax income or loss for the year, subject to the discretion of the Compensation Committee to reduce or eliminate the incentive payout. In approving potential annual incentives for our NEOs, which was done at the beginning of 2008, the Compensation Committee sought to balance the need to retain and motivate our NEOs to achieve sound results with the objective of containing overall compensation expense given the business environment. These annual incentives are described below.

Each NEO was eligible to receive a potential annual incentive payout if we generated pretax income or a pretax loss of no more than $300 million for our 2008 fiscal year. If our pretax loss exceeded $300 million, our NEOs were not eligible to receive any annual incentive payout. The pretax income or loss metric was to be determined in accordance with generally accepted accounting principles, excluding impairment charges for inventory, goodwill or deferred tax assets. The Compensation Committee approved these parameters based primarily on our outlook at the beginning of the year. This outlook reflected our expectations of extremely difficult and volatile housing market and general business conditions throughout the year and our corresponding strategic business plans, which contemplated lower overall homes delivered and revenues compared to prior years as a result of repositioning and streamlining our operations through market consolidations, overhead reductions and a product transition initiative. Given this outlook, the Compensation Committee determined that the above pretax income or loss metric was substantially uncertain to be met and would, to the extent achieved, represent a strong performance result for the year.

If we generated pretax income, our CEO was eligible for a maximum potential annual incentive payout of $12.5 million, and each of our other NEOs was eligible for a maximum potential annual incentive payout equal to two times base salary, as follows: Ms Shiba $914,000; Mr. Hollinger $730,000; Mr. Barnard $600,000; and Mr. Masuda $620,000. If we generated a pretax loss of no more than $300 million, our CEO was eligible for a potential annual incentive payout of between $500,000 and $10.5 million, depending on where the specific amount of the loss fell within a defined set of loss and corresponding potential payout ranges. The Compensation Committee believed it appropriate to align potential annual incentive payouts with certain specific loss ranges within the pretax loss parameter to establish a strongly performance-oriented and motivating, yet cost-effective, annual incentive for our CEO. For our other NEOs, if we generated a pretax loss of no more than $300 million, Ms. Shiba was eligible for a

target annual incentive payout equal to the amount of her annual base salary, or $457,000, and each of Messrs. Hollinger, Barnard and Masuda were eligible for a target annual incentive payout equal to 125% of his annual base salary, or $456,250, $375,000

and $387,500, respectively. The target annual incentive payouts set for the other NEOs matched the annual base salary multiples the Compensation Committee approved for annual incentives at the NEOs respective internal management level. The Compensation Committee set the target salary multiple for Senior Vice Presidents (such as Messrs. Hollinger, Barnard and Masuda) above the target salary multiple set for our Executive Vice President (*i.e.*, Ms. Shiba) to more evenly balance the target annual incentive payouts between those management levels given that our Executive Vice President is paid a higher annual base salary. The Compensation Committee believes the relatively higher potential payouts and more discrete potential payout ranges that it set for our CEO s annual incentive compared to the annual incentives it approved for our other NEOs appropriately reflect Mr. Mezger s unique and critical role in setting and directly overseeing the implementation of our overall operating strategy and significant related strategic initiatives, his broader responsibilities for driving our overall financial and operational performance, and his wide-ranging internal and external duties across all areas of our business.

The Compensation Committee believes the annual incentive parameters and corresponding potential payouts it approved for 2008 struck the appropriate balance between the objectives described above. The Compensation Committee also believes the approach to the 2008 annual incentives helped to: foster internal pay equity among similarly-situated executives, as the same salary multiples were applied within the same management level; set appropriate compensation expectations given the present business environment; and promote a performance-based orientation to annual incentives.

In addition to approving annual incentive parameters and corresponding potential payouts, the Compensation Committee identified for each NEO a mix of quantitative and qualitative financial and/or operational individual performance objectives related to each NEO s specific role and position responsibilities. Mr. Mezger s individual performance objectives focused primarily on achieving our liquidity and balance sheet goals for the year, providing leadership and oversight in the development and execution of our strategic initiatives to meet housing market conditions, which are described above under the heading Compensation in Context: Fiscal Year 2008, and implementing top management recruitment and development strategies. Ms. Shiba s individual performance objectives focused primarily on providing leadership and oversight of our corporate governance, ethics and compliance standards and policies, minimizing our litigation exposure and successfully resolving material litigation. Mr. Hollinger s individual performance objectives focused primarily on achieving our liquidity and balance sheet goals for the year and providing leadership and oversight of our accounting and financial reporting processes. Mr. Barnard s individual performance objectives focused primarily on improving margins and driving the implementation of our strategic initiatives. Mr. Masuda s individual performance objectives focused primarily on achieving our liquidity and balance sheet goals for the year and providing leadership and oversight of our joint venture investments and investor relationships.

The Compensation Committee used these individual performance objectives in deciding whether and to what degree it would apply downward discretion to the annual incentive payouts. It evaluated performance objectives tied to a specific financial or other quantitative or quantifiable result on an objective basis, and evaluated qualitative performance objectives on a subjective basis. It also considered the CEO s evaluation of the other NEOs achievement of their individual performance objectives and the factors described above under the heading General Overview. In determining the annual incentive payouts to the NEOs, however, no specific weighting or formulas were applied to the individual performance objectives or the other factors considered. Rather, as discussed below, the Compensation Committee used its own judgment, taking into account the individual performance objectives and other factors, to determine the final annual incentive payouts.

Based on its terms, as described above, the objective pretax income or loss metric for the NEO annual incentives was determined to be a loss of $141 million. Accordingly, the NEOs were eligible for annual incentives in the following amounts: Mr. Mezger $6.5 million; Ms. Shiba $457,000; Mr. Hollinger $456,250; Mr. Barnard $375,000; and Mr. Masuda $387,500. The Compensation Committee also found that each NEO delivered strong performance with

respect to their individual objectives in a challenging business environment. Given our overall financial results for 2008 and business conditions, however, the Compensation Committee in its discretion reduced the annual incentive payouts to most of the NEOs to the following amounts: Mr. Mezger

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$2.75 million; Ms. Shiba $0; Mr. Hollinger $370,000; and Mr. Masuda $250,000. Ms. Shiba s annual incentive payout reflected that she was guaranteed an annual bonus for 2008 of $400,000 when she was hired in 2007. Mr. Barnard received his full annual incentive amount largely because he did not receive any long-term incentives, as discussed further below under the headings Guaranteed and Discretionary Bonuses and Long-Term Incentives.

In determining Mr. Mezger s annual incentive payout for 2008, the Compensation Committee, with the Board s approval, took into account our performance and Mr. Mezger s achievements during the year amid extremely difficult and unstable conditions in the housing market and general economy. In particular, the Compensation Committee determined that Mr. Mezger provided excellent leadership in (a) directing the repositioning of the geographic and asset footprint of our business and the bolstering of our financial and operational ability to capitalize on an eventual housing market recovery when it occurs, while at the same time implementing necessary overhead reductions; (b) implementing a new product transition initiative to meet consumer demand for smaller, more affordable homes; and (c) recruiting key talent and maintaining a strong, focused management team during a period of significant challenge. The Compensation Committee also considered that our balance sheet was strong and liquid, as we achieved positive cash flows throughout 2008 and ended the year with a cash balance of $1.25 billion (including restricted cash), exceeding our expectations, no cash borrowings outstanding under our credit facility, a lower year-over-year operating loss, and lower overall debt levels. While the Compensation Committee believes that Mr. Mezger s performance was outstanding in 2008, in light of our overall financial results for the year and the business environment, it exercised its downward discretion and reduced Mr. Mezger s 2008 annual incentive from a potential $6.5 million to $2.75 million.

Guaranteed and Discretionary Bonuses. As discussed above, Ms. Shiba was awarded her guaranteed 2008 annual bonus of $400,000 in lieu of any annual incentive payout. The Compensation Committee approved a $45,000 discretionary annual bonus for Mr. Barnard to recognize his contributions to our new product transition and organizational repositioning initiatives in 2008 and to provide Mr. Barnard with higher annual compensation in lieu of long-term incentive awards based on current management development planning. As discussed below under the heading Long-Term Incentives, Mr. Barnard did not receive any long-term incentive for our 2009 fiscal year. The Compensation Committee approved a $430,000 discretionary bonus for Mr. Cecere to recognize his contributions and years of service as our chief financial officer.

Long-Term Incentives. We provide long-term incentives to our NEOs that consist primarily of grants of equity-based vehicles settled in cash or stock. Because the value of these incentives is tied to the share price of our common stock, we believe they are performance-based and establish a clear alignment of NEO and stockholder interests. We typically grant long-term incentives in October each year, in conjunction with a regularly-scheduled Compensation Committee meeting, for the following fiscal year. Mr. Cecere did not receive any long-term incentives in October 2007 or October 2008 due to his announced retirement.

As with the annual salaries and annual incentives it approved for 2008, the Compensation Committee determined in October 2008 that our long-term incentives for our 2009 fiscal year should be oriented to emphasize, in a cost-effective manner, the retention of top executive talent. In reaching this determination, the Compensation Committee considered that the retention value of our past long-term incentive awards is very low given the sustained downturn in the homebuilding industry and the general economy. This downturn has caused the price of our common stock to fall significantly below the exercise price of most of our outstanding employee stock options, diminished or eliminated recent payouts under our Unit Performance Program (UPP), which is further described below under the heading Unit Performance Program, and reduced annual incentive payouts. The Compensation Committee believes that these negative results severely undermine our ability to retain management talent critical to our long-term performance, yet are largely beyond our executives control and cannot be attributed to their actions or decisions. To address these circumstances and promote retention while containing compensation expense, the Compensation Committee approved 2009 long-term incentives that would deliver to our NEOs and other recipients, if earned, a level

of total long-term compensation close to, though for NEOs slightly below, the levels provided to them (or similarly-situated individuals) in prior years when UPP performance units were granted in tandem with equity-based awards. As discussed below under the heading Unit Performance Program, grants of UPP performance units are no longer being made. Other objectives the Compensation Committee considered for our 2009 long-term incentives included that they be sustainable over time and varied market conditions; reward recipients for

strong performance in delivering financial and operational results that drive stockholder value creation while reflecting expected position-based contributions and responsibilities; and balance and align stockholder and management interests. These other objectives are reflected in the types and mix of long-term incentives granted and the vesting conditions applied to the grants, as described below.

Based on these considerations and objectives, the Compensation Committee, with input from Semler Brossy and our CEO, granted to our NEOs a combination of SARs and phantom shares that are settled in cash only. The reason for using these vehicles is discussed below under the heading Use of SARs and Phantom Shares, and the specific amounts granted to our CEO and to the other NEOs are shown below under the heading Grants of Plan-Based Awards During Fiscal Year 2008.

For each NEO, the number of long-term incentives granted is based on a total value the Compensation Committee set for the NEO, a 75% allocation of that value to SARs and a 25% allocation of that value to phantom shares, and the closing price of our common stock on the grant date, October 2, 2008. The Compensation Committee approved the 75%/25% allocation between SARs and phantom shares to establish a strong link between the NEOs and stockholders interests in long-term value creation as the value of each SAR increases with increases in the share price of our common stock. At lower management levels, the allocation between SARs and phantom shares was weighted more towards phantom shares (from 50% to 100% of the overall grants to individual recipients) and restricted cash grants to promote retention.

Mr. Mezger s long-term incentive value was set at $3.5 million based on the Compensation Committee s view that it would appropriately compensate and motivate Mr. Mezger to continue to provide effective leadership and strong performance in developing and executing our long-term business strategy during the current housing market downturn, as the Compensation Committee felt he had in 2008 (see discussion above under the heading Annual Incentives with respect to the determination of Mr. Mezger s 2008 annual incentive payout). The Compensation Committee also determined that the value was competitive with the value of long-term incentives granted to peer CEOs, although $1 million lower than the value set for Mr. Mezger in the prior year to contain compensation expense.

For our other NEOs, the Compensation Committee considered a total long-term incentive value set within a range of 150% to 250% of current base salary based on their internal management level. Within this range, the Compensation Committee subjectively approved a dollar value for each NEO based on a number of factors, including the above-described objectives for the 2009 long-term incentives, the NEO s individual current and expected future performance and role, overall potential compensation cost, and the factors described above under the heading General Overview. Based on these considerations, the Compensation Committee approved for each NEO other than our CEO the following total long-term incentive values: Ms. Shiba $700,000; Mr. Hollinger $700,000; and Mr. Masuda $450,000. For the reasons discussed above under the heading Guaranteed and Discretionary Bonuses, Mr. Barnard did not receive any long-term incentives for our 2009 fiscal year.

Use of SARs and Phantom Shares. The Compensation Committee used cash-settled SARs and phantom shares for our NEOs 2009 long-term incentives because of the limited number of shares that were available for grant in October 2008 under our existing stockholder-approved equity compensation plans. The SARs and phantom shares are designed to mirror the attributes of stock options and restricted stock respectively, except that both instruments are settled in cash. Each SAR, if it vests, will provide upon exercise a cash payment equal to the positive difference, if any, between its grant price and the closing price of our common stock on the exercise date, and will expire on the tenth anniversary of its grant date. Each phantom share, if it vests, will provide a cash payment equal to the closing price of our common stock on the applicable vesting date, plus the cumulative value of all cash dividends or other distributions paid in respect of a share of our common stock from and including its grant date through and including the vesting date. Because the Compensation Committee believed it could not set meaningful and sustainable long-term performance targets due to the uncertain outlook for the housing market, the 2009 long-term incentives were granted without a

performance-vesting requirement. Given the importance of motivating and retaining top executive talent in a difficult business environment, and the Compensation Committee s view that the SARs are inherently performance-

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based and performance-motivating incentives that appropriately align the interests of executives and stockholders, the Compensation Committee determined that performance-vesting requirements would not be productive in driving financial and operational results over the performance period for the 2009 long-term incentives.

Unit Performance Program. For several years, our long-term incentives have included performance unit grants under our UPP. Each UPP performance unit provides a payout to a recipient only if specific goals set by the Compensation Committee are achieved at the end of a three-year period with respect to the following two performance metrics: our cumulative diluted earnings per share and the average pretax return on investment of the operations for which the recipient is responsible. If applicable performance goals are achieved, the value of a performance unit at the end of the three-year performance period depends on the degree to which the performance goals are exceeded and the Compensation Committee s weighting of the two performance metrics at the time the performance unit is awarded. Recipients must remain employed with us for the entire three-year period to which a performance unit relates to receive a payout.

In October 2005, the Compensation Committee granted performance units to each of our NEOs (other than Ms. Shiba, who was hired in August 2007) and to other members of our senior management for the fiscal 2006-2008 performance period, which ended on November 30, 2008. The cumulative diluted earnings per share metric determined 75% of the value of these performance units and the average pretax return on investment metric determined the remaining 25%. Based on the results for the performance period, our NEOs did not receive any payouts on these performance units. The Compensation Committee did not approve any new grants of performance units under the UPP in 2007 or 2008, and has decided to suspend the UPP to streamline our overall long-term incentive compensation program.

Benefits. The majority of our health and welfare benefits are made available to all full-time employees, including our NEOs. During 2008, our NEOs also received a supplemental benefit that reimburses them for any out-of-pocket medical, dental and vision expenses that qualify for a tax deduction under IRS guidelines. In addition, our NEOs were provided with certain death benefits and participated in our Deferred Compensation Plan and Retirement Plan, each as described below under the heading Post-Termination Arrangements. These benefits are offered to attract key executive talent and to promote retention. Mr. Mezger participates in a program under which he is credited with a specific number of vacation hours that remains fixed throughout his employment with us, regardless of actual vacation time taken. When his employment with us ends, he is entitled to receive a payout of these vacation hours that is based on his then-current annual base salary. Mr. Cecere was also a participant in this vacation hours program. This program is closed to new participants.

Perquisites. In 2007, we discontinued substantially all perquisites to our NEOs, including automobile allowances, company-paid automobile fuel cards, and reimbursement of expenses for automobile insurance, annual financial planning and tax preparation services, and one-time estate planning services. We no longer own a corporate aircraft, having sold it in 2007. On a few occasions in 2008, family members accompanied NEOs on business trips on a company-chartered aircraft; however, we did not incur any additional incremental cost for this travel. From time to time, we also make available to our employees for their personal use, including our NEOs, tickets to certain sporting events that are purchased as a season subscription for business purposes. We do not incur any additional incremental costs with such use. In connection with Ms. Shiba s hiring and relocation from Cleveland to Los Angeles in August 2007, we agreed to pay for certain travel, temporary living, moving and home closing expenses and to provide her a monthly housing cost differential amount through December 2008. In 2008, Ms. Shiba received $276,703 under this arrangement.

Post-Termination Arrangements

Severance Arrangements. Mr. Mezger s Employment Agreement provides him with certain severance benefits, discussed below under the heading Potential Payments upon Termination of Employment or Change in Control.

Following a review of executive severance policies at peer homebuilding companies and other similarly sized public companies, the Compensation Committee adopted an Executive Severance Plan in 2007 for non-change in control situations. All of our NEOs are currently participants under the plan. The plan provides a specified severance benefit ranging from one to two times salary and bonus depending on a participant s

internal management level, as discussed further below under the heading Potential Payments upon Termination of Employment or Change in Control.

In July 2008, following stockholder approval of an advisory proposal, we adopted a policy under which we will obtain stockholder approval before paying severance benefits to an executive officer under a future severance arrangement in excess of 2.99 times the executive officer s then-current base salary and target bonus. Future severance arrangements do not include severance arrangements existing at the time we adopted the policy or any severance arrangement we assume or acquire unless, in each case, the severance arrangement is changed in a manner that materially increases its severance benefits. We adopted this policy to underscore our intent to continue to remain below the 2.99 times limit in our future severance arrangements.

Other Payments Due Upon Termination of Employment and/or a Change in Control. In addition to the severance arrangements mentioned above, we maintain a Change in Control Severance Plan (CIC Plan) that provides participants with certain severance benefits upon a change in control and accelerated vesting of equity awards and benefits under our Death Benefit Only Plan (if a participant also participates in that plan). All of our NEOs are participants in the CIC Plan. The objectives of the CIC Plan are to enable and encourage our management to focus its attention on obtaining the best possible deal for our stockholders in a change in control scenario and to make objective evaluations of all possible transactions, without being distracted by the possible impact such transactions may have on job security and benefits; to promote management continuity; and to provide income protection in the event of involuntary loss of employment. In addition, in the event we experience a change in control, there is accelerated vesting of any unvested benefits under our Deferred Compensation Plan and our Retirement Plan, each of which is discussed below under the heading Retirement Programs, and certain of our employee benefit plans, including our equity compensation plans. The payments to which our NEOs may be entitled on termination of their employment and/or if we experience a change in control is further discussed below under the heading Potential Payments upon Termination of Employment or Change in Control.

Death Benefits. Our Death Benefit Only Plan, in which Messrs. Mezger and Hollinger participate, provides a death benefit to a participant s designated beneficiary of $500,000 or $1 million (plus an additional gross-up amount sufficient to pay taxes on the benefit and the additional amount). Messrs. Mezger and Hollinger have a death benefit of $1 million. We closed the Death Benefit Only Plan to new participants beginning in 2004, and only term life insurance, with a $750,000 benefit level payable to an executive s designated beneficiaries, has been made available to incoming eligible executives. We maintain this term life insurance benefit for Messrs. Masuda and Barnard and Ms. Shiba. We also maintain a life insurance death benefit for Mr. Mezger of $400,000.

Retirement Programs. Our 401(k) Savings Plan, a qualified defined contribution plan, is the only program we offer to all full-time employees that provides post-employment benefits. Our NEOs and certain other senior executives also participate in an unfunded nonqualified Deferred Compensation Plan, which allows pretax contributions of base salary and annual incentive compensation. We provide a dollar-for-dollar match of Deferred Compensation Plan and 401(k) Savings Plan contributions of up to an aggregate amount of six percent of a participant s base salary. NEO deferrals under the Deferred Compensation Plan are shown below under the heading Non-Qualified Deferred Compensation During Fiscal Year 2008. We offer the Deferred Compensation Plan to give participating executives the ability to defer amounts above the contribution limits applicable to our 401(k) Savings Plan.

We maintain a Retirement Plan for certain executives that has been closed to new participants since 2004. Each of our NEOs, other than Ms. Shiba and Mr. Masuda, participate in the Retirement Plan. The Retirement Plan provides each vested participant with a specific annual dollar amount for 20 years commencing following the later of the participant s reaching age 55; the tenth anniversary of the date the participant commenced his or her participation; or the termination of the participant s employment with us. Mr. Mezger s original annual benefit amount under the Retirement Plan was $450,000. For the other NEO participants, the original annual benefit amount under the Retirement Plan was

$100,000. For each participant, the annual benefit amount is increased by the same annual cost-of-living adjustments that are applied to federal social security benefits, starting with the plan year ending November 30, 2006. Vesting generally requires five years of participation and, once vested, the participant is entitled to his or her full benefit. Details of NEO participation in the Retirement Plan are provided below under the heading Pension Benefits During Fiscal Year 2008.

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Other Material Tax and Accounting Implications of the Executive Compensation Program

Code Section 162(m) generally disallows a tax deduction for compensation over $1 million paid to our highest paid executives unless it is qualifying performance-based compensation. We generally design compensation plans in order to maintain federal tax deductibility for executive compensation under Section 162(m), and the Compensation Committee considers the potential Section 162(m) impact when approving the compensation paid to our NEOs. The Compensation Committee recognizes the need to balance tax deductibility benefits with the need to provide effective compensation packages that enhance enterprise and stockholder value creation, however, and will approve compensation that may not be deductible under Section 162(m) where it believes it is in our and our stockholders best interests to do so.

Other Compensation Policies

Equity Stock Ownership Policy. We have had an executive stock ownership policy since 1998. It is designed to encourage, and has encouraged, our executives to increase their ownership of our common stock over time and to align their interests with our stockholders interests. In February 2008, the Compensation Committee amended the policy, as described below.

The policy identifies specific levels of stock ownership that designated executives are expected to achieve. The targeted stock ownership levels for our NEOs range from 20,000 to 150,000 shares, depending on position. Executives subject to the policy have five years to achieve these ownership levels and must make meaningful progress every year towards the achievement of these ownership levels. Survey data and multiples of average base salaries per level were used to determine the ownership expected for each position. Share ownership may include shares owned outright by a designated executive, shares owned indirectly through our 401(k) Savings Plan and 60% of unvested restricted stock grants or phantom share rights. Phantom share rights are included so that executives subject to the policy would not be penalized for the limited number of shares that were available for grant under our existing stockholder-approved equity compensation plans at the time the policy was amended. It is assumed that executives will use the cash proceeds they receive from the vesting of phantom shares to increase their ownership of our common stock. Once required ownership levels are achieved, they must be maintained throughout the executive s employment. Our policy provides both financial incentives to achieve ownership requirements as well as material consequences for non-compliance. The Compensation Committee may, from time to time, reevaluate and revise the ownership requirements to account for material changes in stock price. Our NEOs are currently in compliance with the policy.

Equity-Based Award Grant Policy. In February 2007, the Compensation Committee adopted a policy that is designed to enhance the process by which we grant equity-based awards, including stock options, SARs, phantom shares and restricted stock, by governing the timing of equity-based awards and establishing certain internal controls over the grant of such awards, as described below.

The policy requires that the Compensation Committee (or the Board) approve all grants of equity-based awards, and their terms. The policy does not permit any delegation of granting authority to our management. The grant date of any equity-based award will be the date on which the Compensation Committee met to approve the grant unless a written resolution sets a later date. The exercise price of any stock option award will not be less than the closing price of our common stock on the New York Stock Exchange on the grant date. All equity-based award grants made in 2008 were made in compliance with the policy and were approved at a regularly-scheduled Compensation Committee meeting in October 2008, as discussed above under the heading Long-Term Incentives.

Recovery of Compensation. Under his Employment Agreement, our CEO is required to repay certain bonus and incentive- or equity-based compensation he receives if we are required to restate our financial statements as a result of his misconduct, consistent with Section 304 of the Sarbanes-Oxley Act of 2002.

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Summary Compensation Table

ipal	Fiscal Year	Salary ($)	Bonus ($)(a)	Stock Awards ($)(b)	Option Awards ($)(b)	Non-Equity Incentive Plan Compensation ($)(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(d)	All Other Compensation ($)(e)
r *ief*	2008	$ 1,000,000	$ 0	$ 1,069,341	$ 4,593,443	$ 2,750,000	$ 141,666	$ 70,482
'	2007	1,000,000	6,000,000	4,181,624	3,743,258	97,500	388,632	972,604
	2008	456,417	400,000	41,580	41,832	0	0	310,357
al								
ary								
nger* *ident*	2008	363,750	0	106,947	58,853	370,000	25,877	29,784
ting	2007	347,083	350,000	123,273	107,703	483,000	83,116	121,111
	2008	299,168	45,000	93,076	31,518	375,000	13,716	29,582
ident,	2007	289,168	0	98,662	96,478	600,000	79,716	95,069
ident	2008	308,958	0	81,186	41,372	250,000	0	20,932
	2007	296,771	100,000	78,837	85,238	355,500	0	96,459
	2008	600,001	430,000	(5,008)	17,194	0	31,481	24,639
e*	2007	595,834	0	376,181	90,560	438,500	86,362	114,295

(a) *Bonus*: These amounts are guaranteed or discretionary bonuses. The bonuses paid in 2008 to Ms. Shiba and to Messrs. Barnard and Cecere are discussed above under the heading Guaranteed and Discretionary Bonuses.

(b) *Stock Awards and Option Awards*: These amounts are the aggregate compensation expense we recognized in our 2008 fiscal year for Stock Awards (shares of restricted stock and phantom shares) and Option Awards (stock options and SARs) granted to our NEOs in 2008 and in prior years, computed in accordance with 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 NEOs who appeared in the Summary Compensation Table for that year. We account for shares of restricted stock as equity awards for purposes of SFAS No. 123(R), and the related compensation expense was based on our amortization of their grant-date fair value. The grant-date fair value is equal to the closing price of our common stock on the grant date, except for the performance shares granted to Mr. Mezger in July 2007, for which we use a Monte Carlo simulation model to estimate the grant-date fair value. We account for the phantom shares 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 Use of SARs and Phantom Shares, and the related compensation expense was calculated based on the price of our common stock on November 30, 2008, which was $11.63. We account for stock options as equity awards for purposes of SFAS No. 123(R), and the related compensation expense was based on our amortization of their grant-date fair value. Information used in determining these amounts can be found in Note 15 of the Notes to Consolidated Financial Statements contained in our Annual Report. We did not grant any stock options in 2008. We account for SARs 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 Use of SARs and Phantom Shares, and the related compensation expense was calculated using the Black-Scholes option-pricing model with the following assumptions as of November 30, 2008 and 2007, respectively: a risk-free interest rate of 1.2% to 1.6% (depending on when the specific SAR was granted) and 3.1%; an expected volatility factor for the market price of our common stock of 56.7% and 43.9%; a dividend yield of 2.2% and 4.8%; and an expected life of 2.9 to 4.1 years and 3.7 to 3.9 years (depending on when the specific SAR was granted).

(c) *Non-Equity Incentive Plan Compensation*: These amounts are the annual incentive compensation the respective NEOs earned based on achieving fiscal year performance goals. Mr. Cecere did not receive non-equity incentive plan compensation due to his previously announced retirement.

(d) *Change in Pension Value and Nonqualified Deferred Compensation Earnings*: These amounts are the change in present value of accumulated benefits provided under our Retirement Plan. We do not provide above-market or preferential earnings under our Deferred Compensation Plan.

(e) *All Other Compensation*: The amounts shown consist of the following items:

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Matching 401(k) Savings Plan and Supplemental Deferred Compensation Plan Contributions: We provide a dollar-for-dollar match of Deferred Compensation Plan and 401(k) Savings Plan contributions of up to an aggregate amount of six percent of a participant s base salary. The respective aggregate 2008 and 2007 fiscal year matching contributions we made to each NEO (other than Ms. Shiba) were as follows: Mr. Mezger $58,383 and $57,125; Mr. Hollinger $21,813 and $20,825; Mr. Barnard $17,950 and $17,350; Mr. Masuda $9,300 and $9,550; and Mr. Cecere $13,500 and $13,500. The aggregate 2008 fiscal year matching contribution we made to Ms. Shiba was $25,190.

Premium Payments: We paid premiums on supplemental medical expense reimbursement plans and life insurance policies for the benefit of participating executives. These plans and policies are described above under the heading Benefits. The respective aggregate premiums we paid in our 2008 and 2007 fiscal years for each NEO (other than Ms. Shiba) for these plans and policies were as follows: Mr. Mezger $12,099 and $9,043; Mr. Hollinger $7,971 and $5,781; Mr. Barnard $11,632 and $8,552; Mr. Masuda $11,632 and $8,552; and Mr. Cecere $11,139 and $8,083. The aggregate premium we paid in our 2008 fiscal year for Ms. Shiba was $8,464.

Relocation Assistance: In connection with Ms. Shiba s hiring and relocation from Cleveland to Los Angeles in August 2007, we agreed to pay for certain travel, temporary living, moving and home closing expenses and to provide her with a monthly housing cost differential amount through December 2008. In 2008, Ms. Shiba received $276,703 under this arrangement.

2007 Fiscal Year Perquisites and Payments: In our 2007 fiscal year, our NEOs (other than Ms. Shiba) received certain perquisites (including automobile allowances, company-paid automobile fuel cards, and reimbursement of expenses for automobile insurance, annual financial planning and tax preparation services, and one-time estate planning services), and certain one-time payments to offset increases in stock option exercise prices following an internal review of our stock option grant practices. We discontinued substantially all such perquisites in July 2007. Accordingly, these items did not apply in our 2008 fiscal year.

Ms. Shiba was not a NEO in our 2007 fiscal year. Accordingly, data for that year has been omitted from the Summary Compensation Table in accordance with SEC guidance.

* Effective October 7, 2008, Mr. Cecere ceased serving as our Executive Vice President and Chief Financial Officer. His employment with us ended on January 15, 2009. Mr. Hollinger has served as our principal financial officer since October 7, 2008.

Grants of Plan-Based Awards During Fiscal Year 2008

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	G D F Val Stoc Op Aw
Grant	Type of	Threshold	Target	Maximum				

	Date(a)	Award	($)	($)	($)	(#)	(#)	($/Sh)	($
ger	1/22/08	Annual Incentive	$ 500,000	(b)	$ 12,500,000				
	10/2/08	SARs					397,818	$ 19.90	$ 2,6
	10/2/08	Phantom Shares				43,970			8
a	2/6/08	Annual Incentive		457,000	914,000				
	10/2/08	SARs					79,564	19.90	5
	10/2/08	Phantom Shares				8,794			1
inger	1/22/08	Annual Incentive		456,250	730,000				
	10/2/08	SARs					79,564	19.90	5
	10/2/08	Phantom Shares				8,794			1
ard	1/22/08	Annual Incentive		375,000	600,000				
uda	1/22/08	Annual Incentive		387,500	620,000				
	10/2/08	SARs					51,148	19.90	3
	10/2/08	Phantom Shares				5,654			1

(a) *Grant Date*: The grant date for each award is the date the Compensation Committee approved the award. The exercise price for each award is equal to the closing price of our common stock on the date of grant. We did not grant Mr. Cecere any plan-based awards due to his previously announced retirement.

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(b) As described above under the heading Annual Incentives, for Mr. Mezger s 2008 annual incentive, the Compensation Committee set a range of potential payouts between the threshold and maximum amounts shown in the table depending on our pretax income or loss for the year, subject to the discretion of the Compensation Committee to reduce or eliminate the incentive payout. The Compensation Committee did not set any specific amount within the range as a target payout.

(c) *Grant Date Fair Value of Stock and Option Awards*: The grant date fair value for each award is computed in accordance with SFAS No. 123(R).

Outstanding Equity Awards at Fiscal Year-End 2008

		Option Awards				Stock Awards			
	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)*	Number of Securities Underlying Unexercised Options Unexercisable (#)(a)*	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)*	Market Value of Shares or Units of Stock That Have Not Vested ($)(b)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(c)*	Ec Inc P Aw Mar Pa V Une Sh U or (Ri T Hav Ve ($
ger	10/30/01	431,122		$ 13.95	10/30/16				
	10/30/01	68,878		13.95	10/30/16				
	2/13/02	102,090		20.07	2/13/17				
	5/8/02	44,516		25.63	5/8/17				
	10/7/02	400,000		21.51	10/7/17				
	10/24/03	74,667		33.24(e)	10/24/18				
	10/24/03	149,333		34.05(e)	10/24/18				
	10/22/04	80,750		40.90	10/22/19				
	10/22/04	119,250		40.90	10/22/19				
	10/18/05	75,000		63.77	10/18/15				
	1/13/06					80,343	$ 934,389		
	7/12/07	108,350	216,700	36.19	11/30/16(f)				

	7/12/07	108,350	216,700	36.19	7/12/17				
	7/12/07				7/12/17			54,000	$ 6
	7/12/07					55,264	642,720		
	10/4/07	45,834	91,666	28.10	10/4/17				
	10/4/07	137,500	275,000	28.10	10/4/17				
	10/2/08		397,818	19.90	10/2/18				
	10/2/08					43,970	511,371		
ba	10/4/07	12,295	24,590	$ 28.10	10/4/17				
	10/4/07					10,677	$ 124,174		
	10/2/08		79,564	19.90	10/2/18				
	10/2/08					8,794	102,274		
linger	7/1/02	58,058		$ 26.29	7/1/17				
	10/7/02	60,000		21.51	10/7/17				
	10/24/03	9,334		33.24(e)	10/24/18				
	10/24/03	18,666		34.05(e)	10/24/18				
	10/22/04	24,000		40.90	10/22/19				
	10/18/05	6,000		63.77	10/18/15				
	7/12/07	8,554	17,108	36.19	7/12/17				
	7/12/07					9,327	$ 108,473		
	10/4/07	12,295	24,590	28.10	10/4/17				
	10/4/07					10,677	124,174		
	10/2/08		79,564	19.90	10/2/18				
	10/2/08					8,794	102,274		
hard	3/1/04	30,000		$ 38.24	3/1/19				
	10/22/04	20,000		40.90	10/22/19				

10/18/05	4,000		63.77	10/18/15			
7/12/07	7,129	14,256	36.19	7/12/17			
7/12/07					6,908	$	80,340
10/4/07	12,295	24,590	28.10	10/4/17			
10/4/07					10,677		124,174

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		Option Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)*	Number of Securities Underlying Unexercised Options Unexercisable (#)(a)*	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)*	Market Value of Shares or Units of Stock That Have Not Vested ($)(b)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(c)*	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(d)
Mr. Masuda	9/2/03	10,000		$ 28.71	9/2/18				
	10/24/03	3,334		33.24(e)	10/24/18				
	10/24/03	6,666		34.05(e)	10/24/18				
	10/22/04	20,000		40.90	10/22/19				
	10/18/05	5,000		63.77	10/18/15				
	7/12/07	5,703	11,405	36.19	7/12/17				
	7/12/07					5,527	$ 64,279		
	10/4/07	8,197	16,393	28.10	10/4/17				
	10/4/07					7,118	82,782		
	10/2/08		51,148	19.90	10/2/18				
	10/2/08					5,654	65,756		
Former NEO									
Mr. Cecere	4/23/02	100,000		$ 25.17	4/23/17				
	10/24/03	14,934		33.24(e)	10/24/18				

10/24/03	29,866		34.05(e)	10/24/18		
10/22/04	20,000		40.90	10/22/19		
10/18/05	6,000		63.77	10/18/15		
1/13/06					5,241	$ 60,953
7/12/07	9,980	19,959	36.19	7/12/17		
7/12/07					25,423	295,669

* Stock option awards granted prior to July 12, 2007 are options to purchase our common stock, while stock option awards granted on and after July 12, 2007 are SARs (with the exception of the 650,100 options to purchase our common stock that were granted to Mr. Mezger on that date and the 137,500 options to purchase our common stock that were granted to Mr. Mezger on October 4, 2007). Stock awards granted prior to July 12, 2007 are shares of restricted stock, while stock awards granted on and after July 12, 2007 are phantom shares (with the exception of the 54,000 performance shares granted to Mr. Mezger on that date).

(a) *Number of Securities Underlying Unexercised Options - Unexercisable*: Stock option awards generally vest in equal installment amounts over a three-year period.

(b) *Market Value of Shares That Have Not Vested*: The market value shown is based on the price of our common stock on November 30, 2008, which was $11.63.

(c) *Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested*: The 54,000 shares of restricted stock granted to Mr. Mezger on July 12, 2007 are performance shares that vest based on our total stockholder return over a three-year period ending November 30, 2009, relative to our peer group. Mr. Mezger receives cash payments on these 54,000 shares at the same time and in the same amount as any cash dividend paid on our common stock.

(d) *Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested*: The market value shown is based on the price of our common stock on November 30, 2008, which was $11.63.

(e) As a result of an internal review of our employee stock option grant practices in 2006, we adjusted the exercise prices of certain of our employee stock options in order to comply with Code Section 409A. The exercise price for a certain portion of the stock option grant made on October 24, 2003 was not adjusted.

(f) The expiration date for these stock options is set under Mr. Mezger s Employment Agreement.

Option Exercises and Stock Vested During Fiscal Year 2008

Name	Option Awards Number of Shares Acquired on Exercise (#)	Option Awards Value Realized on Exercise ($)(a)	Stock Awards Number of Shares Acquired on Vesting (#)(b)	Stock Awards Value Realized on Vesting ($)(c)
Mr. Mezger	0	0	76,150	$ 1,228,800
Mr. Hollinger	0	0	2,500	35,925
Mr. Barnard	0	0	2,000	28,740
Mr. Masuda	0	0	2,000	28,740
Former NEO				
Mr. Cecere	80,000	$ 480,200	5,424	85,633

(a) *Value Realized on Exercise*: The value realized for Mr. Cecere is based on the difference between the market price of our common stock at exercise and the exercise price of the options.

(b) *Number of Shares Acquired on Vesting*: Messrs. Mezger and Cecere acquired the shares shown from the vesting of restricted stock awards on January 15, 2008 and October 22, 2008. Messrs. Hollinger, Barnard and Masuda acquired the shares shown from the vesting of restricted stock awards on October 22, 2008. In each case, the amount shown is the gross number of shares that vested. However, each NEO returned shares to us to cover tax withholding obligations, resulting in the NEO holding fewer shares than the number shown.

(c) *Value Realized on Vesting*: These amounts are the gross dollar value realized upon the vesting of each award (*i.e.*, the number of shares times the closing price of our common stock on the vesting date). However, as noted above in footnote (b) to this table, each NEO returned shares to us to cover tax withholding obligations and, therefore, actually realized a lower total value than the amounts shown.

Pension Benefits During Fiscal Year 2008

Name	Plan Name	Number of Years Credited Service (#)(a)	Present Value of Accumulated Benefit ($)(b)	Payments During Last Fiscal Year ($)
Mr. Mezger	Retirement Plan	15	$ 6,690,513	$ 0

Mr. Hollinger	Retirement Plan	21	1,426,473	0
Mr. Barnard	Retirement Plan	14	1,357,007	0
<u>Former NEO</u>				
Mr. Cecere	Retirement Plan	7	1,486,780	0

(a) *Number of Years of Credited Service*: These are as of the valuation date. As of November 30, 2008, all participating NEOs had five years of participation in the Retirement Plan and, therefore, are entitled to their full Retirement Plan benefit, except for Mr. Barnard, who had three years of participation. Mr. Barnard achieved four years of participation on December 1, 2008, entitling him to 80% of his full Retirement Plan benefit if involuntarily terminated. Ms. Shiba and Mr. Masuda are not participants in the plan.

(b) *Present Value of Accumulated Benefit*: These amounts represent the actuarial present value of the total retirement benefit that would be payable to each respective NEO under the Retirement Plan as of November 30, 2008. The following are the key actuarial assumptions and methodology used to calculate this present value: the base benefit for each participant is assumed to begin as of the earliest possible date for each participant (generally the later of age 55 or the 10th anniversary of the commencement of participation); the base benefit is adjusted by past and future cost of living adjustments of 2.3% in the plan year ending November 30,

2008, 5.8% in the plan year ending November 30, 2009, and then an assumed three percent each year thereafter, until the last year benefits are paid for each participant; and the discount rate is 6.5%.

Non-Qualified Deferred Compensation During Fiscal Year 2008

Name	Executive Contributions in Last Fiscal Year ($)(a)	Registrant Contributions in Last Fiscal Year ($)(b)	Aggregate Earnings in Last Fiscal Year ($)(c)	Aggregate Withdrawals/ Distributions ($)(d)	Aggregate Balance at Last Fiscal Year ($)(e)
Mr. Mezger	$ 60,000	$ 44,583	$ (120,078)	$ 0	$ 281,507
Ms. Shiba	19,007	11,390	(11,497)	0	30,030
Mr. Hollinger	193,875	12,396	44,074	993,410	972,191
Mr. Barnard	77,950	11,450	(204,069)	0	276,799

(a) *Executive Contributions in Last Fiscal Year*: These amounts reflect compensation the NEOs earned in our 2008 fiscal year that they have voluntarily deferred and are included in the Salary, Bonus or Non-Equity Incentive Plan Compensation columns to the above Summary Compensation Table. Messrs. Masuda and Cecere did not defer any compensation in our 2008 fiscal year.

(b) *Registrant Contributions in Last Fiscal Year*: These amounts are matching contributions we made to the NEOs voluntary contributions to our Deferred Compensation Plan and are included in the above Summary Compensation Table.

(c) *Aggregate Earnings in Last Fiscal Year*: These amounts do not include any above-market or preferential earnings. Accordingly, these amounts are not reported in the above Summary Compensation Table.

(d) *Aggregate Withdrawals/Distributions*: Mr. Hollinger s distribution was at his election.

(e) *Aggregate Balance at Last Fiscal Year End*: These amounts reflect compensation the NEOs earned in our 2008 fiscal year or in prior years, but which they voluntarily elected to defer receipt, adjusted for changes in the value of their investments and distributions, if any. The NEOs are vested in the full amount of their respective balances, except for Ms. Shiba, who is vested in $18,783 of the total amount shown for her.

Potential Payments upon Termination of Employment or Change in Control

As described further below, the CEO s Employment Agreement and certain of our employee benefit plans, including our equity compensation plans, provide for payments and other benefits to our NEOs if we experience a change in control and/or on their termination of employment with us under certain circumstances. In our 2008 fiscal year, we modified some of our benefit plans to comply with Section 409A of the Code, which in certain cases requires that payments to key employees (such as our NEOs) not commence for six months following a termination of employment.

CEO Employment Agreement. Under his Employment Agreement, if we terminate Mr. Mezger s employment involuntarily, he is entitled to the following benefits, subject to a release of claims against us:

- a lump sum cash payment equal to two times his annual salary plus average annual bonus for the prior three years, with the total payment capped at $6 million;
- under certain circumstances, a pro-rated bonus for the year in which Mr. Mezger s employment terminates;
- health coverage that we pay for up to two years;
- with respect to equity compensation granted to him on or after February 28, 2007, (a) two years of additional service credited to compute equity vesting plus full vesting for any equity issued to him in lieu of cash bonuses, and (b) 36 months to exercise any outstanding equity granted to him on or after February 28, 2007 (subject to the original term duration of each equity grant);

performance shares (other than the performance share grant made in 2007) paid as if the performance period closed on the termination date if the performance period would otherwise close in the next 24 months; and

payment of his performance share grant made in 2007.

Outstanding equity awards granted to Mr. Mezger before the effective date of the Employment Agreement are governed by their respective terms and conditions with respect to his termination of employment.

The following benefits are payable to Mr. Mezger in the case of a change in control:

full vesting of unvested equity granted to him on or after February 28, 2007, with earlier equity awards governed by their respective terms and conditions;

performance shares paid as earned with the applicable performance period closing as of the date of the change in control;

full vesting and lump sum cash payment of deferred compensation, retirement or other employee benefits per the relevant arrangements, provided that lump sum payments subject to Code Section 409A are permitted only as provided by the specific terms of those arrangements;

if his employment is involuntarily terminated in connection with a change in control (generally, during the period starting three months before and ending twelve months after a change in control), payment of the same severance as provided above, except the applicable multiple is three times his annual salary and average bonus rather than two times and the total payment is capped at $12 million; and

additional gross-up payment to compensate for any excise taxes under Code Section 280G (Section 280G).

Mr. Mezger is prohibited from soliciting our employees for two years after termination, regardless of the reason for termination, and he may not disparage or defame us.

For these purposes, an involuntary termination under his Employment Agreement is generally our termination of Mr. Mezger s employment without cause or his resigning for good reason. Mr. Mezger s termination of employment for any reason during the thirteen month period following a change in control will be treated as an involuntary termination, as will our election not to extend the term of the Employment Agreement to beyond Mr. Mezger s normal retirement date.

Cause is generally defined in the Employment Agreement as a felony conviction materially harming us; willful failure to follow reasonable Board directions; material breach of the Employment Agreement; acts of fraud or dishonesty or misappropriation intended to result in substantial personal enrichment at our expense; and willful misconduct likely to materially damage our financial position or reputation. The Employment Agreement provides Mr. Mezger with a 30-day notice/cure period and gives him an opportunity to present his case to the full Board with respect to a possible for-cause termination of his employment. Good reason under the Employment Agreement includes a forced relocation of more than 50 miles; any reduction in Mr. Mezger s base pay or his annual bonus opportunity that causes these pay components to become materially uncompetitive; any material diminution of Mr. Mezger s duties or responsibilities; our material breach of the Employment Agreement; or the failure of a successor to assume the Employment Agreement.

Change in control is defined under the Employment Agreement to include reorganizations in which our controlling shareholders, if any, no longer hold a majority of our voting stock, or a sale of substantially all of our assets with substantially the same effect; a change in the majority of the Board without approval of the incumbent directors; and any transaction in which a third party becomes the beneficial owner of 35% or more of our total voting power.

Executive Severance Plan. Under our Executive Severance Plan, no severance will be payable to a NEO or other participant if he or she voluntarily terminates employment or his or her employment is terminated by us with cause. If the employment of a NEO or other participant is unilaterally terminated by us without cause and the participant has been employed by us on a full-time basis for at least one year prior to such termination, the plan provides a cash severance payment equal to a multiple of base salary and average bonus, as discussed below.

For Ms. Shiba, the severance amount is equal to two times the sum of base salary and average bonus. For Messrs. Hollinger, Barnard and Masuda, the severance amount is equal to one and a half times the sum of base salary and average bonus. With respect to other current participants, the severance amount is equal to one times base salary and average bonus. The severance amount is reduced by any other severance payments that a participant is entitled to receive from us.

If a participant is entitled to severance under the plan, the applicable base salary will be the participant s annual base salary in effect at the time of the termination of his or her employment, and the average bonus will be the lesser of (a) the average of the annual cash bonuses, if any, paid to the participant for the three most recent completed fiscal years prior to the termination of the participant s employment (or such shorter time as the participant has been employed by us), and (b) (i) three times base salary for participants entitled to a severance of two times base salary and average bonus, (ii) two and a half times base salary for participants entitled to a severance of one and a half times base salary and average bonus, and (iii) two times base salary for participants entitled to a severance of one times base salary and average bonus. Participants entitled to a severance under the plan are also entitled to a continuation of health benefits that we will pay for a period of years equal to their particular severance multiple.

Cause is defined under the plan as the commission by a participant of any of the following: (a) serious violation or deliberate disregard of our policies, including our ethics policy; (b) gross dereliction in the performance of job duties and responsibilities; (c) material misappropriation of our property; (d) commission of any act of fraud, bad faith, dishonesty or disloyalty; (e) material breach of non-solicitation, non-disparagement, confidentiality and cooperation covenants contained in the plan; (f) an act (or failure to act) of egregious misconduct involving serious moral turpitude; or (g) an act or omission that is determined to prejudice our best interests significantly. All benefits under the plan are subject to execution of a release and non-solicitation, non-disparagement and confidentiality obligations.

Change in Control Severance Plan. The CIC Plan provides specified benefits to designated participants, which are limited to our top management. All of our NEOs were participants in the CIC Plan as of the end of our 2008 fiscal year. Mr. Mezger s Employment Agreement limits the payments and benefits that he might be entitled to under the CIC Plan. Accordingly, he is entitled only to CIC Plan benefits that do not duplicate benefits provided under his Employment Agreement if there is a change in control, and the total severance payment benefit that he may be entitled to under the CIC Plan is capped at $12 million.

A participant in the CIC Plan is either a Group A or a Group B Participant. Ms. Shiba and Messrs. Mezger, Hollinger, and Barnard are Group A Participants, and Mr. Masuda and other senior executives are Group B Participants. If we experience a change in control, a Group A Participant is entitled to the following benefits, subject to execution of a standard release:

- if in the 18 month period following the change in control the participant s employment is terminated other than for cause or disability, or the participant terminates his or her employment for good reason, a severance benefit equal to two times the sum of the participant s average base salary and average actual annual cash bonus for the three fiscal years prior to the year in which the change in control occurs;

- accelerated vesting of any options and the lapse of any restricted period with respect to any restricted stock or other equity awards awarded to the participant;

- full vesting in any benefits under our Death Benefit Only Plan (which is described below under the heading Other Change in Control and Employment Termination Provisions) if the participant also participates in that plan; and

an additional gross-up payment to compensate for any Section 280G excise taxes imposed on payments under the CIC Plan or on payments under any other plan.

A Group B Participant is entitled to the same benefits as a Group A Participant, except that the severance payment is equal to one times the sum of the participant s average base salary and average actual annual bonus and no Section 280G gross-up payment is payable.

All benefits under the plan are subject to execution of a release and non-solicitation of our employees for one year.

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A change in control is generally defined under the CIC Plan to include any change in ownership, change in effective control or a change in the ownership of a substantial portion of assets, in each case relating to us and consistent with the definition of such event under Treasury Department regulations issued under Code Section 409A.

The CIC Plan defines cause to include (a) acts of fraud or misappropriation intended to result in substantial personal enrichment at our expense and (b) willful and deliberate violations of a participant s obligations to us which result in material injury to us. Good reason is defined under the CIC Plan to include materially inconsistent changes in a participant s duties and responsibilities as they were prior to the change in control; any reduction in the participant s salary or aggregate incentive compensation opportunities; any required relocation of more than 50 miles; a material increase in a participant s business travel obligations; or a successor s failure to assume the CIC Plan.

Other Change in Control and Employment Termination Provisions. The individual award agreements governing outstanding unvested stock options and SARs provide for accelerated vesting upon a change of control and upon retirement, as defined under the agreements. The individual award agreements governing outstanding restricted stock awards and phantom shares provide for accelerated vesting upon a change of control, as defined under the agreements. The provisions governing the payment of performance shares granted to our CEO are described above under the heading CEO Employment Agreement.

In addition, different provisions govern the length of time a participant has to exercise a stock option or SAR after termination of his or her employment, depending upon the reason for termination and the particular agreement. For example, in the case of a termination of employment for cause, the time to exercise may be limited to five days. In the case of a retirement, the participant may have until the end of a stock option s or SAR s original term in which to exercise.

Our Deferred Compensation Plan and Retirement Plan provide for full vesting of benefits for participants in the event of a change in control, as that term is defined under the plans. The Retirement Plan further provides that, if an advance election has been made, a participant may immediately receive the actuarial value (as specified under the plan) of his or her vested plan benefits in the event of a change in control. The Retirement Plan also provides for the vesting of the full Retirement Plan benefit in the event of death or disability, and 80% of the full benefit in the event a participant with four years of participation is involuntarily terminated.

In the event of a change in control, as defined in the plan, our Death Benefit Only Plan provides for (a) distribution of an insurance contract to a participant sufficient to pay the death benefit (if the participant dies any time before age 100) and (b) an additional gross-up amount sufficient to pay taxes caused by the distribution of the insurance contract and the additional amount. We also maintain term life insurance policies that pay benefits to the designated beneficiaries of certain of our NEOs upon their deaths as described above under the heading Death Benefits.

Over-Cap Equity-Based Awards. In prior years, our annual incentive arrangements with certain senior executives limited the amount of annual incentive payouts they could receive in cash and required that they receive amounts over the specified cap in the form of restricted stock or phantom shares. These equity-based awards were granted on the date the cash portion of the annual incentive was paid, and they vest on the earlier of the third anniversary of the grant date and the recipient s termination of employment, other than a voluntary termination or a termination for cause. At November 30, 2008, Messrs. Mezger, Hollinger and Cecere held over-cap restricted stock or phantom shares as follows: Mr. Mezger 80,343 shares of restricted stock and 55,264 phantom shares, Mr. Cecere 5,241 shares of restricted stock and 15,751 phantom shares, and Mr. Hollinger 1,037 phantom shares.

Employment Termination Payments to Mr. Cecere. Mr. Cecere s employment with us ended on January 15, 2009. At that time, Mr. Cecere was paid $75,000 in salary earned between November 30, 2008 and January 15, 2009. He also received $46,154 for credited vacation benefits (as described above under the heading Benefits), $4,615 for unused

personal days and a discretionary bonus of $430,000, as discussed above under the heading Guaranteed and Discretionary Bonuses. In addition, Mr. Cecere vested in his 5,241 shares of over-cap restricted stock on January 14, 2009, although, a portion of these shares were returned to us to cover tax withholding obligations, and in his 15,571 over-cap phantom shares, resulting in a payment to him of $195,155 based on the $12.39 closing price of our common stock on January 15, 2009. Mr. Cecere is fully

vested in his Retirement Plan benefit. We did not pay Mr. Cecere any severance when his employment with us ended.

The following tables show payments we would have been required to make under various employment termination and change-in-control scenarios, assuming they occurred on November 30, 2008. Some amounts in the tables and footnotes have been rounded up to the nearest whole number.

nt Payments Mr. Mezger

ents and Benefits upon Termination ntrol	Voluntary Termination	Involuntary Termination for Cause	Involuntary Termination Without Cause/ Termination for Good Reason	Change in Control Without Termination(a)	Change in Control With Termination for Good Reason or Without Cause(a)	Death
	$ 0	$ 0	$6,000,000(b)	$ 0	$ 12,000,000(c)	$ 0
ives						
(d)						
	0	0	0	1,000,000	1,000,000	1,000,000
nvested Equity (e)						
	0	0	934,389	934,389	934,389	934,389
res	0	0	683,286(f)	683,286(f)	683,286(f)	0