



kb home 2000 annual report



lesley  
wants an extra bedroom.

giselle wants a pet giraffe.

it's not just business,  
it's personal.



KB HOME creates highly personalized homes for families at prices they can afford, in selected high-growth markets in the United States. The Company's domestic divisions are located in the following three regions: West Coast—California; Southwest—Arizona, Nevada and New Mexico; and Central—Colorado and Texas. Kaufman & Broad S.A., the Company's majority-owned subsidiary, is one of the largest homebuilders in France and is publicly traded on the Paris Bourse. KB HOME also operates a full-service mortgage company for the convenience of its buyers. The Company offers value as well as a multitude of personal choices to its customers, who are primarily first-time and first move-up buyers. Founded in 1957 as Kaufman and Broad, Inc., KB HOME is a Fortune 500 company listed on the New York Stock Exchange under the ticker symbol "KBH."

## financial highlights

IN THOUSANDS, EXCEPT PER SHARE AND UNIT AMOUNTS	YEARS ENDED NOVEMBER 30,				
	2000	1999	1998	1997	1996
<b>net orders, deliveries and backlog</b>					
(number of homes)					
Net orders	<b>24,275</b>	23,094	16,781	12,489	10,239
Deliveries	<b>22,847</b>	22,460	15,213	11,443	10,249
Unit backlog	<b>10,767</b>	8,777	6,943	4,214	2,839
<b>revenues and income</b>					
Revenues	<b>\$3,930,858</b>	\$3,836,295	\$2,449,362	\$1,878,723	\$1,787,525
Operating income <sup>(1)</sup>	<b>312,441</b>	294,726	170,085	116,259	111,419
Pretax income <sup>(1)(2)</sup>	<b>258,030</b>	245,024	146,567	91,030	75,013
Net income <sup>(1)(2)</sup>	<b>170,330</b>	159,224	95,267	58,230	48,013
Basic earnings per share <sup>(1)(2)</sup>	<b>4.38</b>	3.41	2.41	1.50	1.17
Diluted earnings per share <sup>(1)(2)</sup>	<b>4.25</b>	3.33	2.32	1.45	1.15
<b>assets, debt and equity</b>					
Total assets	<b>\$2,828,921</b>	\$2,664,235	\$1,860,204	\$1,418,991	\$1,243,494
Mortgages and notes payable	<b>1,373,274</b>	1,191,090	769,259	697,697	577,585
Mandatorily redeemable preferred securities	<b>189,750</b>	189,750	189,750	—	—
Stockholders' equity	<b>654,759</b>	676,583	474,511	383,056	340,350
Return on average stockholders' equity	<b>25.6%</b>	25.6%	22.2%	16.1%	12.7%

<sup>1</sup>Excludes impact of a mortgage banking pretax secondary marketing trading loss of \$18.2 million recorded in the third quarter of 1999 and a \$170.8 million construction pretax noncash charge for impairment of long-lived assets recorded in the second quarter of 1996. For further discussion of the secondary marketing trading loss see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying consolidated financial statements and notes thereto.

<sup>2</sup>Excludes impact of a French IPO gain of \$39.6 million recorded in the first quarter of 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying consolidated financial statements and notes thereto.

very personal...

**fulfilling the dream of homeownership**

is a very personal endeavor. For more than 40 years, kb home has been one of the most respected and best-known companies in homebuilding. Throughout our history, we have taken many innovative steps to offer families the opportunity to purchase the best possible home at the best value in the communities where they want to live. Our company's highest goal is to focus on building the one personal home for each family that has put its trust in us. We recognize that it is not important how many homes we build, but that each home meets the needs and dreams of each and every family.

**kb home**

## a letter to our shareholders



kb home. we've always been about home, and we always will be. After creating more than 325,000 homes for happy and excited new homeowners, we've decided to adopt a new name that more clearly reflects what we do. We create highly personalized homes for families at prices they can afford, in communities where they want to build their lives.

kb home is more recognizable, easier to remember and easier to pronounce. In today's fast-paced digital culture, and in a business that revolves around marketing, companies can't afford to wait for consumers to understand what they offer; it must be immediately clear. Consider this: 46% of the customer traffic in our sales offices sources to signage, and we spend 51% more on our signage company-wide than we do on print advertising. When the consumer is ready to buy a home, where our signs are placed and their ability to attract that consumer are critical elements in the sale.



bruce karatz

Chairman and Chief Executive Officer

Each year, I write to you about the characteristics that set our company apart from others in our industry. One key differentiating factor with KB is our commitment to building our business by listening to our customers. More than one million homebuyers have been surveyed to date, and the results of those surveys directly influence what we offer and where we are located. Now, customer feedback has helped us choose our new name. In a recent survey of people living in KB homes that was conducted by houseCALL, our 24/7 leading-edge customer fulfillment call center, 75% identified their builder as KB HOME or K&B.

So we listened to what our customers have been calling us for years. KB HOME clears up the confusion over what to call us. It was also obvious, from our customers' responses, that we have equity in our initials that has grown over the four-plus decades we have been in business. On the following pages, you'll hear directly from our customers. We like the relationships we enjoy with our homebuyers. We've changed our name; we haven't changed who we are.

Focus on the entry-level and first move-up niche in the market has consistently driven KB's growth over the years. Focus has driven our financial performance,



first-time buyers represent 45% of all  
consumers in the marketplace



which includes a return on shareholders' equity that is one of the highest among our peers. Among the accomplishments that came as a result of our focus in fiscal 2000 are the following:

- Record earnings per share of \$4.25 (excluding a \$.99 per share gain on a French IPO), a 27.6% increase over last year
- Completion of our stock buyback program, with the purchase of a total of 14.5 million shares, or approximately 30% of our total shares outstanding, since 1999
- Backlog up 22.7% to 10,767 units, with a value of \$1.85 billion, 30.3% higher than last year
- A 40-basis point improvement in our housing gross margin
- Return on average shareholders' equity of 25.6%

First-time buyers represent 45% of all consumers in the marketplace. That's an impressive statistic, and particularly attractive if you know how to effectively reach that segment, based on in-depth surveys and data.

At the KB HOME Studios, we take buyers through important and exciting steps in the purchase of their home, from personalization of their new homes by choosing from more than 5,000 items, to competitive mortgage financing. First-time buyers in the U.S. encounter a wide range of median prices for homes, depending upon the geographic market, from a low of \$88,900 in Houston to a high of \$325,000 in San Francisco. Their monthly mortgage payments can range from a low of \$788 in Phoenix to a high of \$1,817 in San Francisco. We have found that if we can offer a prospective customer a mortgage payment equal to his or her tax-adjusted monthly rent, there is

no question which lifestyle is preferred. We think these buyers are less vulnerable to downdrafts from the 'wealth effect' and are less likely to postpone their purchase decisions than purely discretionary, high-end consumers.

One dramatically growing factor in the increase in homeownership is the immigrant population. And no builder serves that sector of the population as well as KB HOME does. The current immigration wave, in which we saw ten million immigrants arrive in the period of 1991 to 2000, is the highest of any decade in U.S. history. These families are now entering the prime homebuying years of their lives. Studies have shown that immigrants usually live and work in the United States for about ten years before they have accumulated enough money for a down payment on a home: it is estimated that immigrants will add 750,000 to 1,000,000 new home purchases in the U.S. market in this decade.

How does all this relate to KB HOME? In three major ways: first, KB HOME is a leader in five of the ten highest immigration metro areas—Los Angeles, San Francisco, Houston, Dallas and San Diego. Second, families of Asian and Hispanic ethnicity represent 36% of our buyers, closely tracking the growth and demographic trends in the marketplace.

Third, immigration and ethnicity relate to a desire among families to live in new housing in old, familiar, close-in neighborhoods. Families with several working members like to live near their jobs, often in multi-generational households. The answer: American CityVista, a joint venture we created with Henry Cisneros, the former president of Univision Communications and former Secretary of the U.S. Department of Housing and Urban Development. We were pleased to welcome Henry to our Board of Directors this past August.

Only 12 weeks after the announcement of our joint venture, at the end of October, we launched Lago Vista, a 600-home community in San Antonio. Lago Vista represents the first new residential development on a major scale on the south side of San Antonio in more than 40 years. Henry brilliantly brought together community leaders, schools, the city council, mayor and local families to make Lago Vista possible. SBC Communications has also pledged to ‘wire’ the community with DSL-ready service, a real tribute to American CityVista’s efforts to bring value and cutting-edge resources to families seeking better lives for their children and for generations to come. American CityVista intends to provide a ‘village within the city’ experience, with new home comforts and technologies, to communities it builds in KB HOME’s footprint cities, soon to also include Los Angeles, Phoenix, Dallas, Las Vegas, Houston and San Diego.

The boom in immigration, coupled with the baby boom and the ‘echo’ boom, indicates long-term demand for housing. And looking at a 40-year chart of single family housing starts, we see a narrowing of the cyclicity in housing, beginning in 1991. The volatile cycles prior to that time were greatly influenced by the erratic mortgage financing policies of savings and loan associations. Today, mortgage availability is far more prevalent, and the advent of adjustable rate mortgages has taken a lot of risk out of the market. I guess what I’m saying is that I think we can look forward to steadier times ahead in the housing industry.



the boom in immigration, coupled with the  
baby boom and the ‘echo’ boom, indicates long-term  
demand for housing

Whatever happens with the U.S. economy this year, we think that steadier industry conditions and a smoothing of our operational performance through KB2000 practices lessen our risks. Pre-sales of homes, evidenced by our low speculative inventory levels (less than two units per community), the adoption of even-flow production by our divisions, centralized scheduling and faster cycle times render predictability to the business. With a large backlog equal to nearly two quarters of deliveries, we have visibility of earnings that is greater than ever before.

We also have greater control over our costs, with an ability to more quickly react to a changing environment. As predicted last year, the Internet has helped us to become more efficient. KBBid.com, our e.KB online system that allows contractors to submit bids easier and faster for various construction jobs, has already saved us significant amounts of money.

Advanced systems make us, and most of the big builders, more professionally-managed and capable of further substantial growth. We've been asked frequently lately, "How big can you guys get?" Well, with professional management and strong operating systems, there is no barrier to eventual annual delivery levels of 50,000 to 60,000 homes. Granted, that reflects further consolidation in the industry, with the possible combination of 'equals.'

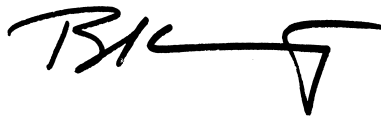


we also have greater control over our costs,  
with an ability to more quickly react to a  
changing environment

Speaking for KB HOME, I think I've mentioned in the past the methods by which we choose to grow—we expand in fast-growing markets where we can become the leaders and effect above-average returns on capital.

From our vantage point today, we think we're in a highly favorable environment for the purchase of a new KB home. Probably the most favorable environment in more than 30 years. We see mortgage rates declining, inflation under control, and household formations on the rise, creating a swelling demand for homeownership. I'm hopeful that the new all-time highs reached by our stock in December indicate that investors are recognizing the inherent values in our industry, and are rewarding us for the performance KB HOME has delivered, as well as the performance we fully intend to deliver in the future.

*With enthusiasm for the new year,*

A handwritten signature in black ink, appearing to read "BK" followed by a stylized flourish.

bruce karatz Chairman and Chief Executive Officer

*February 9, 2001*

how do we provide our  
customers with a new home, custom-  
tailored to fit their dreams?



we ask.

# a front porch

fell in love with the walk-in closet  
*(and chris).*

shelly

chris

fell in love with the front porch  
*(and shelly).*





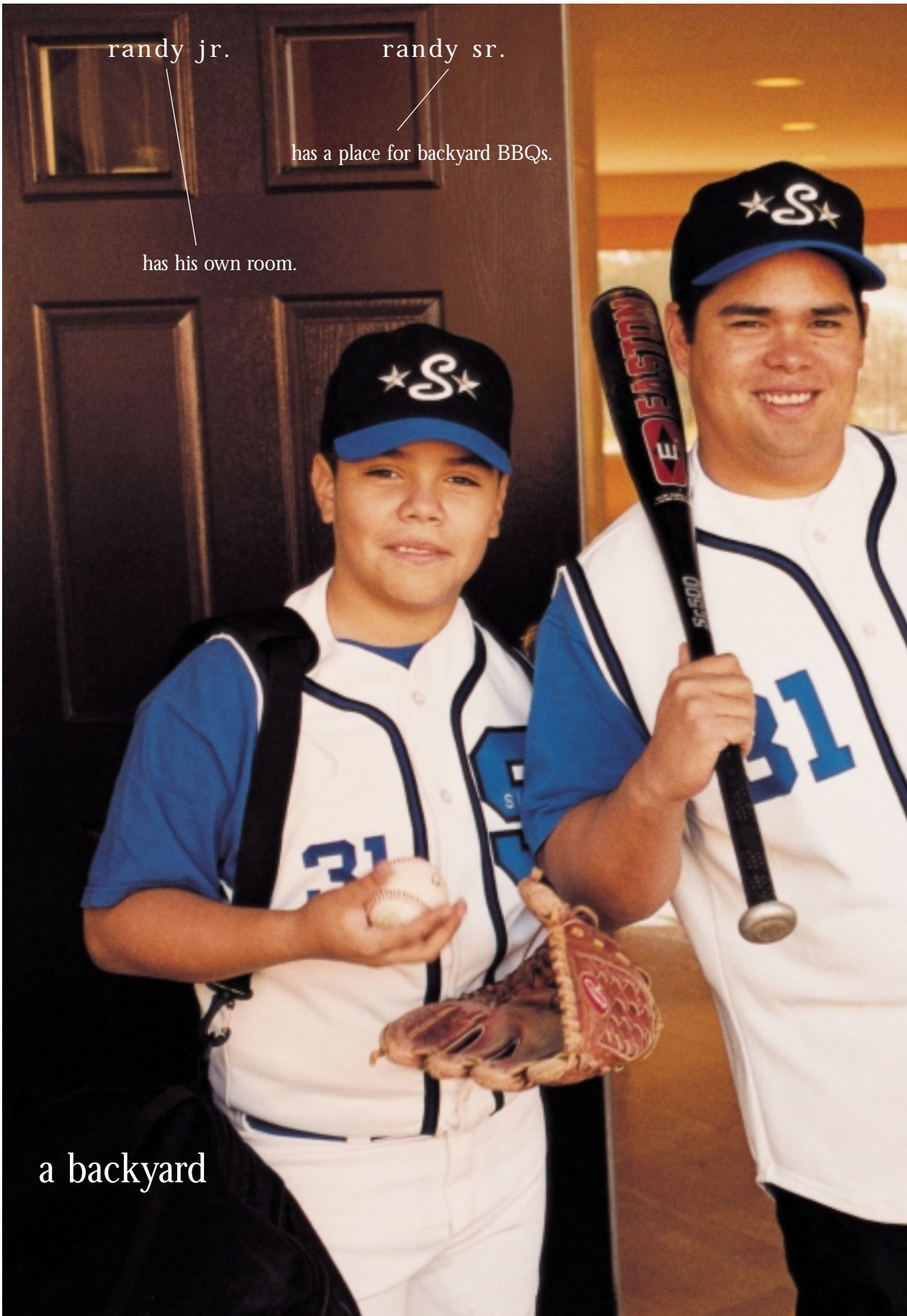
randy jr.

randy sr.

has a place for backyard BBQs.

has his own room.

a backyard





matthew

has a pet lizard  
no one knows about.

chris

has the best batting  
average in the league.







loves having her own room.

latisha

loves having her own room.

tiara

george ——— loves having a family room  
*(with a widescreen TV).*

frieda

loves having a big kitchen  
*(with a dishwasher).*

lots of rooms



a new home





dreamed of owning a home.

dreamed of having more  
room for toys.

mikaela

michael

can do laundry any time  
jamie decides to nap.

martha

jamie

can run from room to room to room  
with no intention of taking a nap.

freedom







a second floor





a gameroom is the perfect place to avoid being hit by paper airplanes.

a second floor landing is the perfect launch pad for paper airplanes.

a plush carpet is the perfect place to land.

jordan

sydney

jared

survey results from more than one million homebuyers and potential homebuyers have directly influenced the types of homes we offer, their features and their locations. kb home's surveys illustrated the fact that homebuyers treasure the ability to personalize their new homes. in 2000, we opened our first dream home studios—now kb home studios—all of which showcase more than 5,000 options for new buyers to customize their homes. one home at a time.



we're listening.

800 .34 .homes

www.kbhome.com

they can then  
browse any of our  
new communities  
for the kb home  
of their dreams.

many kb homeowners  
start by visiting us  
at www.kbhome.com  
or by calling us at  
800 • 34 • homes.

*step 1. go*

*step 2. look*

*step 3. purchase*

# over 5,000 choices

a visit to the kb home studio  
offers new buyers over 5,000  
choices to make their new home  
truly their own.

## finance

our Kaufman and Broad  
Mortgage Company then  
helps them through the  
purchasing process.

## smile, you're home

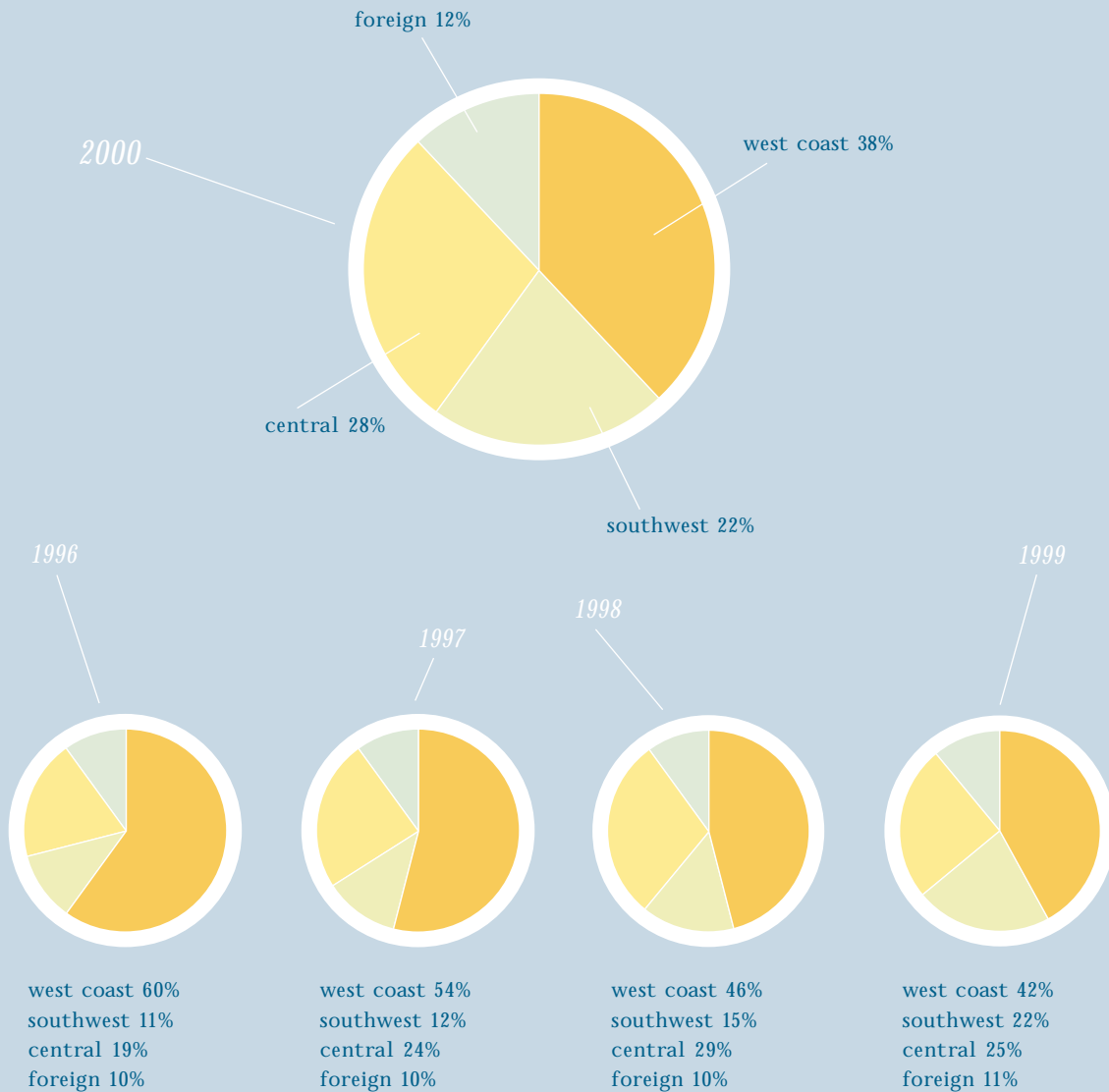
a brand new home that  
is as individual as each of  
our buyers.

*step 4. choose*

*step 5. move*

# \$3,870,488

## construction revenues by region





# 19.7%

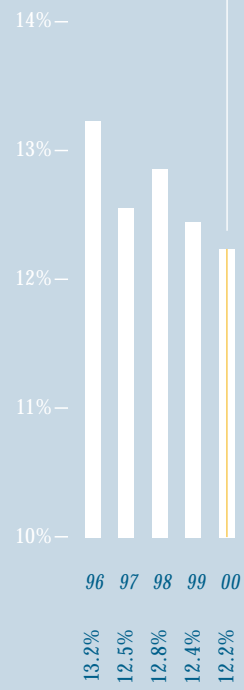
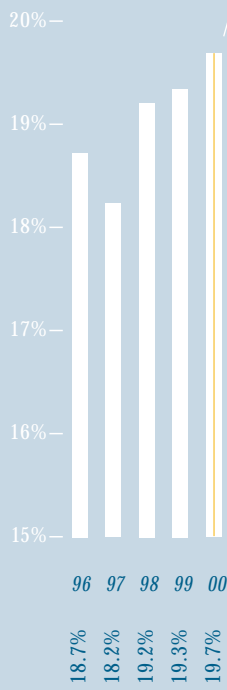
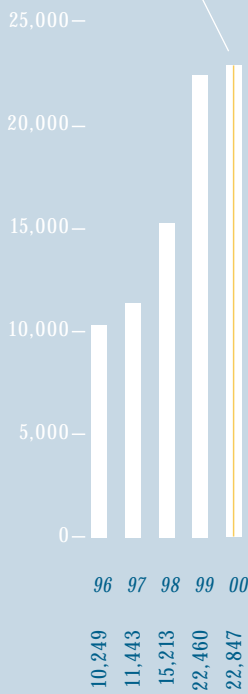
housing gross margin

# 22,847

unit deliveries

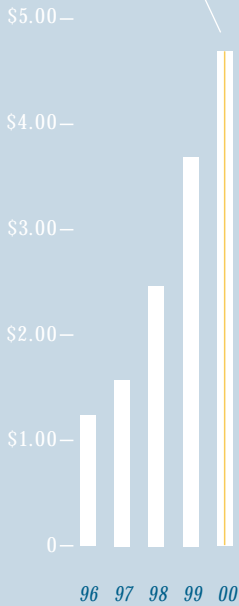
# 12.2%

SG & A



**\$4.69**

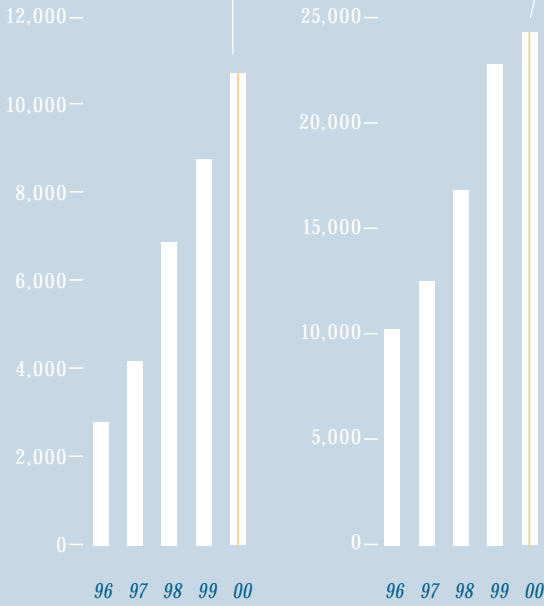
cash EPS



cagr=38.9 %

**24,275**  
unit net orders

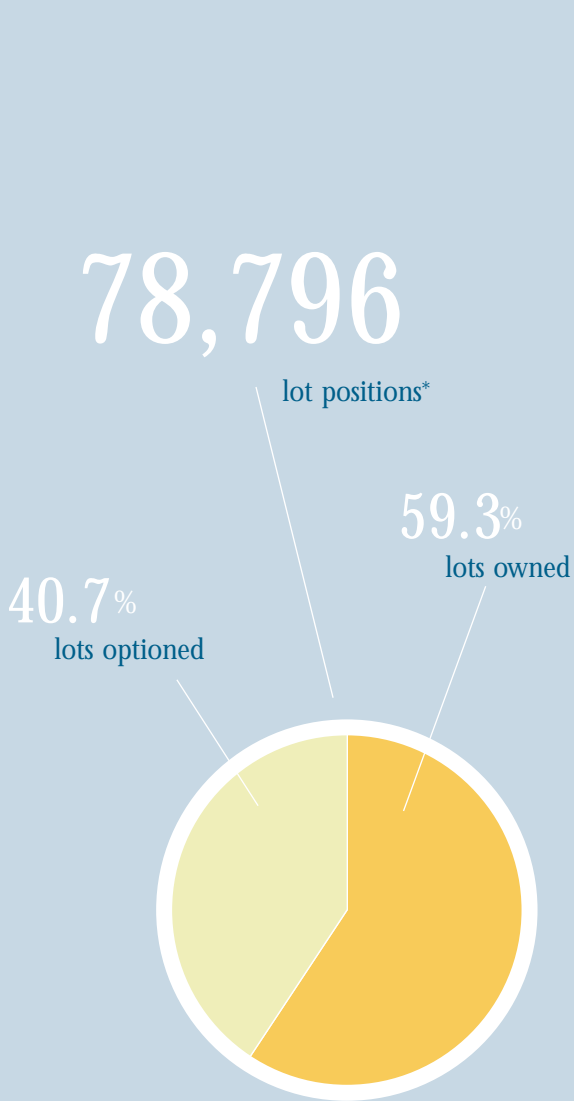
**10,767**  
backlog units\*



cagr=39.6 %

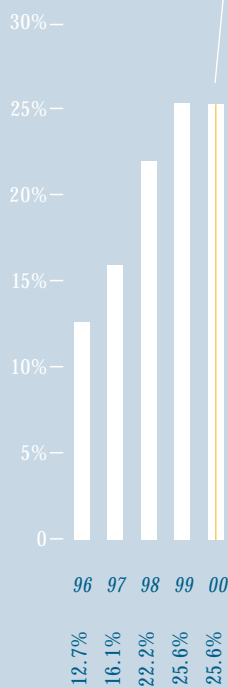
cagr=24.1 %

\*As of 11/30



25.6%

return on average  
stockholders' equity



\*As of 11/30/00

## selected financial information

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	YEARS ENDED NOVEMBER 30.				
	2000	1999	1998	1997	1996
<i>Construction:</i>					
Revenues	<b>\$3,870,488</b>	\$3,772,121	\$2,402,966	\$1,843,614	\$1,754,147
Operating income (loss) <sup>1</sup>	<b>288,609</b>	259,107	148,672	101,751	(72,078)
Total assets	<b>2,361,768</b>	2,214,076	1,542,544	1,133,861	1,000,159
Mortgages and notes payable	<b>987,980</b>	813,424	529,846	496,869	442,629
<i>Mortgage banking:</i>					
Revenues	<b>\$ 60,370</b>	\$ 64,174	\$ 46,396	\$ 35,109	\$ 33,378
Operating income <sup>2</sup>	<b>23,832</b>	17,464	21,413	14,508	12,740
Total assets	<b>467,153</b>	450,159	317,660	285,130	243,335
Notes payable	<b>385,294</b>	377,666	239,413	200,828	134,956
Collateralized mortgage obligations	<b>29,928</b>	36,219	49,264	60,058	68,381
<i>Consolidated:</i>					
Revenues	<b>\$3,930,858</b>	\$3,836,295	\$2,449,362	\$1,878,723	\$1,787,525
Operating income (loss) <sup>1,2</sup>	<b>312,441</b>	276,571	170,085	116,259	(59,338)
Net income (loss) <sup>1,2,3</sup>	<b>209,960</b>	147,469	95,267	58,230	(61,244)
Total assets	<b>2,828,921</b>	2,664,235	1,860,204	1,418,991	1,243,494
Mortgages and notes payable	<b>1,373,274</b>	1,191,090	769,259	697,697	577,585
Collateralized mortgage obligations	<b>29,928</b>	36,219	49,264	60,058	68,381
Mandatorily redeemable preferred securities (Feline Prides)	<b>189,750</b>	189,750	189,750		
Stockholders' equity <sup>1,2,3</sup>	<b>654,759</b>	676,583	474,511	383,056	340,350
<i>Basic earnings (loss) per share<sup>1,2,3</sup></i>	<b>\$ 5.39</b>	\$ 3.16	\$ 2.41	\$ 1.50	\$ (1.80)
<i>Diluted earnings (loss) per share<sup>1,2,3</sup></i>	<b>5.24</b>	3.08	2.32	1.45	(1.80)
<i>Cash dividends per common share</i>	<b>.30</b>	.30	.30	.30	.30

<sup>1</sup> Reflects a \$170.8 million construction pretax noncash charge for impairment of long-lived assets recorded in the second quarter of 1996.

<sup>2</sup> Reflects an \$18.2 million mortgage banking pretax secondary marketing trading loss recorded in the third quarter of 1999.

<sup>3</sup> Reflects a \$39.6 million construction gain on issuance of French subsidiary stock recorded in the first quarter of 2000.

# management's discussion and analysis of financial condition and results of operations

## RESULTS OF OPERATIONS

**Overview** Revenues are primarily generated from the Company's (i) housing operations in the western United States and France and (ii) its domestic mortgage banking operations.

The Company's construction revenues are generated from operating divisions in the following regional groups: "West Coast" – California; "Southwest" – Arizona, Nevada and New Mexico; and "Central" – Colorado and Texas. For several years prior to this report, the Company grouped its domestic operating divisions in two regions: California and "Other U.S." All year-over-year comparisons have been accomplished by restating applicable prior years' results in a manner consistent with the new regional groupings.

The Company reported record earnings for the third consecutive year in 2000. Net income for the year ended November 30, 2000 totaled \$210.0 million and diluted earnings per share reached \$5.24, including a one-time gain on the issuance of stock by the Company's French subsidiary in an initial public offering in February 2000. Excluding this gain, diluted earnings per share were \$4.25, compared to diluted earnings per share of \$3.33 (excluding a secondary marketing trading loss) recorded in 1999. During the 2000 fiscal year, the Company delivered 22,392 homes.

Total Company revenues rose to an all-time high of \$3.93 billion in 2000, up 2.5% from \$3.84 billion in 1999, which had increased 56.6% from revenues of \$2.45 billion in 1998. The increase in 2000 mainly resulted from increases in housing and land sale revenues. The increase in revenues in 1999 compared to 1998 was primarily attributable to higher housing and land sale revenues, as well as increased revenues from mortgage banking operations. Operating results for 1999 included the results of Lewis Homes from its January 1999 acquisition date, as well as the first full year of results from the acquisitions of Houston-based Hallmark Residential Group ("Hallmark") and Phoenix/Tucson-based Estes Homebuilding Co. ("Estes") and the assets of Denver-based PrideMark Homebuilding Group ("PrideMark"), all of which the Company completed in the second quarter of 1998. Operating results for 1999 also reflected the acquisition of the remaining minority interest of General Homes, which occurred on January 4, 1999. The Company had acquired a majority interest in General Homes in August 1998. Included in total Company revenues were mortgage banking revenues of \$60.4 million in 2000, \$64.2 million in 1999 and \$46.4 million in 1998, respectively.

Net income increased \$62.5 million or 42.4% to \$210.0 million, or \$5.24 per diluted share in 2000, both Company records, up from \$147.5 million, or \$3.08 per diluted share in 1999. These results include a one-time gain of \$39.6 million, or \$.99 per diluted share, on the issuance of stock by the Company's French subsidiary in an initial public offering in February 2000 (the "French IPO gain"). Excluding the French IPO gain, diluted earnings per share for 2000 were \$4.25, up 27.6% compared with 1999, excluding the secondary marketing trading loss. The increase in diluted earnings per share in 2000 was principally driven by the combined effect of a higher housing gross margin, lower selling, general and administrative expenses, a lower effective income tax rate and a 16.2% reduction in the average number of diluted shares outstanding due to the Company's share repurchase program. Net income of \$147.5 million, or \$3.08 per diluted share for 1999 was 54.8% higher than the \$95.3 million, or \$2.32 per diluted share recorded in 1998. Net income and diluted earnings per share for 1999 included the impact of a third quarter secondary marketing trading loss, resulting from unauthorized trading by an employee at the Company's mortgage banking subsidiary. The loss totaled \$11.8 million, or \$.25 per diluted share, on an after tax basis. Excluding the impact of the trading loss, net income for 1999 was \$159.2 million and diluted earnings per share were \$3.33. The growth in diluted earnings per share occurred despite the trading loss and despite an increase of 16.6% in the diluted average number of common shares outstanding in 1999, resulting from the Lewis Homes acquisition which closed on January 7, 1999. The increase in diluted earnings per share in 1999 was principally driven by significantly higher unit deliveries, an improved construction gross margin and a reduction in the selling, general and administrative expense ratio.

CONSTRUCTION

**Revenues** Construction revenues rose to \$3.87 billion in 2000 from \$3.77 billion in 1999, which had increased from \$2.40 billion in 1998. The increase in 2000 was primarily due to higher housing and land sale revenues. The improvement in 1999 was mainly the result of increased housing revenues, due, among other things, to the acquisition of Lewis Homes in 1999, the inclusion of a full year's operating results from the operations in Houston, Denver and Phoenix/Tucson acquired during 1998, and higher land sale revenues.

	WEST COAST	SOUTHWEST	CENTRAL	FOREIGN	TOTAL	UNCONSOLIDATED JOINT VENTURES
<i>Unit Deliveries</i>						
<b>2000</b>						
First	<b>1,128</b>	<b>1,264</b>	<b>1,653</b>	<b>520</b>	<b>4,565</b>	<b>123</b>
Second	<b>1,207</b>	<b>1,349</b>	<b>1,884</b>	<b>602</b>	<b>5,042</b>	<b>137</b>
Third	<b>1,444</b>	<b>1,596</b>	<b>1,944</b>	<b>726</b>	<b>5,710</b>	<b>102</b>
Fourth	<b>1,697</b>	<b>1,623</b>	<b>2,631</b>	<b>1,124</b>	<b>7,075</b>	<b>93</b>
Total	<b>5,476</b>	<b>5,832</b>	<b>8,112</b>	<b>2,972</b>	<b>22,392</b>	<b>455</b>
<b>1999</b>						
First	1,199	1,130	1,627	323	4,279	
Second	1,430	1,376	1,845	488	5,139	
Third	1,629	1,590	1,936	948	6,103	
Fourth	2,065	1,705	2,401	730	6,901	38
Total	6,323	5,801	7,809	2,489	22,422	38
<i>Net Orders</i>						
<b>2000</b>						
First	<b>1,341</b>	<b>1,523</b>	<b>1,903</b>	<b>558</b>	<b>5,325</b>	<b>115</b>
Second	<b>2,178</b>	<b>1,875</b>	<b>2,888</b>	<b>896</b>	<b>7,837</b>	<b>121</b>
Third	<b>1,301</b>	<b>1,301</b>	<b>2,191</b>	<b>564</b>	<b>5,357</b>	<b>102</b>
Fourth	<b>1,198</b>	<b>1,337</b>	<b>1,941</b>	<b>836</b>	<b>5,312</b>	<b>106</b>
Total	<b>6,018</b>	<b>6,036</b>	<b>8,923</b>	<b>2,854</b>	<b>23,831</b>	<b>444</b>
<b>1999</b>						
First	1,572	1,284	2,230	535	5,621	
Second	2,104	1,901	2,297	917	7,219	
Third	1,660	1,457	1,720	510	5,347	
Fourth	1,314	1,431	1,477	647	4,869	38
Total	6,650	6,073	7,724	2,609	23,056	38

	WEST COAST	SOUTHWEST	CENTRAL	FOREIGN	TOTAL	UNCONSOLIDATED JOINT VENTURES
<i>Ending Backlog-Units</i>						
2000						
First	2,092	2,366	3,449	1,566	9,473	211
Second	3,063	2,892	4,453	1,860	12,268	195
Third	2,920	2,597	4,700	1,898	12,115	195
Fourth	2,421	2,311	4,010	1,817	10,559	208
1999						
First	1,925	2,208	3,887	1,196	9,216	
Second	2,599	2,733	4,339	1,625	11,296	
Third	2,630	2,600	4,123	1,456	10,809	
Fourth	1,879	2,107	3,199	1,373	8,558	219
<i>Ending Backlog-Value In thousands</i>						
2000						
First	\$495,782	\$349,122	\$438,739	\$249,581	\$1,533,224	\$38,824
Second	755,243	413,692	570,012	315,151	2,054,098	36,660
Third	737,912	377,324	607,767	310,240	2,033,243	35,880
Fourth	643,620	345,609	541,258	272,901	1,803,388	42,224
1999						
First	\$449,993	\$305,339	\$454,944	\$196,028	\$1,406,304	
Second	613,466	389,458	524,065	270,229	1,797,218	
Third	631,823	371,160	511,378	235,544	1,749,905	
Fourth	457,439	299,520	396,962	228,213	1,382,134	\$33,945

Housing revenues totaled a record \$3.77 billion in 2000, \$3.73 billion in 1999 and \$2.38 billion in 1998. In 2000, housing revenues increased 1.0% from 1999 as a result of a 1.1% increase in the average selling price as unit volume remained nearly flat with the prior year. In 1999, housing revenues were up 56.9% from 1998 as a result of a 47.4% increase in unit volume and a 6.5% rise in the average selling price.

Housing revenues from West Coast operations were \$1.41 billion in 2000, down 9.5% from \$1.56 billion in 1999 as a result of a 13.4% decrease in unit deliveries, partially offset by a 4.5% increase in the average selling price. West Coast housing operations generated 42.7% of domestic housing revenues in 2000, down from 46.8% in 1999 and 51.3% in 1998, mainly as a result of the Company's selective land investments in the region and the continued expansion of its Southwest and Central region operations. This marks a consistent trend of diversification of the Company's domestic operations outside of California since 1993. Housing revenues generated from the Company's Southwest region totaled \$846.9 million in 2000, up 2.9% from \$823.2 million in 1999, while the Central region posted housing revenues of \$1.04 billion, up 10.4% from \$945.4 million a year earlier. Both the Southwest and Central regions gained deliveries in 2000 with the Southwest up by 31 units and the Central region up by 303 units when compared to 1999. Housing revenues in the Southwest were up in 1999 from \$351.5 million in 1998, as a result of both increased deliveries and a higher average selling price, partly due to acquisitions. In the Central region, housing revenues in 1999 rose from \$684.3 million in 1998 as a result of expansion in both Colorado and Texas, including the full year impact of acquisitions completed during 1998. Operations in France generated housing revenues of \$470.3 million in 2000, up 16.6% from \$403.4 million in

1999, as a result of higher unit volume, partially offset by a lower average selling price. In 1998, housing revenues from operations in France totaled \$240.0 million.

Company-wide, housing deliveries of 22,392 units in 2000 were virtually flat compared with 22,422 units in 1999 as a 2.6% decrease in U.S. deliveries was partially offset by a 20.4% increase in French deliveries. The decline in domestic deliveries reflected a 13.4% decrease in the West Coast region, partly offset by increases of .5% and 3.9% in the Southwest and Central regions, respectively. West Coast deliveries decreased to 5,476 units in 2000 from 6,323 units in 1999, primarily due to two factors. First, the re-focusing of the Company's West Coast operations, following the Lewis Homes acquisition, in keeping with the KB2000 operational business model resulted in fewer active communities in Northern California in 2000 as compared to 1999. Second, the strength of the Company's Southwest and Central region operations, which generally offer lower risk for less investment in land, has resulted in more stringent criteria guiding the Company's land investment decisions and has caused the Company to be more selective in its land investments in the West Coast region. Southwest operations delivered 5,832 units in 2000, up slightly from 5,801 units in 1999, despite a 4.9% decrease in the average number of active communities operated in this region. In the Central region, deliveries totaled 8,112 units in 2000, up from 7,809 units in 1999 as active communities in the region rose 4.2%. French deliveries increased to 2,967 units in 2000 from 2,465 units in 1999 as a result of expansion of these operations during 2000, partly through acquisitions.

Housing deliveries increased 47.4% to 22,422 units in 1999 from 15,213 units in 1998. This improvement reflected increases in U.S. and French deliveries of 47.0% and 53.2%, respectively. The increase in the number of domestic deliveries, partly due to acquisitions and partly due to organic growth, was comprised of a 30.2% year-over-year increase in units delivered in the West Coast region and increases of 112.5% and 30.8% in the Southwest and Central regions, respectively. West Coast deliveries rose to 6,323 units in 1999 from 4,858 units in 1998, reflecting a 34.4% increase in the average number of active communities in the state. Southwest operations delivered 5,801 units in 1999, up from 2,730 units in 1998 as the average number of active communities rose 105.0%. Deliveries from Central region operations rose to 7,809 units in 1999, up from 5,968 units in 1998 due to a 26.3% rise in the average number of active communities. Excluding the impact of acquisitions within the trailing twelve months, domestic deliveries rose 12.2% in 1999 from 1998. French deliveries increased 53.2% to 2,465 units in 1999 from 1,609 units in 1998, largely due to improved market conditions.

The Company-wide average new home price increased 1.1% in 2000, to \$168,300 from \$166,500 in 1999. The 1999 average had increased 6.5% from \$156,400 in 1998. The increase in the average selling price in 2000 resulted from a higher domestic average selling price, partially offset by a lower average selling price in France.

In the West Coast region, the average selling price rose 4.5% in 2000 to \$257,000 from \$246,000 in 1999, which had increased 9.6% from \$224,500 in 1998. The average selling price in the Southwest region increased 2.3% to \$145,200 in 2000, compared with \$141,900 in 1999 and \$128,800 in 1998. The Central region average selling price rose 6.2% to \$128,600 in 2000 compared with \$121,100 in 1999 and \$114,700 in 1998. The West Coast average selling price increased only moderately due to a lower proportion of Northern California deliveries in 2000, which are generally higher priced than deliveries generated from Southern California operations. Domestic price increases in 1999 resulted from the inclusion of higher-priced deliveries from the Lewis Homes operations in California and Nevada, acquired early in 1999, and from selected increases in sales prices in certain markets due to favorable market conditions.

The Company's average selling price in France decreased to \$158,500 in 2000 from \$163,600 in 1999, which had increased from \$149,200 in 1998. The average selling price in France decreased in 2000 primarily due to an increase in the proportion of deliveries generated from condominiums, which are typically priced below single-family detached homes, and the adverse foreign currency impact resulting from a weakening in the French franc versus the U.S. dollar. The French average selling price rose in 1999 primarily due to a change in the mix of deliveries and price appreciation in the French housing market.



Revenues from the development of commercial buildings, all located in metropolitan Paris, totaled \$.8 million in 2000, \$.7 million in 1999 and \$1.5 million in 1998. After several years of de-emphasizing its commercial development operations in France due to French commercial market conditions, the Company currently anticipates a significant increase in this business in 2001, with revenues from these activities expected to range between \$75.0 million and \$90.0 million for the year, dependent upon continued favorable market conditions.

Land sale revenues totaled \$100.5 million in 2000, \$37.8 million in 1999 and \$22.5 million in 1998. Generally, land sale revenues fluctuate with decisions to maintain or decrease the Company's land ownership position in certain markets based upon the volume of its holdings, the strength and number of competing developers entering particular markets at given points in time, the availability of land in markets served by the Company and prevailing market conditions. The significant increase in land sales in 2000 resulted from the Company's asset repositioning strategy, adopted in late 1999, which included the identification and sale of non-core assets.

**Operating Income** Operating income increased 11.4% to a new Company record of \$288.6 million in 2000 from \$259.1 million in 1999. The increase was primarily due to higher housing gross profits and lower selling, general and administrative expenses. Housing gross profits in 2000 increased 3.0% or \$22.1 million to \$743.7 million from \$721.6 million in 1999. As a percentage of related revenues, housing gross profit margin was 19.7% in 2000, up from 19.3% in the prior year. The increase in the Company's housing gross margin resulted from several factors, including an improved pricing environment, generally favorable market conditions throughout the year, deeper execution of the KB2000 operational business model and the reduced impact related to purchase accounting associated with the 1999 acquisition of Lewis Homes. During 2000, the Company's housing gross profit margin showed sequential improvement each quarter and, in the fourth quarter reached 20.6%. Company-wide land sales generated a profit of \$2.8 million in 2000, compared to a loss of \$1.2 million in 1999.

Selling, general and administrative expenses decreased .7%, or \$3.3 million in 2000, to \$458.0 million. As a percentage of housing revenues, to which these expenses are most closely correlated, selling, general and administrative expenses were 12.2% in 2000 compared to 12.4% in 1999. The improved ratio resulted from savings generated by the Company's cost-containment initiatives.

Operating income increased 74.3% to \$259.1 million in 1999 from \$148.7 million in 1998. This increase was primarily due to higher housing gross profits, resulting from higher unit volume, partially offset by increased selling, general and administrative expenses. Housing gross profits in 1999 increased 58.1% or \$265.2 million to \$721.6 million from \$456.4 million in 1998. As a percentage of related revenues, housing gross profit margin was 19.3% in 1999, up from 19.2% in the prior year. This increase was primarily due to more efficient home designs and construction costs in KB2000 communities and overall improved market conditions, as well as market-driven price increases in selected communities, particularly in the West Coast region. Company-wide land sales produced losses of \$1.2 million and \$3.2 million in 1999 and 1998, respectively.

Selling, general and administrative expenses increased 51.5%, or \$156.7 million to \$461.3 million in 1999. As a percentage of housing revenues, however, selling, general and administrative expenses decreased .4 percentage points to 12.4% in 1999 from 12.8% in 1998. The improvement in the selling, general and administrative expense ratio was due to a strong increase in unit volume and reduced reliance on sales initiatives, partially offset by increased expenditures for information systems in support of the KB2000 operational business model and the Company's year 2000 compliance plan, and by goodwill amortization and other expenses related to the Lewis Homes transaction.

**Interest Income and Expense** Interest income, which is generated from short-term investments and mortgages receivable, amounted to \$5.8 million in 2000, \$7.8 million in 1999 and \$5.7 million in 1998. The decrease in interest income in 2000 reflected lower interest bearing average balances of short-term investments and mortgages receivable compared to the same period a year ago. The increase in interest income in 1999 compared to 1998 primarily reflected an increase in the interest bearing average balance of mortgages receivable and a higher average balance of short-term investments.

Interest expense results principally from borrowings to finance land purchases, housing inventory and other operating and capital needs. In 2000, interest expense, net of amounts capitalized, increased by \$3.2 million to \$31.5 million from \$28.3 million in 1999. Gross interest incurred in 2000 was \$16.2 million higher than that incurred in 1999, reflecting an increase in average indebtedness.

The percentages of interest capitalized in 2000 and 1999 were 66.6% and 63.7%, respectively. The amounts of interest capitalized as a percentage of gross interest incurred and distributions associated with the Company's outstanding Feline Prides were 57.3% in 2000 and 53.3% in 1999.

In 1999, interest expense, net of amounts capitalized, increased to \$28.3 million from \$23.3 million in 1998. Gross interest incurred in 1999 was \$23.7 million higher than that incurred in 1998, reflecting an increase in average indebtedness, primarily as a result of the Lewis Homes acquisition and growth in the number of new communities in 1999.

The percentage of interest capitalized in 1999 increased from the 57.0% capitalized in 1998. The higher capitalization rate in 1999 resulted from the effect of the issuance of Feline Prides in the third quarter of 1998 and a higher proportion of land under development in 1999 compared to the previous year. The amount of interest capitalized as a percentage of gross interest incurred and distributions associated with the Feline Prides was 51.3% in 1998.

**Minority Interests** Minority interests are comprised of two major components: pretax income of consolidated subsidiaries and joint ventures related to residential and commercial activities; and distributions associated with the Feline Prides issued in July 1998. Operating income was reduced by minority interests of \$31.6 million in 2000, \$29.4 million in 1999 and \$7.0 million in 1998. Minority interests in 2000 included the impact of the Company's French IPO and \$15.2 million in distributions related to the Feline Prides. In 1999 and 1998, minority interests included \$15.2 million and \$6.1 million, respectively, in distributions related to the Feline Prides. Increased joint venture activity contributed to the rise in minority interests from 1998 to 1999. In the aggregate, minority interests in 2001 are expected to remain at high levels due to ongoing joint venture activity and distributions associated with the Feline Prides.

**Equity in Pretax Income of Unconsolidated Joint Ventures** The Company's unconsolidated joint venture activities were located in California, Nevada, New Mexico and France in 2000; California, Nevada, New Mexico, Texas and France in 1999; and New Mexico, Texas and France in 1998. These unconsolidated joint ventures posted combined revenues of \$116.8 million in 2000, \$13.9 million in 1999 and \$17.7 million in 1998. Revenues from unconsolidated joint ventures increased in 2000 primarily due to the inclusion of a new domestic joint venture related to a Nevada community. All unconsolidated joint venture revenues in 2000 and 1999 were generated from residential properties. French commercial activities accounted for \$6.5 million of the combined revenues in 1998. Unconsolidated joint ventures generated combined pretax income of \$4.9 million in 2000, compared with pretax income of \$3.6 million and \$5.0 million in 1999 and 1998, respectively. The Company's share of pretax income from unconsolidated joint ventures totaled \$2.9 million in 2000, \$.2 million in 1999 and \$1.2 million in 1998.

**Gain on Issuance of French Subsidiary Stock** The Company recognized a one-time gain of \$39.6 million from the issuance of 5,314,327 common shares (including the over allotment option) by Kaufman & Broad S.A. ("KBSA"), the Company's wholly owned French subsidiary, in an initial public offering in the first quarter of 2000. The offering was made in France and elsewhere in Europe and was priced at 23 euros per share. KBSA is now listed on the Premier Marché of the ParisBourse. The offering generated total net proceeds of \$113.1 million, of which \$82.9 million was used by the Company to reduce its domestic debt and repurchase additional shares of its common stock. The remainder of the proceeds was used to fund internal and external growth of KBSA. The Company continues to own a majority interest in KBSA and will continue to consolidate these operations in its financial statements.

*MORTGAGE BANKING*

**Interest Income and Expense** The Company's mortgage banking operations provide financing principally to purchasers of homes sold by the Company's domestic housing operations through the origination of residential mortgages. Interest income is earned primarily from first mortgages and mortgage-backed securities held for long-term investment as collateral, while interest expense results from notes payable and the collateralized mortgage obligations. Interest income increased to a record \$21.1 million in 2000 from \$19.2 million in 1999 and \$15.6 million in 1998. Interest expense rose to \$19.4 million in 2000 from \$16.9 million in 1999 and \$15.0 million in 1998. In both 2000 and 1999, interest income increased primarily due to a higher balance of first mortgages held under commitments of sale and other receivables outstanding compared to the previous year.

Interest expense rose in both 2000 and 1999 due to a higher amount of notes payable outstanding compared to the prior year. Combined interest income and expense resulted in net interest income of \$1.7 million in 2000, \$2.3 million in 1999 and \$.6 million in 1998. These differences reflect variations in mortgage production mix; movements in short-term versus long-term interest rates; and the amount, timing and rates of return on interim reinvestments of monthly principal amortization and prepayments.

**Other Mortgage Banking Revenues** Other mortgage banking revenues, which principally consist of gains on sales of mortgages and servicing rights and, to a lesser extent, mortgage servicing fees and insurance commissions, totaled \$39.2 million in 2000, \$45.0 million in 1999 and \$30.8 million in 1998. The decrease in 2000 was primarily the result of lower gains on the sales of mortgages and servicing rights due to lower unit delivery volume. Interest rate increases during 2000, including a shift in product mix toward more variable rate loans, lower retention and the intensely competitive mortgage banking environment also contributed to the decrease. The increase in 1999 reflected higher gains on the sales of mortgages and servicing rights due to a higher volume of mortgage originations associated with increases in housing unit volume and improved retention in the United States.

**General and Administrative Expenses** General and administrative expenses associated with mortgage banking operations increased to \$17.2 million in 2000 from \$11.6 million in 1999 and \$9.9 million in 1998. The increase in general and administrative expenses in 2000 was primarily due to expansion of the operations. In 1999, general and administrative expenses increased primarily due to higher mortgage production volume.

**Secondary Marketing Trading Loss** On August 31, 1999, the Company disclosed that it had discovered unauthorized mortgage loan trading activity by an employee of its mortgage banking subsidiary resulting in a pretax trading loss of \$18.2 million (\$11.8 million, or \$.25 per diluted share, on an after-tax basis). It is normal practice for the Company's mortgage banking subsidiary to sell loans into the market that approximately match loan commitments to the Company's homebuyers. This practice is intended to hedge exposure to changes in interest rates that may occur until loans are sold to secondary market investors in the ordinary course of its business. The loss was the result of a single employee engaging in unauthorized mortgage loan trading largely unrelated to mortgage originations. The employee who conducted the unauthorized trading was terminated.

*INCOME TAXES*

The Company recorded income tax expense of \$87.7 million in 2000, \$79.4 million in 1999 and \$51.3 million in 1998. These amounts represented effective income tax rates of approximately 34.0% in 2000 (excluding the one-time gain on the issuance of French subsidiary stock) and 35.0% in both 1999 and 1998. The effective tax rate declined by 1.0 percentage point in 2000 as a result of greater utilization of tax credits. Pretax income for financial reporting purposes and taxable income for income tax purposes historically have differed primarily due to the impact of state income taxes, foreign tax rate differences, intercompany dividends and the use of tax credits.

*LIQUIDITY AND CAPITAL RESOURCES*

The Company assesses its liquidity in terms of its ability to generate cash to fund its operating and investing activities. Historically, the Company has funded its construction and mortgage banking activities with internally generated cash flows and external sources of debt and equity financing. In 2000, operating, investing and financing activities provided net cash of \$4.7 million; in 1999, these activities used net cash of \$35.0 million.

Operating activities provided \$64.5 million in 2000 while operating activities in 1999 provided \$106.8 million. The Company's sources of operating cash in 2000 included earnings of \$210.0 million, various noncash items deducted from net income and other operating items of \$2.5 million. Partially offsetting these sources were investments in inventories of \$96.1 million (excluding acquisitions and \$25.1 million of inventories acquired through seller financing), a decrease in accounts payable, accrued expenses and other liabilities of \$55.0 million, a decrease in receivables of \$53.9 million and a gain on the issuance of French subsidiary stock of \$39.6 million.

In 1999, the sources of operating cash included earnings of \$147.5 million, an increase of \$130.3 million in accounts payable, accrued expenses and other liabilities and various noncash items deducted from net income. The cash provided was partially offset by an increase of \$184.1 million in receivables and an investment of \$38.8 million in inventories (excluding the effect of acquisitions and \$43.5 million of inventories acquired through seller financing).

Cash used by investing activities totaled \$24.9 million in 2000 compared to \$34.0 million in 1999. In 2000, \$24.3 million, net of cash acquired, was used for acquisitions, \$18.5 million was used for net purchases of property and equipment and \$2.6 million was used for originations of mortgages held for long-term investment. Partially offsetting these uses were distributions related to investments in unconsolidated joint ventures of \$13.9 million and proceeds of \$6.6 million received from mortgage-backed securities, which were principally used to pay down collateralized mortgage obligations for which the mortgage-backed securities had served as collateral.

In 1999, cash used by investing activities included \$19.2 million used for net purchases of property and equipment, \$15.0 million used for investments in unconsolidated joint ventures, \$11.6 million, net of cash acquired, used for acquisitions, and \$2.8 million used for originations of mortgages held for long-term investment. Partially offsetting these uses were \$14.6 million of proceeds received from mortgage-backed securities.

Financing activities in 2000 used \$34.9 million of cash compared to \$107.8 million used in 1999. In 2000, the Company's uses of cash included payments for repurchases of common stock of \$169.2 million (excluding \$78.0 million of common stock repurchased through the issuance of promissory notes), payments to minority interests of \$20.1 million, cash dividend payments of \$11.5 million and payments on collateralized mortgage obligations of \$6.3 million. Partially offsetting these uses were proceeds from the issuance of French subsidiary stock of \$113.1 million and net proceeds from borrowings of \$59.1 million. The Company's financial leverage, as measured by the ratio of debt to total capital, net of invested cash, was 53.9% at the end of 2000 compared to 48.4% at the end of 1999. The ratio for 1999 was adjusted to reflect \$.7 million of invested cash at November 30, 1999. The Company seeks to maintain its ratio of debt to total capital within a targeted range of 45% to 55%, and achieved this goal in 2000 despite executing stock repurchases of approximately \$247.0 million during the year. The Company believes its debt to total capital ratio for 2000 reflects the impact of a strategic review of its assets and businesses initiated late in 1999.

Financing activities in 1999 used \$81.9 million for the repurchase of common stock, \$43.7 million for payments to minority interests, \$14.2 million for cash dividend payments and \$14.1 million for payments on collateralized mortgage obligations. Partially offsetting these uses was cash of \$46.1 million provided from net proceeds from borrowings.

On January 4, 1999, the Company invested approximately \$14.5 million to acquire the remaining 49.7% of the outstanding stock of General Homes, bringing its ownership interest to 100%. General Homes was a builder of single-family homes primarily in Houston, Texas. The investment was accounted for under the purchase method and the results of operations of General Homes were included in the Company's consolidated financial statements as of January 4, 1999. The investment was financed by borrowings under the Company's domestic unsecured revolving credit facility.

Effective January 7, 1999, the Company acquired substantially all of the homebuilding assets of Lewis Homes. Lewis Homes was engaged in the acquisition, development and sale of residential real estate in California and Nevada. The purchase price for Lewis Homes was approximately \$449.2 million, comprised of the assumption of approximately \$303.2 million in debt and the issuance of 7.9 million shares of the Company's common stock valued at approximately \$146.0 million. The purchase price was based on the December 31, 1998 net book values of the entities purchased. The excess of the purchase price over the estimated fair value of net assets acquired was \$177.6 million and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years.

The 7.9 million shares of Company common stock issued in the acquisition were "restricted" shares and could not be resold without a registration statement or compliance with Rule 144 under the Securities Act of 1933 ("Rule 144"), which, among other things, limits the number of shares that may be resold in a given period. The Company originally agreed to file a registration statement for 6.0 million of those shares in three increments at the Lewis family's request from July 1, 2000 to July 1, 2002. On September 21, 2000, the Company instead repurchased 4.0 million of the shares issued in the acquisition from the Lewis holders at a price of \$26.00 per share. In connection with the repurchase, the Lewis holders' registration rights for the first two increments were extinguished. In the period subsequent to the Company's repurchase, the Lewis holders sold most of the balance of their shares within the requirements of Rule 144.

The acquisition consideration for Lewis Homes was determined by arms-length negotiations between the parties. The acquisition was accounted for as a purchase, with the results of Lewis Homes included in the Company's consolidated financial statements as of January 7, 1999.

During the second half of 1999, the Company completed the acquisition of the outstanding shares of Park, a French apartment builder, for a total price of approximately \$16.6 million. The acquisition was financed by a three-year bank loan that provides for interest at the Euro Interbank Offered Rate Plus 1.45%. The acquisition was accounted for under the purchase method, and the results of operations of the builder are included in the Company's consolidated financial statements as of the date of purchase. The excess of the purchase price over the estimated fair value of net assets acquired was \$10.0 million and was allocated to goodwill. The Company is amortizing goodwill related to the acquisition on a straight-line basis over a period of ten years.

During the year ended November 30, 2000, the Company's French subsidiary, KBSA, completed the acquisitions of four homebuilders in France. These companies were acquired for an aggregate purchase price of \$33.5 million and were accounted for under the purchase method of accounting. The excess of the purchase price over the estimated fair value of the net assets acquired was \$24.7 million and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years.

In 2000 and 1999, common stock repurchases made under the Company's share repurchase program, established in August 1999, totaled \$247.0 million and \$81.9, respectively. The Company repurchased approximately 10.7 million shares in 2000 and 3.8 million shares in 1999, thereby completing the purchase of all the 14.5 million shares of common stock previously authorized for repurchase by the Company's Board of Directors. Included in the 10.7 million shares repurchased during 2000 were 4.0 million shares, repurchased on September 21, 2000, which had been issued in the January 1999 acquisition of Lewis Homes.

In connection with its share repurchase program, on August 27, 1999, the Company established a grantor stock ownership trust (the "Trust") into which certain of the repurchased shares have been transferred. The Trust, administered by an independent trustee, acquires, holds and distributes the shares of common stock for the purpose of funding certain employee compensation and employee benefit obligations of the Company under its existing stock option, 401(k) and other employee benefit plans. The existence of the Trust has no impact on the amount of benefits or compensation that is paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheet. The difference between the Trust share value and the fair market value on the date shares are released from the Trust, for the benefit of employees, will be included in additional paid-in capital. Common stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 8.8 million and 3.8 million shares of common stock at November 30, 2000 and 1999, respectively. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

External sources of financing for the Company's construction activities include its domestic unsecured credit facility, other domestic and foreign bank lines, third-party secured financings, and the public debt and equity markets. Substantial unused lines of credit remain available for the Company's future use, if required, principally through its domestic unsecured revolving credit facility. On October 6, 2000, the Company entered into a \$725.0 million unsecured credit agreement (the "\$725.0 million Unsecured Credit Facility"), consisting of a \$564.0 million four-year committed revolving credit facility and a \$161.0 million five-year term loan, which together replaced its previously existing revolving credit facility and Term Loan Agreement. This \$725.0 million Unsecured Credit Facility could be expanded up to an aggregate total of \$900.0 million if additional bank lending commitments are obtained. Interest on the \$725.0 million Unsecured Credit Facility is payable monthly at the London Interbank Offered Rate plus an applicable spread on amounts borrowed. Under the \$725.0 million Unsecured Credit Facility, \$725.0 million remained committed and \$414.4 million was available for the Company's future use at November 30, 2000. In addition, the Company's French subsidiaries have lines of credit with various banks which totaled \$207.8 million at November 30, 2000 and have various committed expiration dates through November 2003. Under these unsecured financing agreements, \$82.7 million was available in the aggregate at November 30, 2000.

Depending upon available terms and its negotiating leverage related to specific market conditions, the Company also finances certain land acquisitions with purchase-money financing from land sellers and other third parties. At November 30, 2000, the Company had outstanding seller-financed notes payable of \$29.8 million secured primarily by the underlying property which had a carrying value of \$75.2 million.

On September 21, 2000, in connection with the repurchase of 4.0 million shares from the Lewis holders, the Company issued promissory notes (the "Shareholder Notes"), with an aggregate principal amount of \$78.0 million, to the Lewis holders. Interest on the Shareholder Notes is accrued monthly at a rate of 6.6%. Under the terms of the notes, principal payments of \$26.0 million plus accrued interest are due on January 4, 2001, June 7, 2001 and December 6, 2001.

On December 5, 1997, the Company filed a universal shelf registration statement (the "1997 Shelf Registration") with the Securities and Exchange Commission for up to \$500.0 million of the Company's debt and equity securities. This universal shelf registration provides that securities may be offered from time to time in one or more series and in the form of senior, senior subordinated or subordinated debt, preferred stock, common stock, and/or warrants to purchase such securities. The registration was declared effective on December 16, 1997, and as of November 30, 2000 no securities had been issued thereunder.

On July 7, 1998, the Company, together with a KBHC Trust that is wholly owned by the Company, issued an aggregate of (i) 19.0 million Feline Prides, and (ii) 1.0 million KBHC Trust capital securities, with a \$10 stated liquidation amount. The Feline Prides consisted of (i) 18.0 million Income Prides with the stated amount per Income Prides of \$10, which are units comprised of a capital security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments, and (ii) 1.0 million Growth Prides with a face amount per Growth Prides equal to the \$10 stated amount, which are units consisting of a 1/100th beneficial interest in a zero-coupon U.S. Treasury security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments.

The distribution rate on the Income Prides is 8.25% per annum and the distribution rate on the Growth Prides is .75% per annum. Under the stock purchase contracts, investors will be required to purchase shares of common stock of the Company for an effective price ranging between a minimum of \$31.75 per share and a maximum of \$38.10 per share, and the Company will issue approximately 5 to 6 million common shares by August 16, 2001, depending upon the price of the common stock upon settlement of the purchase contracts (subject to adjustment under certain circumstances). The capital securities associated with the Income Prides and the U.S. Treasury securities associated with the Growth Prides have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts. The capital securities issued by the KBHC Trust are entitled to a distribution rate of 8% per annum of their \$10 stated liquidation amount.

The Company uses its capital resources primarily for land purchases, land development and housing construction. The Company typically manages its investments in land by purchasing property under options and other types of conditional contracts whenever possible, and similarly controls its investment in housing inventories by emphasizing the pre-sale of homes over speculative construction and carefully managing the timing of the production process. The Company's backlog ratio (beginning backlog as a percentage of unit deliveries in the succeeding quarter) for the fourth quarter of 2000 was 174.0% versus 156.6% in the fourth quarter of 1999. During the 1990's, inventories became geographically more diverse, primarily as a result of the Company's extensive domestic expansion outside of the West Coast region. The Company continues to concentrate its housing operations in desirable areas within targeted growth markets, principally oriented toward entry-level and first-time move up purchasers.

The principal sources of liquidity for the Company's mortgage banking operations are internally generated funds from the sales of mortgages and related servicing rights. Mortgages originated by the mortgage banking operations are generally sold in the secondary market within 60 days of origination. External sources of financing for these operations include a \$300.0 million revolving mortgage warehouse agreement (the "Mortgage Warehouse Facility") and a \$250.0 million Master Loan and Security Agreement. On February 18, 2000, the Company's mortgage banking subsidiary renewed its Mortgage Warehouse Facility and increased the facility from \$250.0 million. The Mortgage Warehouse Facility, which expires on February 18, 2003, provides for an annual fee based on the committed balance of the facility and provides for interest at either the London Interbank Offered Rate or the Federal Funds Rate plus an applicable spread on amounts borrowed. The Master Loan and Security Agreement was renewed on May 19, 2000 with an investment bank and was increased from \$150.0 million. The agreement, which expires on May 18, 2001, provides for a facility fee based on the \$250.0 million maximum amount available and provides for interest to be paid monthly at the Eurodollar Rate plus an applicable spread on amounts borrowed. The amounts outstanding under the Mortgage Warehouse Facility and the Master Loan and Security Agreement are secured by a borrowing base, which includes certain mortgage loans



held under commitments of sale, and are repayable from sales proceeds. There are no compensating balance requirements under either facility. Both facilities include financial covenants and restrictions which, among other things, require the maintenance of certain financial statement ratios, a minimum tangible net worth and a minimum net income.

Debt service on the Company's collateralized mortgage obligations is funded by receipts from mortgage-backed securities. Such funds are expected to be adequate to meet future debt-payment schedules for the collateralized mortgage obligations and therefore these securities have virtually no impact on the capital resources and liquidity of the mortgage banking operations.

The Company continues to benefit in all of its operations from the strength of its capital position, which has allowed it to maintain overall profitability during troubled economic times, finance domestic and international expansion, re-engineer product lines and diversify into new markets. Secure access to capital at competitive rates, among other reasons, should enable the Company to continue to grow and expand. As a result of its geographic diversification, the disciplines of the KB2000 operational business model and its strong capital position, the Company believes it has adequate resources and sufficient credit line facilities to satisfy its current and reasonably anticipated future requirements for the funds needed to acquire capital assets and land, to construct homes, to fund its mortgage banking operations, and to meet other needs of its business, both on a short and long-term basis.

#### *CONVERSION TO THE EURO CURRENCY*

On January 1, 1999, certain member countries of the European Union (the "EU") established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The Company conducts substantial business in France, an EU member country. During the established transition period for the introduction of the euro, which extends to June 30, 2002, the Company will address the issues involved with the adoption of the new currency. The most important issues facing the Company include: converting information technology systems; reassessing currency risk; negotiating and amending contracts; and processing tax and accounting records.

Based upon progress to date, the Company believes that use of the euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the euro is not expected to have a material effect on the Company's financial condition or results of operations.

#### *SUBSEQUENT EVENT*

On February 8, 2001, pursuant to the 1997 Shelf Registration, the Company issued \$250.0 million of 9% senior subordinated notes at 100% of the principal amount of the notes. The notes, which are due February 15, 2011 with interest payable semi-annually, represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The notes are redeemable at the option of the Company, in whole or in part, at 104.750% of their principal amount beginning February 15, 2006, and thereafter at prices declining annually to 100% on and after February 15, 2009. Proceeds from the issuance of the notes were used to pay down bank borrowings.

#### *OUTLOOK*

The Company's residential backlog at November 30, 2000 consisted of 10,559 units, representing aggregate future revenues of \$1.80 billion. Both amounts established new year-end records, and reflected increases of 22.7% and 30.3%, respectively, when compared to the 8,558 units in residential backlog, representing aggregate future revenues of \$1.38 billion, at year-end 1999. Company-wide net orders for the fourth quarter of 2000 totaled 5,312, up 9.1% from the comparable quarter of 1999.

The Company's domestic residential backlog at November 30, 2000 increased to \$1.53 billion, up 32.6% from \$1.15 billion at year-end 1999. On a unit basis, domestic backlog stood at 8,742 units at year-end 2000, up 21.7% from 7,185 units at year-end 1999. Improvement occurred in all domestic regions, reflecting generally good market conditions throughout the United States. The



success of communities designed under the Company's KB2000 operational business model also contributed to the increase in total U.S. backlog levels. West Coast operations produced substantial year-over-year growth, with backlog at November 30, 2000 rising to \$643.6 million on 2,421 units from \$457.4 million on 1,879 units at November 30, 1999. Full-year results were tempered by an 8.8% decline in net orders from West Coast operations in the fourth quarter of 2000 to 1,198 units from 1,314 units in the fourth quarter of 1999. In Southwest operations, backlog value increased to \$345.6 million on 2,311 units at November 30, 2000 from \$299.5 million on 2,107 units at November 30, 1999. This improvement occurred despite the region's average number of active communities decreasing 4.9% compared to the prior year. Fourth quarter 2000 net orders in Southwest operations decreased 6.6% to 1,337 units from 1,431 units in the year-earlier period. In the Central region, backlog rose to \$541.3 million on 4,010 units at November 30, 2000 from \$397.0 million on 3,199 units at November 30, 1999. Fourth quarter 2000 net orders in Central operations increased 31.4% to 1,941 units from 1,477 units in the year-earlier period.

In France, residential backlog at November 30, 2000 totaled \$272.9 million on 1,817 units, up 20.1% and 32.7%, respectively, from \$227.2 million on 1,369 units at year-end 1999. French net orders increased 29.2% to 836 units in the fourth quarter of 2000 from 647 units in the year-earlier period. The value of the backlog associated with French commercial development activities totaled approximately \$88.6 million at November 30, 2000, up from \$1.7 million at year-end 1999, reflecting the Company's increasing level of activity.

Substantially all homes included in the year-end 2000 backlog are expected to be delivered during 2001. However, cancellations could occur, particularly if market conditions deteriorate or mortgage interest rates increase, thereby decreasing backlog and related future revenues.

Company-wide net orders during the first two months of fiscal 2001 increased 18.2% from the comparable period of 2000. Domestic net orders during the two-month period increased 20.1%, reflecting increases of 34.2% and 33.8% in Southwest and Central operations, respectively, partially offset by a decrease of 12.5% in the West Coast region. In France, net orders for the first two months of fiscal 2001 increased 3.6% compared to the same period in 2000, reflecting the expansion of the French operations through acquisitions and new community openings. Full year Company-wide net order results could be further affected by current global or regional market uncertainties, mortgage interest rate volatility in France or the U.S., declines in consumer confidence in either country and/or other factors.

As a result of the Company's more selective land investment within the West Coast region and its continued domestic expansion outside of the region, the percentage of domestic unit deliveries generated from West Coast operations decreased to 28.2% in 2000 from 31.7% in 1999. On a housing revenue basis, these percentages were 42.7% in 2000 and 46.8% in 1999. In response to persistently weak conditions for new housing and general recessionary trends in the West Coast region during the first half of the 1990's and in order to spur growth, the Company diversified its business through aggressive expansion into other western states. Although the West Coast housing market has improved significantly since then, the Company has maintained a more selective approach to its land investments in keeping with its KB2000 operational business model.

The Company's Southwest and Central operations continued to experience growth in 2000. The Company has also achieved the most significant penetration of its KB2000 operational business model in these markets. The Company is seeking to continue to expand its Southwest and Central operations and continues to explore opportunities to enter new domestic markets as well as grow its businesses within existing markets.

The French housing market has continued to improve in recent years. In 2000, the Company's unit deliveries in France rose by 20.4% from the previous year as the Company expanded these operations, partly through acquisitions. French commercial activities are also likely to rebound in 2001 as the division reinvigorates its commercial business. The initial public offering of KBSA, completed in February 2000, has strengthened the French business by providing it with access to additional capital to support its growth.

While adhering to the disciplines of the KB2000 operational business model, the Company has leveraged the model with additional complementary initiatives, including strategies to establish and deepen its leading market positions and to identify new acquisition opportunities. The Company hopes to increase overall unit delivery growth in future years through these strategies. The Company's growth strategies include the expansion of existing operations to achieve optimal market volume levels, and the possible entry into new geographic markets through acquisitions. Growth in the Company's existing markets will be driven by the Company's ability to increase the average number of active communities through the continued successful implementation of its KB2000 operational business model.

As part of its strategy, the Company has made a commitment to pursue e-commerce opportunities through its recently formed subsidiary, e.KB, Inc. These efforts include continually improving its website, kbhome.com, to provide more information for consumers, utilizing its houseCALL center to support website efforts and selectively investing in related e-commerce businesses. The Company intends to continue to focus on e-commerce initiatives with the hope of reducing supply chain costs, building longer-term relationships with its customers and bringing new technology to its customers.

In August 2000, the Company announced that it had formed American CityVista, a joint venture with Henry Cisneros, former president of Univision Communications and former Secretary of the U.S. Department of Housing and Urban Development, now also a director of the Company. American CityVista will develop distinctive communities in urban in-fill areas where new residential development has not occurred in recent years. Working with the Company, American CityVista is expected to identify appropriate sites, plan neighborhoods, acquire and develop land, build homes and market them as competitively priced "villages within cities" that are designed to honor local tastes and traditions.

During 2000, the Company focused on the asset repositioning strategy that it announced in late 1999. As part of this strategy, the Company reviewed its assets and businesses for the purpose of monetizing non-strategic or marginal positions, and instituted more stringent criteria for land acquisitions. The Company's asset repositioning activities during 2000 included the partial IPO of its French subsidiary and various land sales. A majority of the land assets originally identified through the asset repositioning strategy as non-core were sold as of November 30, 2000. The asset repositioning initiatives were intended to increase cash flows available to reduce debt and/or repurchase additional stock, or possibly to fund future acquisitions.

In January 2001, the Company announced that it was changing its name to "KB Home." This new name, which resulted from homebuyer input, is intended to convey the Company's strong customer focus and its commitment to helping homebuyers realize their dream of home ownership.

Based on its current projections, the Company expects to establish its fourth consecutive year of record earnings per share in fiscal 2001. However, this goal could be materially affected by various risk factors, such as changes in general economic conditions, either nationally, in the U.S. or France, or in the localized regions in which the Company operates; changes in job growth or employment levels; a downturn in the economy's pace; changes in home mortgage interest rates or consumer confidence, among other things. The Company is proceeding with caution into 2001 as recent economic data indicates an overall slowing in the economy. The Conference Board recently reported that U.S. consumer confidence in December 2000 sank to its lowest level in two years. The Federal Reserve, in its recent decision to cut the federal funds rate, also cited a variety of cautionary factors, including weakening sales and production, falling consumer confidence, skittish financial markets and high energy prices. The Company will closely monitor overall economic trends in 2001 while remaining focused on the effective management of its business units, using the KB2000 principles, to minimize the impact of any sustained economic slowdown.

*IMPACT OF INFLATION*

The Company's business is significantly affected by general economic conditions, particularly by inflation and its generally associated adverse effect on interest rates. Although inflation rates have been low in recent years, rising inflation would likely affect the Company's revenues and earning power by reducing demand for homes as a result of correspondingly higher interest rates. In periods of high inflation, the rising costs of land, construction, labor, interest and administrative expenses have often been recoverable through increased selling prices, although this has not always been possible because of high mortgage interest rates and competitive factors in the marketplace. In recent years, inflation has had no significant adverse impact on the Company, as average annual cost increases have not exceeded the average rate of inflation.

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Investors are cautioned that certain statements contained in this document, as well as some statements by the Company in periodic press releases and some oral statements by Company officials to securities analysts and stockholders during presentations about the Company are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "hopes", and similar expressions constitute forward-looking statements. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the homebuilding industry, among other things. These statements are not guaranties of future performance, and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in the forward-looking statements made by the Company or Company officials due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, national or regional changes in general economic conditions, employment levels, costs of homebuilding material and labor, home mortgage and other interest rates, the secondary market for mortgage loans, competition, currency exchange rates as they affect the Company's operations in France, consumer confidence, government regulation or restrictions on real estate development, capital or credit market conditions affecting the Company's cost of capital; the availability and cost of land in desirable areas, environmental factors, governmental regulations, unanticipated violations of Company policy, property taxes, and unanticipated delays in the Company's operations.

## consolidated statements of income

	YEARS ENDED NOVEMBER 30,		
	2000	1999	1998
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
<b>TOTAL REVENUES</b>	<b>\$ 3,930,858</b>	\$ 3,836,295	\$ 2,449,362
<i>Construction:</i>			
Revenues	\$ 3,870,488	\$ 3,772,121	\$ 2,402,966
Construction and land costs	(3,123,869)	(3,051,698)	(1,949,729)
Selling, general and administrative expenses	(458,010)	(461,316)	(304,565)
Operating income	288,609	259,107	148,672
Interest income	5,782	7,806	5,674
Interest expense, net of amounts capitalized	(31,479)	(28,340)	(23,341)
Minority interests	(31,640)	(29,392)	(7,002)
Equity in pretax income of unconsolidated joint ventures	2,926	224	1,151
Gain on issuance of French subsidiary stock	39,630		
Construction pretax income	273,828	209,405	125,154
<i>Mortgage banking:</i>			
Revenues:			
Interest income	21,130	19,186	15,569
Other	39,240	44,988	30,827
	60,370	64,174	46,396
Expenses:			
Interest	(19,374)	(16,941)	(15,046)
General and administrative	(17,164)	(11,614)	(9,937)
Secondary marketing trading loss		(18,155)	
Mortgage banking pretax income	23,832	17,464	21,413
Total pretax income	297,660	226,869	146,567
Income taxes	(87,700)	(79,400)	(51,300)
<b>NET INCOME</b>	<b>\$ 209,960</b>	\$ 147,469	\$ 95,267
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 5.39</b>	\$ 3.16	\$ 2.41
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 5.24</b>	\$ 3.08	\$ 2.32

See accompanying notes.

## consolidated balance sheets

IN THOUSANDS, EXCEPT SHARES	NOVEMBER 30.	
	2000	1999
<b>ASSETS</b>		
<i>Construction:</i>		
Cash and cash equivalents	\$ 21,385	\$ 15,576
Trade and other receivables	294,760	205,847
Mortgages and notes receivable	11,821	58,702
Inventories	1,657,401	1,521,265
Investments in unconsolidated joint ventures	10,407	21,290
Deferred income taxes	73,842	99,519
Goodwill	202,177	205,618
Other assets	89,975	86,259
	<b>2,361,768</b>	2,214,076
<i>Mortgage banking:</i>		
Cash and cash equivalents	11,696	12,791
Receivables:		
First mortgages and mortgage-backed securities	43,137	47,080
First mortgages held under commitments of sale and other receivables	403,165	386,076
Other assets	9,155	4,212
	<b>467,153</b>	450,159
<b>TOTAL ASSETS</b>	<b>\$2,828,921</b>	\$2,664,235
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>Construction:</i>		
Accounts payable	\$ 311,537	\$ 328,528
Accrued expenses and other liabilities	201,672	222,855
Mortgages and notes payable	987,980	813,424
	<b>1,501,189</b>	1,364,807
<i>Mortgage banking:</i>		
Accounts payable and accrued expenses	11,135	9,711
Notes payable	385,294	377,666
Collateralized mortgage obligations secured by mortgage-backed securities	29,928	36,219
	<b>426,357</b>	423,596
<i>Minority interests:</i>		
Consolidated subsidiaries and joint ventures	56,866	9,499
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	189,750	189,750
	<b>246,616</b>	199,249
<i>Stockholders' equity:</i>		
Preferred stock – \$1.00 par value; authorized, 10,000,000 shares; none outstanding		
Common stock – \$1.00 par value; authorized, 100,000,000 shares; 44,397,243 and 48,090,615 shares outstanding at November 30, 2000 and 1999, respectively	44,397	48,091
Paid-in capital	240,761	335,324
Retained earnings	598,374	376,626
Accumulated other comprehensive income	(9,564)	(1,584)
Grantor stock ownership trust, at cost: 8,782,252 shares and 3,750,100 shares at November 30, 2000 and 1999, respectively	(190,872)	(81,874)
Treasury stock, at cost: 1,448,100 shares at November 30, 2000	(28,337)	
	<b>654,759</b>	676,583
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$2,828,921</b>	\$2,664,235

See accompanying notes.

## consolidated statements of stockholders' equity

IN THOUSANDS YEARS ENDED NOVEMBER 30, 2000, 1999 AND 1998	NUMBER OF SHARES			COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	GRANTOR STOCK OWNERSHIP TRUST	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
	COMMON STOCK	GRANTOR STOCK OWNERSHIP TRUST	TREASURY STOCK							
Balance at November 30, 1997	38,997			\$38,997	\$186,086	\$159,960	\$(1,987)			\$383,056
Comprehensive income:										
Net income						95,267				95,267
Foreign currency translation adjustments							(370)			(370)
Total comprehensive income										94,897
Dividends on common stock						(11,871)				(11,871)
Exercise of employee stock options	995			995	15,699					16,694
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company – contract adjustment payments and issuance costs					(8,265)					(8,265)
Balance at November 30, 1998	39,992			39,992	193,520	243,356	(2,357)			474,511
Comprehensive income:										
Net income						147,469				147,469
Foreign currency translation adjustments							773			773
Total comprehensive income										148,242
Dividends on common stock						(14,199)				(14,199)
Exercise of employee stock options	212			212	3,686					3,898
Issuance of common stock related to an acquisition	7,887			7,887	138,118					146,005
Grantor stock ownership trust		(3,750)						\$ (81,874)		(81,874)
Balance at November 30, 1999	48,091	(3,750)		48,091	335,324	376,626	(1,584)	(81,874)		676,583
Comprehensive income:										
Net income						209,960				209,960
Foreign currency translation adjustments							(7,980)			(7,980)
Total comprehensive income										201,980
Dividends on common stock						(11,465)				(11,465)
Exercise of employee stock options	306			306	5,445					5,751
Common stock purchased and retired	(4,000)			(4,000)	(100,000)					(104,000)
Grantor stock ownership trust		(5,032)			(8)			(108,998)		(109,006)
Treasury stock			(1,448)						\$(28,337)	(28,337)
Issuance of French subsidiary stock						23,253				23,253
Balance at November 30, 2000	44,397	(8,782)	(1,448)	\$44,397	\$240,761	\$598,374	\$(9,564)	\$(190,872)	\$(28,337)	\$654,759

See accompanying notes.

## consolidated statements of cash flows

IN THOUSANDS	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
<i>Cash flows from operating activities:</i>			
Net income	\$ 209,960	\$ 147,469	\$ 95,267
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Equity in pretax income of unconsolidated joint ventures	(2,926)	(224)	(1,151)
Minority interests	31,640	29,392	7,002
Gain on issuance of French subsidiary stock	(39,630)		
Amortization of discounts and issuance costs	1,012	1,501	1,882
Depreciation and amortization	41,298	38,251	16,178
Provision for deferred income taxes	25,677	(25,913)	474
Change in assets and liabilities, net of effects from acquisitions:			
Receivables	(53,935)	(184,116)	(50,040)
Inventories	(96,078)	(38,761)	(125,719)
Accounts payable, accrued expenses and other liabilities	(54,970)	130,257	51,283
Other, net	2,496	8,911	(8,025)
Net cash provided (used) by operating activities	64,544	106,767	(12,849)
<i>Cash flows from investing activities:</i>			
Acquisitions, net of cash acquired	(24,292)	(11,646)	(162,818)
Investments in unconsolidated joint ventures	13,885	(15,022)	2,214
Net sales (originations) of mortgages held for long-term investment	(2,645)	(2,756)	1,686
Payments received on first mortgages and mortgage-backed securities	6,615	14,629	12,933
Purchases of property and equipment, net	(18,500)	(19,160)	(15,859)
Net cash used by investing activities	(24,937)	(33,955)	(161,844)
<i>Cash flows from financing activities:</i>			
Net proceeds from credit agreements and other short-term borrowings	84,984	119,425	63,187
Issuance of French subsidiary stock	113,118		
Proceeds from Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company			183,057
Payments on collateralized mortgage obligations	(6,312)	(14,098)	(12,324)
Payments on mortgages, land contracts and other loans	(25,857)	(73,329)	(45,239)
Payments to minority interests	(20,133)	(43,723)	(7,006)
Payments of cash dividends	(11,465)	(14,199)	(11,871)
Repurchases of common stock	(169,228)	(81,874)	
Net cash provided (used) for financing activities	(34,893)	(107,798)	169,804
Net increase (decrease) in cash and cash equivalents	4,714	(34,986)	(4,889)
Cash and cash equivalents at beginning of year	28,367	63,353	68,242
Cash and cash equivalents at end of year	\$ 33,081	\$ 28,367	\$ 63,353
<i>Supplemental disclosures of cash flow information:</i>			
Interest paid, net of amounts capitalized	\$ 50,042	\$ 43,014	\$ 37,915
Income taxes paid	40,818	64,554	40,521
<i>Supplemental disclosures of noncash activities:</i>			
Cost of inventories acquired through seller financing	\$ 25,054	\$ 43,529	\$ 29,911
Issuance of promissory notes to repurchase common stock	78,000		
Issuance of common stock related to an acquisition		146,005	
Debt assumed related to an acquisition		303,239	

See accompanying notes.

## notes to consolidated financial statements

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Operations** KB Home (the "Company") is a regional builder of single-family homes with domestic operations throughout the western United States, and international operations in France. The Company also develops commercial and high-density residential projects in France. Through its mortgage banking subsidiary, Kaufman and Broad Mortgage Company, the Company provides mortgage banking services to its domestic homebuyers.

**Basis of Presentation** The consolidated financial statements include the accounts of the Company and all significant subsidiaries and joint ventures in which a controlling interest is held. All significant intercompany transactions have been eliminated. Investments in unconsolidated joint ventures in which the Company has less than a controlling interest are accounted for using the equity method.

**Use of Estimates** The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management. Actual results could differ from these estimates.

**Cash and Cash Equivalents** The Company considers all highly liquid debt instruments and other short-term investments purchased with a maturity of three months or less to be cash equivalents. As of November 30, 2000 and 1999, the Company's cash equivalents totaled \$1,830,000 and \$704,000, respectively.

**Foreign Currency Translation** Results of operations for foreign entities are translated to U.S. dollars using the average exchange rates during the period. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in stockholders' equity as foreign currency translation adjustments.

**Construction Operations** Housing and other real estate sales are recognized when title passes to the buyer and all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured. In France, revenues from development and construction of single-family detached homes, condominiums and commercial buildings, under long-term contracts with individual investors who own the land, are recognized using the percentage of completion method, which is generally based on costs incurred as a percentage of estimated total costs of individual projects. Revenues recognized in excess of amounts collected are classified as receivables. Amounts received from buyers in excess of revenues recognized, if any, are classified as other liabilities.

Construction and land costs are comprised of direct and allocated costs, including estimated future costs for warranties and amenities. Land, land improvements and other common costs are allocated on a relative fair value basis to units within a parcel or subdivision. Land and land development costs generally include related interest and property taxes incurred until development is substantially completed or deliveries have begun within a subdivision.

Land to be developed and projects under development are stated at cost unless the carrying amount of the parcel or subdivision is determined not to be recoverable, in which case the impaired inventories are written down to fair value. Write-downs of impaired inventories are recorded as adjustments to the cost basis of the inventory. The Company's inventories typically do not consist of completed projects.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is amortized by the Company over periods ranging from five to ten years using the straight-line method. Accumulated amortization was \$79,756,000 and \$52,765,000 at November 30, 2000 and 1999, respectively. In the event that facts and circumstances indicate that the carrying value of goodwill may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the goodwill would be compared to its carrying amount to determine if a write-down to fair value or discounted cash flow is required.



**Mortgage Banking Operations** First mortgages and mortgage-backed securities consist of securities held for long-term investment and are valued at amortized cost. First mortgages held under commitments of sale are valued at the lower of aggregate cost or market. Market is principally based on public market quotations or outstanding commitments obtained from investors to purchase first mortgages receivable.

Principal and interest payments received on mortgage-backed securities are invested in short-term securities maturing on the next debt service date of the collateralized mortgage obligations for which the securities are held as collateral. Such payments are restricted to the payment of the debt service on the collateralized mortgage obligations.

**Secondary Marketing Trading Loss** On August 31, 1999, the Company disclosed that it had discovered unauthorized mortgage loan trading activity by an employee of its mortgage banking subsidiary resulting in a pretax trading loss of \$18,155,000 (\$11,755,000, or \$.25 per diluted share, on an after-tax basis). It is normal practice for the Company's mortgage banking subsidiary to sell loans into the market that approximately match loan commitments to the Company's homebuyers. This practice is intended to hedge exposure to changes in interest rates that may occur until loans are sold to secondary market investors in the ordinary course of business. The loss was the result of a single employee engaging in unauthorized mortgage loan trading largely unrelated to mortgage originations. The employee who conducted the unauthorized trading was terminated.

**Stock Options** The Company's employee stock option plans are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25").

**Income Taxes** Income taxes are provided for at rates applicable in the countries in which the income is earned. Provision is made currently for United States federal income taxes on earnings of foreign subsidiaries that are not expected to be reinvested indefinitely.

**Earnings Per Share** Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the average number of shares outstanding including all dilutive potentially issuable shares under various stock option plans and stock purchase contracts. The following table presents a reconciliation of average shares outstanding:

IN THOUSANDS	YEARS ENDED NOVEMBER 30,		
	2000	1999	1998
Basic average shares outstanding	38,931	46,730	39,553
Net effect of stock options assumed to be exercised	1,138	1,101	1,480
Diluted average shares outstanding	40,069	47,831	41,033

**Segment Information** In accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company identified two reportable segments: construction and mortgage banking. The Company's construction segment consists primarily of domestic and foreign homebuilding operations. The Company's construction operations are engaged in the acquisition and development of land primarily for residential purposes and offer a wide variety of homes that are designed to appeal to the first-time homebuyer. Domestically, the Company currently sells homes in six western states. Internationally, the Company operates in France. The Company also builds commercial projects and high-density residential properties, such as condominium complexes, in France. The Company's mortgage banking operations provide mortgage banking services to the Company's domestic homebuyers. The mortgage banking segment originates, processes and sells mortgages to third-party investors. The Company does not retain or service the mortgages that it originates but, rather, sells the mortgages and related servicing rights to investors.

Information for the Company's reportable segments are presented in its consolidated statements of income and consolidated balance sheets included herein. The Company's reporting segments follow the same accounting policies used for the Company's consolidated financial statements as described in the summary of significant accounting policies. Management evaluates a segment's performance based upon a number of factors including pretax results.

**Recent Accounting Pronouncements** Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), was issued in June 1998. This statement addresses the accounting for and disclosure of derivative instruments, including derivative instruments imbedded in other contracts, and hedging activities. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change is recognized in earnings. Management has analyzed the implementation requirements and does not anticipate that the adoption of the new statement as of December 1, 2000 will have a significant effect on the earnings or financial position of the Company.

The Company manages its interest rate market risk on mortgage loans held for sale and its estimated future commitments to originate and close mortgage loans at fixed prices through the use of mandatory forward commitments to sell mortgage-backed securities and best-efforts whole loan delivery commitments. The Company estimates the portion of the locked mortgage loan pipeline that is expected to close in order to determine the amount of hedging instruments. These hedging instruments are effective as hedges for interest rate market risk on mortgage loans held for sale and estimated future commitments. Accordingly, gains and losses are deferred until the ultimate disposition of the contract. As of November 30, 2000 and 1999, the Company had approximately \$512,000,000 and \$378,000,000, respectively, of mandatory forward commitments outstanding.

**Reclassifications** Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to the 2000 presentation.

#### NOTE 2. ISSUANCE OF FRENCH SUBSIDIARY STOCK

On February 7, 2000, Kaufman & Broad S.A. ("KBSA"), the Company's wholly owned French subsidiary, issued 5,314,327 common shares (including the over-allotment option) in an initial public offering. The offering was made in France and elsewhere in Europe and was priced at 23 euros per share. KBSA is now listed on the Premier Marché of the ParisBourse. The offering generated total net proceeds of \$113,100,000, of which \$82,900,000 was used by the Company to reduce its domestic debt and repurchase additional shares of its common stock. The remainder of the proceeds was used to fund internal and external growth of KBSA. The Company recognized a gain of \$39,630,000, or \$.99 per diluted share as a result of the offering. The Company continues to own a majority interest in KBSA and will continue to consolidate these operations in its financial statements.

#### NOTE 3. ACQUISITIONS

Effective January 7, 1999, the Company acquired substantially all of the homebuilding assets of the Lewis Homes group of companies ("Lewis Homes"). Lewis Homes was engaged in the acquisition, development and sale of residential real estate in California and Nevada. The purchase price for Lewis Homes was approximately \$449,244,000, comprised of the assumption of approximately \$303,239,000 in debt and the issuance of 7,886,686 shares of the Company's common stock valued at approximately \$146,005,000. The purchase price was based on the December 31, 1998 net book values of the entities purchased. The excess of the purchase price over the estimated fair value of net assets acquired was \$177,600,000 and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years. Under the terms of the purchase agreement, a Lewis family member was also appointed to the Company's Board of Directors.

The 7,886,686 shares of Company common stock issued in the acquisition were “restricted” shares and could not be resold without a registration statement or compliance with Rule 144 under the Securities Act of 1933 (“Rule 144”), which, among other things, limits the number of shares that may be resold in a given period. The Company originally agreed to file a registration statement for 6,000,000 of those shares in three increments at the Lewis family’s request from July 1, 2000 to July 1, 2002. On September 21, 2000, the Company instead repurchased 4,000,000 of the shares issued in the acquisition from the Lewis holders at a price of \$26.00 per share. In connection with the repurchase, the Lewis holders’ registration rights for the first two increments were extinguished. In the period subsequent to the Company’s repurchase, the Lewis holders sold most of the balance of their shares within the requirements of Rule 144. In connection with the acquisition of Lewis Homes, the Company obtained a \$200,000,000 unsecured term loan agreement with various banks (the “Term Loan Agreement”) to refinance certain debt assumed. The Company used borrowings under its existing domestic unsecured revolving credit facility to refinance certain other debt assumed in the Lewis Homes acquisition.

The acquisition consideration for Lewis Homes was determined by arm’s-length negotiations between the parties. The acquisition was accounted for as a purchase, with the results of Lewis Homes included in the Company’s consolidated financial statements as of January 7, 1999.

The following unaudited pro forma information presents a summary of the consolidated results of operations of the Company as if the acquisition of Lewis Homes had occurred as of December 1, 1998 with pro forma adjustments to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS  
YEAR ENDED NOVEMBER 30.

	1999
Total revenues	\$3,919,247
Total pretax income	231,384
Net income	150,384
Basic earnings per share	3.16
Diluted earnings per share	3.09

This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated as of December 1, 1998, nor are they necessarily indicative of future operating results.

During the year ended November 30, 2000, the Company’s French subsidiary, KBSA, completed the acquisitions of four homebuilders in France. These companies were acquired for an aggregate purchase price of \$33,516,000 and were accounted for under the purchase method of accounting. The excess of the purchase price over the estimated fair value of the net assets acquired was \$24,745,000 and was allocated to goodwill. The Company is amortizing the goodwill on a straight-line basis over a period of ten years. The pro forma results for 2000 and 1999, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

#### NOTE 4. RECEIVABLES

**Construction** Trade receivables amounted to \$213,197,000 and \$138,250,000 at November 30, 2000 and 1999, respectively. Included in these amounts are unbilled receivables due from buyers on French single-family detached home, condominium and commercial building sales accounted for using the percentage of completion method totaling \$161,658,000 at November 30, 2000 and \$97,264,000 at November 30, 1999. The buyers are contractually obligated to remit payments against their unbilled balances. Other receivables of \$81,563,000 at November 30, 2000 and \$67,597,000 at November 30, 1999 included escrow deposits and amounts due from municipalities and utility companies.

At November 30, 2000 and 1999, receivables were net of allowances for doubtful accounts of \$10,152,000 and \$16,578,000, respectively.

**Mortgage Banking** First mortgages and mortgage-backed securities consisted of loans of \$11,734,000 at November 30, 2000 and \$9,089,000 at November 30, 1999 and mortgage-backed securities of \$31,403,000 and \$37,991,000 at November 30, 2000 and 1999, respectively. The mortgage-backed securities serve as collateral for related collateralized mortgage obligations. The properties covered by the mortgages underlying the mortgage-backed securities are single-family residences. Issuers of the mortgage-backed securities are the Government National Mortgage Association and Fannie Mae. The first mortgages and mortgage-backed securities bore interest at an average rate of 8% at both November 30, 2000 and 1999 (with rates ranging from 7% to 12% in both 2000 and 1999).

The Company's mortgage-backed securities held for long-term investment have been classified as held-to-maturity and are stated at amortized cost, adjusted for amortization of discounts and premiums to maturity. Such amortization is included in interest income. The total gross unrealized gains and gross unrealized losses on the mortgage-backed securities were \$600,000 and \$0, respectively at November 30, 2000 and \$685,000 and \$0, respectively at November 30, 1999.

First mortgages held under commitments of sale and other receivables consisted of first mortgages held under commitments of sale of \$389,494,000 at November 30, 2000 and \$376,377,000 at November 30, 1999 and other receivables of \$13,671,000 and \$9,699,000 at November 30, 2000 and 1999, respectively. The first mortgages held under commitments of sale bore interest at an average rate of 7% at both November 30, 2000 and 1999. The balance in first mortgages held under commitments of sale and other receivables fluctuates significantly during the year and typically reaches its highest level at quarter-ends, corresponding to the Company's home and mortgage delivery activity.

NOTE 5. INVENTORIES

Inventories consisted of the following:

IN THOUSANDS	NOVEMBER 30.	
	2000	1999
Homes, lots and improvements in production	\$1,115,824	\$1,063,505
Land under development	541,577	457,760
Total inventories	\$1,657,401	\$1,521,265

Land under development primarily consists of parcels on which 50% or less of estimated development costs have been incurred.

The impact of capitalizing interest costs on consolidated pretax income is as follows:

IN THOUSANDS	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
Interest incurred	\$ 94,201	\$ 78,041	\$ 54,299
Interest expensed	(31,479)	(28,340)	(23,341)
Interest capitalized	62,722	49,701	30,958
Interest amortized	(40,679)	(44,257)	(30,752)
Net impact on consolidated pretax income	\$ 22,043	\$ 5,444	\$ 206

## NOTE 6. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

The Company participates in a number of joint ventures in which it has less than a controlling interest. These joint ventures are based in California, Nevada, New Mexico, Texas and France and are engaged in the development, construction and sale of residential properties and commercial projects. Combined condensed financial information concerning the Company's unconsolidated joint venture activities follows:

IN THOUSANDS	NOVEMBER 30.	
	2000	1999
Cash	\$ 9,151	\$ 3,386
Receivables	11,440	4,914
Inventories	36,100	82,021
Other assets	166	377
Total assets	<b>\$56,857</b>	\$90,698
Mortgages and notes payable	\$17,522	\$30,988
Other liabilities	14,936	11,111
Equity of:		
The Company	10,407	21,290
Others	13,992	27,309
Total liabilities and equity	<b>\$56,857</b>	\$90,698

The joint ventures finance land and inventory investments primarily through a variety of borrowing arrangements. The Company typically does not guarantee these financing arrangements.

IN THOUSANDS	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
Revenues	\$116,837	\$13,889	\$ 17,657
Cost of sales	(85,383)	(9,842)	(12,245)
Other expenses, net	(26,533)	(426)	(384)
Total pretax income	<b>\$ 4,921</b>	\$ 3,621	\$ 5,028
The Company's share of pretax income	<b>\$ 2,926</b>	\$ 224	\$ 1,151

The Company's share of pretax income includes management fees earned from the unconsolidated joint ventures.

## NOTE 7. MORTGAGES AND NOTES PAYABLE

**Construction** Mortgages and notes payable consisted of the following (interest rates are as of November 30):

IN THOUSANDS	NOVEMBER 30,	
	2000	1999
Unsecured domestic borrowings with banks under a revolving credit agreement (7% in 2000 and 6% in 1999)	<b>\$120,000</b>	\$ 50,000
Other unsecured domestic borrowings with banks due within one year (6% to 6% in 1999)		9,000
Unsecured French borrowings (5% to 6% in 2000 and 3% to 7% in 1999)	<b>125,135</b>	49,940
Term loan borrowings (8% in 2000 and 6% in 1999)	<b>160,950</b>	200,000
Shareholder notes (6% in 2000)	<b>78,000</b>	
Mortgages and land contracts due to land sellers and other loans (4% to 10% in 2000 and 7% to 10% in 1999)	<b>29,780</b>	30,583
Senior notes due 2004 at 7%	<b>175,000</b>	175,000
Senior subordinated notes due 2003 at 9%	<b>174,534</b>	174,370
Senior subordinated notes due 2006 at 9%	<b>124,581</b>	124,531
Total mortgages and notes payable	<b>\$987,980</b>	\$813,424

On January 7, 1999, in connection with the acquisition of Lewis Homes, the Company obtained a \$200,000,000 Term Loan Agreement to refinance certain debt assumed. The Term Loan Agreement provided for three payments of \$25,000,000, due on January 31, 2000, April 30, 2000 and July 31, 2000, with the remaining principal balance due on April 30, 2001. Interest was payable monthly at the London Interbank Offered Rate plus an applicable spread. Under the terms of the Term Loan Agreement, the Company was required, among other things, to maintain certain financial statement ratios and a minimum net worth and was subject to limitations on acquisitions, inventories and indebtedness. The financing obtained under the Term Loan Agreement did not affect the amounts available under the Company's pre-existing borrowing arrangements.

On October 6, 2000, the Company entered into a \$725,000,000 unsecured credit agreement (the "\$725,000,000 Unsecured Credit Facility"), consisting of a \$564,050,000 four-year committed revolving credit facility and a \$160,950,000 five-year term loan, which together replaced its previously existing revolving credit facility and Term Loan Agreement. The \$725,000,000 Unsecured Credit Facility could be expanded up to an aggregate total of \$900,000,000 if additional bank lending commitments are obtained. Interest on the \$725,000,000 Unsecured Credit Facility is payable monthly at the London Interbank Offered Rate plus an applicable spread on amounts borrowed.

The Company's French subsidiaries have lines of credit with various banks which totaled \$207,824,000 at November 30, 2000 and have various committed expiration dates through November 2003. These lines of credit provide for interest on borrowings at either the French Federal Funds Rate or the Paris Interbank Offered Rate plus an applicable spread.

On September 21, 2000, in connection with the repurchase of 4,000,000 shares from the Lewis holders, the Company issued promissory notes (the "Shareholder Notes"), with an aggregate principal amount of \$78,000,000, to the Lewis holders. Interest on the Shareholder Notes is accrued monthly at an annual rate of 6%. Under the terms of the notes, principal payments of \$26,000,000 plus accrued interest are due on January 4, 2001, June 7, 2001 and December 6, 2001.

The weighted average annual interest rate on aggregate unsecured borrowings, excluding the senior and senior subordinated notes, was 7% and 6% at November 30, 2000 and 1999, respectively.

On April 26, 1993, the Company issued \$175,000,000 principal amount of 9% senior subordinated notes at 99.202%. The notes are due May 1, 2003 with interest payable semi-annually. The notes represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The Company may redeem the notes, in whole or in part, at any time at 100% of their principal amount.

On October 29, 1996, the Company filed a universal shelf registration statement (the "1996 Shelf Registration") with the Securities and Exchange Commission for up to \$300,000,000 of the Company's debt and equity securities. The Company's previously outstanding shelf registration for debt securities in the amount of \$100,000,000 was subsumed within the 1996 Shelf Registration. On November 14, 1996, the Company utilized the 1996 Shelf Registration to issue \$125,000,000 of 9% senior subordinated notes at 99.525%. The notes, which are due November 15, 2006 with interest payable semi-annually, represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The notes are redeemable at the option of the Company, in whole or in part, at 104.8125% of their principal amount beginning November 15, 2001, and thereafter, at prices declining annually to 100% on and after November 15, 2004.

On October 14, 1997, pursuant to the 1996 Shelf Registration, the Company issued \$175,000,000 of 7% senior notes at 100% of the principal amount of the notes. The notes, which are due October 15, 2004 with interest payable semi-annually, represent unsecured obligations of the Company and rank pari passu in right of payment with all other senior unsecured indebtedness of the Company. The notes are not redeemable by the Company prior to stated maturity. This offering resulted in the issuance of all available securities under the 1996 Shelf Registration.

The 7% senior notes and 9% and 9% senior subordinated notes contain certain restrictive covenants that, among other things, limit the ability of the Company to incur additional indebtedness, pay dividends, make certain investments, create certain liens, engage in mergers, consolidations, or sales of assets, or engage in certain transactions with officers, directors and employees. Under the terms of the \$725,000,000 Unsecured Credit Facility, the Company is required, among other things, to maintain certain financial statement ratios and a minimum net worth and is subject to limitations on acquisitions, inventories and indebtedness. Based on the terms of the Company's \$725,000,000 Unsecured Credit Facility, senior notes and senior subordinated notes, retained earnings of \$108,599,000 were available for payment of cash dividends or stock repurchases at November 30, 2000.

Principal payments on senior and senior subordinated notes, term loan borrowings, shareholder notes, mortgages, land contracts and other loans are due as follows: 2001, \$65,072,000; 2002, \$37,355,000; 2003, \$179,112,000; 2004, \$175,668,000; 2005, \$160,989,000; and thereafter, \$124,649,000.

Assets (primarily inventories) having a carrying value of approximately \$75,243,000 are pledged to collateralize mortgages, land contracts and other secured loans.

On December 5, 1997, the Company filed a universal shelf registration statement (the "1997 Shelf Registration") with the Securities and Exchange Commission for up to \$500,000,000 of the Company's debt and equity securities. This universal shelf registration provides that securities may be offered from time to time in one or more series and in the form of senior, senior subordinated or subordinated debt, preferred stock, common stock, and/or warrants to purchase such securities. The registration was declared effective on December 16, 1997, and as of November 30, 2000 no securities had been issued thereunder.

**Mortgage Banking** Notes payable included the following (interest rates are as of November 30):

IN THOUSANDS	NOVEMBER 30,	
	2000	1999
Mortgage Warehouse Facility (6% in 2000 and 6% in 1999)	<b>\$228,922</b>	\$240,102
Master Loan and Security Agreement (6% in 2000 and 6% in 1999)	<b>156,372</b>	137,564
Total notes payable	<b>\$385,294</b>	\$377,666

First mortgages receivable are financed through a \$300,000,000 revolving mortgage warehouse agreement (the "Mortgage Warehouse Facility"). On February 18, 2000, the Company's mortgage banking subsidiary renewed its Mortgage Warehouse Facility and increased the facility from \$250,000,000. The Mortgage Warehouse Facility, which expires on February 18, 2003, provides for an annual fee based on the committed balance of the facility and provides for interest at either the London Interbank Offered Rate or the Federal Funds Rate plus an applicable spread on amounts borrowed.

On May 19, 2000, the Company's mortgage banking subsidiary renewed its Master Loan and Security Agreement with an investment bank and increased the maximum amount available under the agreement from \$150,000,000 to \$250,000,000. The agreement, which expires on May 18, 2001, provides for a facility fee based on the \$250,000,000 maximum amount available and provides for interest to be paid monthly at the Eurodollar Rate plus an applicable spread on amounts borrowed.

The amounts outstanding under the Mortgage Warehouse Facility and the Master Loan and Security Agreement are secured by a borrowing base, which includes certain mortgage loans held under commitments of sale and are repayable from sales proceeds. There are no compensating balance requirements under either facility. Both facilities include financial covenants and restrictions which, among other things, require the maintenance of certain financial statement ratios, a minimum tangible net worth and a minimum net income.

Collateralized mortgage obligations represent bonds issued to third parties which are collateralized by mortgage-backed securities with substantially the same terms. At both November 30, 2000 and 1999, the collateralized mortgage obligations bore interest at rates ranging from 8% to 12% with stated original principal maturities ranging from 3 to 30 years. Actual maturities are dependent on the rate at which the underlying mortgage-backed securities are repaid. No collateralized mortgage obligations have been issued since 1988.

*NOTE 8. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY DEBENTURES OF THE COMPANY (FELINE PRIDES)*

On July 7, 1998, the Company, together with KBHC Financing I, a Delaware statutory business trust (the "KBHC Trust") that is wholly owned by the Company, issued an aggregate of (i) 18,975,000 Feline Prides, and (ii) 1,000,000 KBHC Trust capital securities, with a \$10 stated liquidation amount. The Feline Prides consisted of (i) 17,975,000 Income Prides with a stated amount per Income Prides of \$10 (the "Stated Amount"), which are units comprised of a capital security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments, and (ii) 1,000,000 Growth Prides with a face amount per Growth Prides equal to the Stated Amount, which are units consisting of a 1/100th beneficial interest in a zero-coupon U.S. Treasury security and a stock purchase contract under which the holders will purchase common stock from the Company not later than August 16, 2001 and the Company will pay to the holders certain unsecured contract adjustment payments.

The distribution rate on the Income Prides is 8.25% per annum and the distribution rate on the Growth Prides is .75% per annum. Under the stock purchase contracts, investors will be required to purchase shares of common stock of the Company for an effective price ranging between a minimum of \$31.75 per share and a maximum of \$38.10 per share, and the Company will issue



approximately 5,000,000 to 6,000,000 common shares by August 16, 2001, depending upon the price of the common stock upon settlement of the purchase contracts (subject to adjustment under certain circumstances). The capital securities associated with the Income Prides and the U.S. Treasury securities associated with the Growth Prides have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts. The capital securities issued by the KBHC Trust are entitled to a distribution rate of 8% per annum of their \$10 stated liquidation amount.

The KBHC Trust utilized the proceeds from the issuance of the Feline Prides and capital securities to purchase an equivalent principal amount of the Company's 8% Debentures due August 16, 2003 (the "8% Debentures"). The 8% Debentures are the sole asset of the KBHC Trust. The Company's obligations under the Debentures and related agreements, taken together, constitute a firm and unconditional guarantee by the Company of the KBHC Trust's obligations under the capital securities. The interest rate on the 8% Debentures and the distribution rate on the capital securities of the KBHC Trust are to be reset, subject to certain limitations, effective August 16, 2001. The Company has recorded the present value of the contract adjustment payments on the Feline Prides, totaling \$1,600,000, as a liability and a reduction of stockholders' equity. The liability will be reduced as the contract adjustment payments are made. The Company has the right to defer the contract adjustment payments and the payment of interest on the 8% Debentures, but any such election will subject the Company to restrictions on the payment of dividends on, and redemption of, its outstanding shares of common stock, and on the payment of interest on, or redemption of, debt securities of the Company junior in rank to the 8% Debentures, none of which are currently outstanding. Distributions of \$15,180,000, \$15,180,000 and \$6,072,000 are included as minority interests in the Company's results of operations for each of the years ended November 30, 2000, 1999 and 1998, respectively.

*NOTE 9. FAIR VALUES OF FINANCIAL INSTRUMENTS*

The estimated fair values of financial instruments have been determined based on available market information and appropriate valuation methodologies. However, judgment is necessarily required in interpreting market data to develop the estimates of fair value. In that regard, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying values and estimated fair values of the Company's financial instruments, except for those for which the carrying values approximate fair values, are summarized as follows:

IN THOUSANDS	NOVEMBER 30.			
	2000		1999	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
<i>Construction:</i>				
Financial liabilities				
7% Senior notes	\$175,000	\$164,745	\$175,000	\$163,520
9% Senior subordinated notes	174,534	173,110	174,370	174,738
9% Senior subordinated notes	124,581	122,388	124,531	125,700
<i>Mortgage banking:</i>				
Financial assets				
Mortgage-backed securities	31,403	32,003	37,991	38,676
Financial liabilities				
Collateralized mortgage obligations secured by mortgage-backed securities	29,928	30,982	36,219	36,897
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	189,750	175,000	189,750	141,800

The Company used the following methods and assumptions in estimating fair values:

Cash and cash equivalents; first mortgages held under commitments of sale and other receivables; borrowings under the unsecured credit facilities, Shareholder Notes, French lines of credit, Mortgage Warehouse Facility and Master Loan and Security Agreement: The carrying amounts reported approximate fair values.

Senior notes and senior subordinated notes: The fair values of the Company's senior notes and senior subordinated notes are estimated based on quoted market prices.

Mortgage-backed securities and collateralized mortgage obligations secured by mortgage-backed securities: The fair values of these financial instruments are estimated based on quoted market prices for the same or similar issues.

Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company: The fair values of these financial instruments are based on quoted market prices on the New York Stock Exchange.

#### *NOTE 10. COMMITMENTS AND CONTINGENCIES*

Commitments and contingencies include the usual obligations of homebuilders for the completion of contracts and those incurred in the ordinary course of business. The Company is also involved in litigation incidental to its business, the disposition of which should have no material effect on the Company's financial position or results of operations.

#### *NOTE 11. STOCKHOLDERS' EQUITY*

**Preferred Stock** On February 4, 1999, the Company adopted a new Stockholder Rights Plan to replace its preexisting shareholder rights plan adopted in 1989 (the "1989 Rights Plan"), and declared a dividend distribution of one preferred share purchase right for each outstanding share of common stock; such rights were issued on March 7, 1999, simultaneously with the expiration of the rights issued under the 1989 Rights Plan. Under certain circumstances, each right entitles the holder to purchase 1/100th of a share of the Company's Series A Participating Cumulative Preferred Stock at a price of \$135.00, subject to certain antidilution provisions. The rights are not exercisable until the earlier to occur of (i) 10 days following a public announcement that a person or group has acquired Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock or (ii) 10 days following the commencement of a tender offer for Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock. If, without approval of the Board of Directors, the Company is acquired in a merger or other business combination transaction, or 50% or more of the Company's assets or earning power is sold, each right will entitle its holder to receive, upon exercise, common stock of the acquiring company having a market value of twice the exercise price of the right; and if, without approval of the Board of Directors, any person or group acquires Company stock representing 15% or more of the aggregate votes entitled to be cast by all shares of common stock, each right will entitle its holder to receive, upon exercise, common stock of the Company having a market value of twice the exercise price of the right. At the option of the Company, the rights are redeemable prior to becoming exercisable at \$.005 per right. Unless previously redeemed, the rights will expire on March 7, 2009. Until a right is exercised, the holder will have no rights as a stockholder of the Company, including the right to vote or receive dividends.

#### *NOTE 12. EMPLOYEE BENEFIT AND STOCK PLANS*

Benefits are provided to most employees under the Company's 401(k) Savings Plan under which contributions by employees are partially matched by the Company. The aggregate cost of this plan to the Company was \$4,513,000 in 2000, \$3,937,000 in 1999 and \$3,025,000 in 1998.

The Company's 1999 Incentive Plan (the "1999 Plan") provides that stock options, associated limited stock appreciation rights, restricted shares of common stock, stock units and other securities may be awarded to eligible individuals for periods of up to 15 years. The Company also has a Performance-Based Incentive Plan for Senior Management (the "Incentive Plan") and a 1998 Stock Incentive Plan (the "1998 Plan") which provide for the same awards as may be made under the 1999 Plan, but require that such awards be subject to certain conditions which are designed to assure that annual compensation paid in excess of \$1,000,000 to participating executives is tax deductible for the Company. The 1998 Plan and the 1999 Plan are the Company's primary existing employee stock plans.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), issued in October 1995, established financial accounting and reporting standards for stock-based employee compensation plans. As permitted by SFAS No. 123, the Company elected to continue to use APB Opinion No. 25 and related interpretations in accounting for its stock options. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards in 2000, 1999 and 1998 consistent with the provisions of SFAS No. 123, the Company's net income and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
Net income – as reported	<b>\$209,960</b>	\$147,469	\$95,267
Net income – pro forma	<b>205,652</b>	142,816	91,398
Diluted earnings per share – as reported	<b>5.24</b>	3.08	2.32
Diluted earnings per share – pro forma	<b>5.10</b>	2.99	2.24

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2000, 1999 and 1998, respectively: a risk free interest rate of 5.44%, 6.14% and 4.38%; an expected volatility factor for the market price of the Company's common stock of 44.82%, 43.14% and 41.31%; a dividend yield of 1.00%, 1.36% and 1.19%; and an expected life of 4 years, 4 years and 4 years. The weighted average fair value of options granted in 2000, 1999 and 1998 was \$7.70, \$6.92 and \$6.09, respectively.

Stock option transactions are summarized as follows:

	2000		1999		1998	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at beginning of year	<b>4,849,822</b>	<b>\$17.26</b>	2,965,067	\$15.22	2,747,318	\$ 9.98
Granted	<b>1,615,176</b>	<b>24.74</b>	2,241,736	20.12	1,318,017	22.83
Exercised	<b>(306,628)</b>	<b>16.46</b>	(211,925)	16.43	(995,235)	10.70
Cancelled	<b>(419,638)</b>	<b>21.08</b>	(145,056)	21.00	(105,033)	16.56
Options outstanding at end of year	<b>5,738,732</b>	<b>\$19.13</b>	4,849,822	\$17.26	2,965,067	\$15.22
Options exercisable at end of year	<b>2,773,254</b>	<b>\$15.60</b>	2,041,106	\$13.83	1,586,455	\$12.16
Options available for grant at end of year	<b>1,671,996</b>		2,867,334		2,464,014	

NOTE 13. INCOME TAXES

The components of pretax income are as follows:

IN THOUSANDS	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
Domestic	\$263,266	\$200,272	\$136,042
Foreign	34,394	26,597	10,525
Total pretax income	\$297,660	\$226,869	\$146,567

The components of income taxes are as follows:

IN THOUSANDS	TOTAL	FEDERAL	STATE	FOREIGN
<i>2000</i>				
Currently payable	\$70,818	\$ 43,776	\$17,000	\$10,042
Deferred	16,882	11,586		5,296
Total	\$87,700	\$ 55,362	\$17,000	\$15,338
<i>1999</i>				
Currently payable	\$87,428	\$ 65,557	\$11,755	\$10,116
Deferred	(8,028)	(12,411)		4,383
Total	\$79,400	\$ 53,146	\$11,755	\$14,499
<i>1998</i>				
Currently payable	\$52,628	\$ 39,989	\$ 8,498	\$ 4,141
Deferred	(1,328)	(3,145)		1,817
Total	\$51,300	\$ 36,844	\$ 8,498	\$ 5,958

Stock options outstanding at November 30, 2000 are as follows:

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
\$ 4.38 to \$14.56	1,255,489	5.10	\$ 7.78	1,214,989	\$ 7.55
\$16.13 to \$19.88	1,103,166	13.60	17.79	385,381	17.86
\$20.25 to \$24.85	1,833,714	12.74	22.42	1,085,929	22.54
\$25.00 to \$33.94	1,546,363	14.78	25.39	86,955	31.29
\$ 4.38 to \$33.94	5,738,732	11.78	\$19.13	2,773,254	\$15.60

The Company records proceeds from the exercise of stock options as additions to common stock and paid-in capital. The tax benefit, if any, is recorded as additional paid-in capital.

In 1991, the Board of Directors approved the issuance of restricted stock awards under the 1988 Plan of up to an aggregate 600,000 shares of common stock to certain officers and key employees. Restrictions lapse each year through May 10, 2005 on specified portions of the shares awarded to each participant so long as the participant has remained in the continuous employ of the Company. Restricted shares under this grant outstanding at the end of the year totaled 108,331 in 2000, 129,998 in 1999 and 151,665 in 1998.

On August 4, 1999, the Company's Board of Directors authorized a share repurchase program which allowed the Company to purchase shares of its common stock at prices not to exceed \$28 per share. As of November 30, 2000, the Board of Directors had authorized the repurchase of a total of 14,500,000 shares. The Company had repurchased 14,500,000 shares and 3,750,100 shares, respectively, under the repurchase program as of November 30, 2000 and 1999.

In connection with its share repurchase program, on August 27, 1999, the Company established a grantor stock ownership trust (the "Trust") into which certain of the repurchased shares have been transferred. The Trust, administered by an independent trustee, acquires, holds and distributes the shares of common stock for the purpose of funding certain employee compensation and employee benefit obligations of the Company under its existing stock option, 401(k) and other employee benefit plans. The existence of the Trust has no impact on the amount of benefits or compensation that is paid under these plans.

For financial reporting purposes, the Trust is consolidated with the Company. Any dividend transactions between the Company and the Trust are eliminated. Acquired shares held by the Trust remain valued at the market price at the date of purchase and are shown as a reduction to stockholders' equity in the consolidated balance sheet. The difference between the Trust share value and the fair market value on the date shares are released from the Trust, for the benefit of employees, will be included in additional paid-in capital. Common stock held in the Trust is not considered outstanding in the computation of earnings per share. The Trust held 8,782,252 and 3,750,100 shares of common stock at November 30, 2000 and 1999, respectively. The trustee votes shares held by the Trust in accordance with voting directions from eligible employees, as specified in a trust agreement with the trustee.

Deferred income taxes result from temporary differences in the financial and tax bases of assets and liabilities. Significant components of the Company's deferred tax liabilities and assets are as follows:

IN THOUSANDS	NOVEMBER 30.	
	2000	1999
<i>Deferred tax liabilities:</i>		
Installment sales	\$ 15,763	\$ 15,471
Bad debt and other reserves	468	449
Capitalized expenses	21,970	15,704
Partnerships and joint ventures	1,237	2,439
Repatriation of foreign subsidiaries		12,381
Other	3,917	12,179
Total deferred tax liabilities	43,355	58,623
<i>Deferred tax assets:</i>		
Warranty, legal and other accruals	27,372	29,210
Depreciation and amortization	19,328	27,957
Capitalized expenses	14,928	16,370
Partnerships and joint ventures	14,139	13,183
Noncash charge for impairment of long-lived assets	6,400	7,686
Foreign tax credits		12,346
Net operating losses	20,347	40,121
Other	14,683	11,269
Total deferred tax assets	117,197	158,142
Net deferred tax assets	\$ 73,842	\$ 99,519

Net operating loss carryforwards expire in various years from 2005 through 2018. The Company expects that the entire deferred tax benefit of the tax loss carryforwards will be recognized in future periods.

Income taxes computed at the statutory United States federal income tax rate and income tax expense provided in the financial statements differ as follows:

IN THOUSANDS	YEARS ENDED NOVEMBER 30.		
	2000	1999	1998
Amount computed at statutory rate	\$104,181	\$ 79,404	\$51,298
Increase (decrease) resulting from:			
State taxes, net of federal income tax benefit	11,050	7,641	5,524
Differences in foreign tax rates	853	4,379	1,594
Intercompany dividends	(2,537)	1,153	977
Tax credits	(24,211)	(11,329)	(3,351)
Other, net	(1,636)	(1,848)	(4,742)
Total	\$ 87,700	\$ 79,400	\$51,300

The Company has commitments to invest \$6,197,000 over five years in affordable housing partnerships which are scheduled to provide tax credits.

The Company had foreign tax credit carryforwards at November 30, 2000 of \$1,000,000 for United States federal income tax purposes which expire in 2004.

*NOTE 14. GEOGRAPHICAL INFORMATION*

The following table presents information about the Company by geographic area. The Company's domestic construction operations are comprised of three regions as follows: West Coast – California; Southwest – Arizona, Nevada and New Mexico; and Central – Colorado and Texas.

IN THOUSANDS	REVENUES	OPERATING INCOME	IDENTIFIABLE ASSETS
<i>2000</i>			
Construction:			
West Coast	<b>\$1,466,418</b>	<b>\$ 95,243</b>	<b>\$ 907,956</b>
Southwest	<b>862,822</b>	<b>67,899</b>	<b>427,347</b>
Central	<b>1,065,803</b>	<b>90,018</b>	<b>531,074</b>
Foreign	<b>475,445</b>	<b>35,449</b>	<b>495,391</b>
Total construction	<b>3,870,488</b>	<b>288,609</b>	<b>2,361,768</b>
Mortgage banking	<b>60,370</b>	<b>23,832</b>	<b>467,153</b>
Total	<b>\$3,930,858</b>	<b>\$312,441</b>	<b>\$2,828,921</b>
<i>1999</i>			
Construction:			
West Coast	\$1,579,226	\$115,515	\$ 905,890
Southwest	830,418	58,434	481,997
Central	950,177	59,488	505,144
Foreign	412,300	25,670	321,045
Total construction	3,772,121	259,107	2,214,076
Mortgage banking	64,174	17,464	450,159
Total	\$3,836,295	\$276,571	\$2,664,235
<i>1998</i>			
Construction:			
West Coast	\$1,105,849	\$ 82,939	\$ 655,920
Southwest	352,389	25,742	258,081
Central	690,019	32,493	398,308
Foreign	254,709	7,498	230,235
Total construction	2,402,966	148,672	1,542,544
Mortgage banking	46,396	21,413	317,660
Total	\$2,449,362	\$170,085	\$1,860,204

*NOTE 15. QUARTERLY RESULTS (UNAUDITED)*

Quarterly results for the years ended November 30, 2000 and 1999 follow:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	FIRST	SECOND	THIRD	FOURTH
<i>2000</i>				
Revenues	<b>\$799,585</b>	<b>\$906,182</b>	<b>\$ 981,024</b>	<b>\$1,244,067</b>
Operating income	<b>47,275</b>	<b>53,678</b>	<b>81,964</b>	<b>129,524</b>
Pretax income	<b>77,414</b>	<b>42,700</b>	<b>66,439</b>	<b>111,107</b>
Net income	<b>64,214</b>	<b>27,700</b>	<b>44,639</b>	<b>73,407</b>
Basic earnings per share	<b>1.51</b>	<b>.70</b>	<b>1.17</b>	<b>2.10</b>
Diluted earnings per share	<b>1.47</b>	<b>.68</b>	<b>1.14</b>	<b>2.00</b>
<i>1999</i>				
Revenues	\$694,143	\$862,270	\$1,057,113	\$1,222,769
Operating income	34,134	56,494	72,058	113,885
Pretax income	24,886	43,975	58,781	99,227
Net income	16,186	28,575	38,181	64,527
Basic earnings per share	.36	.60	.80	1.39
Diluted earnings per share	.35	.58	.78	1.36

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

*NOTE 16. SUBSEQUENT EVENT (UNAUDITED)*

On February 8, 2001, pursuant to the 1997 Shelf Registration, the Company issued \$250,000,000 of 9½% senior subordinated notes at 100% of the principal amount of the notes. The notes, which are due February 15, 2011 with interest payable semi-annually, represent unsecured obligations of the Company and are subordinated to all existing and future senior indebtedness of the Company. The notes are redeemable at the option of the Company, in whole or in part, at 104.750% of their principal amount beginning February 15, 2006, and thereafter at prices declining annually to 100% on and after February 15, 2009. Proceeds from the issuance of the notes were used to pay down bank borrowings.



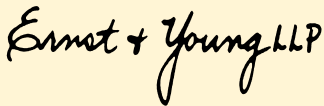
## report of independent auditors

To the Board of Directors and Stockholders of KB Home:

We have audited the accompanying consolidated balance sheets of KB Home as of November 30, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KB Home at November 30, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States.

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font. The letters are dark and the overall appearance is professional and elegant.

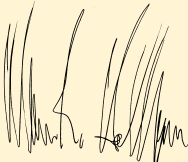
Los Angeles, California  
December 21, 2000

## report on financial statements

The accompanying consolidated financial statements are the responsibility of management. The statements have been prepared in conformity with generally accepted accounting principles. Estimates and judgments of management based on its current knowledge of anticipated transactions and events are made to prepare the financial statements as required by generally accepted accounting principles. Management relies on internal accounting controls, among other things, to produce records suitable for the preparation of financial statements.

The responsibility of our external auditors for the financial statements is limited to their expressed opinion on the fairness of the consolidated financial statements taken as a whole. Their examination is performed in accordance with generally accepted auditing standards which include tests of our accounting records and internal accounting controls and evaluation of estimates and judgments used to prepare the financial statements. The Company employs a staff of internal auditors whose work includes evaluating and testing internal accounting controls.

An audit committee of outside members of the Board of Directors periodically meets with management, the external auditors and the internal auditors to evaluate the scope of auditing activities and review results. Both the external and internal auditors have the unrestricted opportunity to communicate privately with the audit committee.



William R. Hollinger  
Vice President and Controller  
December 21, 2000

## board of directors

**Ron Burkle<sup>1,3</sup>**

Managing Partner, The Yucaipa Companies  
Los Angeles

**Henry G. Cisneros<sup>3</sup>**

Chairman and Chief Executive Officer  
American CityVista  
San Antonio

**Jane Evans<sup>1,4</sup>**

President and Chief Executive Officer,  
GAMUT Interactive, Inc.  
Phoenix

**Dr. Ray R. Irani<sup>4</sup>**

Chairman and Chief Executive Officer,  
Occidental Petroleum Corporation  
Los Angeles

**James A. Johnson<sup>3</sup>**

Chairman and Chief Executive Officer,  
Johnson Capital Partners  
Former Chairman and Chief Executive Officer,  
Fannie Mae  
Washington, D.C.

**Bruce Karatz<sup>2</sup>**

Chairman and Chief Executive Officer,  
KB Home  
Los Angeles

**Randall W. Lewis**

Executive Vice President,  
Lewis Operating Corp.  
Los Angeles

**Dr. Barry Munitz<sup>1,4</sup>**

President,  
The J. Paul Getty Trust  
Los Angeles

**Guy Nafilyan**

Executive Vice President,  
KB Home  
Los Angeles  
Chairman and Chief Executive Officer,  
Kaufman & Broad S.A.  
Paris

**Luis G. Nogales<sup>3,4</sup>**

President,  
Nogales Partners  
Los Angeles

**Sanford C. Sigoloff<sup>1,2</sup>**

Chairman, President and Chief Executive Officer,  
Sigoloff & Associates, Inc.  
Los Angeles

**Committees of the Board of Directors**

<sup>1</sup> Audit and Compliance Committee

<sup>2</sup> Executive Committee

<sup>3</sup> Nominating and Corporate Governance Committee

<sup>4</sup> Personnel, Compensation and Stock Plan Committee

## management

### CORPORATE OFFICERS

**Glen Barnard**

Executive Vice President and President, e.kb Inc.

**Bryan Binyon**

Vice President and Treasurer

**George A. Brenner**

Vice President and Chief Information Officer

**James R. Caldwell**

Vice President

**Cory F. Cohen**

Vice President, Tax

**Ken Gancarczyk**

Vice President, Builder Services

**Lawrence B. Gotlieb**

Vice President

**William R. Hollinger**

Vice President and Contoller

**Lisa G. Kalmbach**

Senior Vice President

**Bruce Karatz**

Chairman and Chief Executive Officer

**Kimberly N. King**

Corporate Secretary

**Kathleen L. Knoblauch**

Vice President

**Joe Manisco**

Vice President

**Wendy L. Marlett**

Vice President, Marketing

**Mary McCarthy**

Senior Vice President, Corporate Communications

**Jeffrey T. Mezger**

Executive Vice President and Chief Operating Officer

**Barton P. Pachino**

Senior Vice President and General Counsel

**Steve Peterson**

Vice President

**Albert Z. Praw**

Senior Vice President, Asset Management and Acquisitions

**Gary A. Ray**

Senior Vice President, Human Resources

**Beth Schoenegge**

Vice President

**Nancy S. Schwappach**

Vice President

**David Simons**

Vice President

**Victor Toledo**

Vice President

### DIVISION MANAGEMENT

#### WEST COAST

**William R. Cardon**

Regional General Manager and President, Orange County Division

**Robert Freed**

Regional General Manager and President, Northbay and South Bay Divisions

**Martin Lighterink**

President, San Diego Division

**Jay L. Moss**

Regional General Manager and President, Greater Los Angeles Division

#### SOUTHWEST

**John H. Bremond**

President, Tucson Division

**Leah S. W. Bryant**

President, Las Vegas Division

**Bob Buthod**

Senior Vice President, New Mexico Division

**Steven M. Davis**

Regional General Manager and President, Phoenix Division

#### CENTRAL

**David Christian**

President, Dallas Division

**John "Buddy" E. Goodwin**

Regional General Manager and President, Houston Division

**Larry E. Oglesby**

President, Austin Division

**Dwaine Rivers**

President, San Antonio Division

**Dennis Welsch**

Regional General Manager and President, Colorado Division

#### FRANCE

**Pierre Beauchef**

President, Condominium Division Kaufman & Broad S.A., France

**Joel Monribot**

President, Single Family Homes Division Kaufman & Broad S.A., France

**Guy Nafilyan**

Chairman and Chief Executive Officer, Kaufman & Broad S.A., France

#### MORTGAGE COMPANY

**Mark Crivelli**

President, Kaufman and Broad Mortgage Company

## office locations

### CORPORATE

#### **Headquarters**

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(909) 623-5167 Fax

#### **houseCALL Center**

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Pleasanton, California 94588  
(800) 34-HOMES  
(925) 467-5506 Fax

#### **Mortgage Company**

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Woodland Hills, California 91367  
(818) 887-2275  
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(510) 792-5262 Fax

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#### **Nevada**

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(702) 614-2614 Fax

Reno Division  
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Sparks, Nevada 89431  
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(775) 331-0360 Fax

#### **New Mexico**

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(505) 344-5700 Fax

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(512) 491-9432 Fax

Dallas Division  
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(972) 267-0701 Fax

Houston Division  
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(713) 977-6678 Fax

San Antonio Division  
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San Antonio, Texas 78229  
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(210) 524-2641 Fax

### INTERNATIONAL DIVISION

#### **Kaufman & Broad S.A.**

Tour Maine Montparnasse  
33 avenue du Maine  
75755 Paris, Cedex 15  
011-331-4-538-2000  
011-331-4-538-2250 Fax

## stockholder information

### COMMON STOCK PRICES

	2000		1999	
	HIGH	LOW	HIGH	LOW
First Quarter	\$24 <sup>9</sup> / <sub>16</sub>	\$18 <sup>3</sup> / <sub>4</sub>	\$31	\$21 <sup>3</sup> / <sub>4</sub>
Second Quarter	22 <sup>7</sup> / <sub>8</sub>	16 <sup>5</sup> / <sub>16</sub>	28 <sup>3</sup> / <sub>4</sub>	21
Third Quarter	25 <sup>5</sup> / <sub>8</sub>	16 <sup>5</sup> / <sub>16</sub>	25 <sup>7</sup> / <sub>16</sub>	19 <sup>1</sup> / <sub>4</sub>
Fourth Quarter	32 <sup>3</sup> / <sub>16</sub>	23 <sup>5</sup> / <sub>16</sub>	25 <sup>5</sup> / <sub>16</sub>	16 <sup>3</sup> / <sub>4</sub>

### DIVIDEND DATA

KB Home paid a quarterly cash dividend of \$.075 per common share in 2000 and 1999.

### ANNUAL STOCKHOLDERS' MEETING

The 2001 Annual Stockholders' meeting will be held at The W Hotel, 930 Hilgard Avenue, in Los Angeles, California, at 9:00 a.m. on Thursday, April 5, 2001.

### STOCK EXCHANGE LISTINGS

KB Home's common stock is listed on the New York Stock Exchange and is also traded on the Boston, Cincinnati, Midwest, Pacific and Philadelphia Exchanges. The ticker symbol is KBH.

Kaufman & Broad S.A. is listed on the ParisBourse. The ticker symbol is KOE. KB SA's Web site address is ketb.com.

### TRANSFER AGENT

Mellon Investor Services LLC  
P.O. Box 3315  
South Hackensack, New Jersey 07606-1915  
(800) 356-2017  
www.mellon-investor.com

### INDEPENDENT AUDITORS

Ernst & Young LLP  
Los Angeles, California

### SHAREHOLDER INFORMATION

The Company's common stock is traded on the New York Stock Exchange under the symbol KBH. There were 45,508,345 shares of common stock outstanding as of February 1, 2001.

### FORM 10-K

The Company's 2000 Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by writing to the Company's Investor Relations department, or by visiting the Company's Web site at kbhome.com.

### HEADQUARTERS

KB Home  
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(310) 231-4222 Fax  
Location and Community Information:  
kbhome.com  
(800) 34-HOMES

### INVESTOR CONTACT

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### BONDHOLDER SERVICES ADDRESSES

#### & PHONE NUMBERS

8<sup>3</sup>/<sub>4</sub>% \$189,750,000 FELINE PRIDES – Due 8/16/01  
Trustee:

Bank One, N.A.  
Corporate Trust Investor Relations  
One Bank One Plaza  
Mail Code IL1-0126  
Chicago, Illinois 60670  
bondholder@em.fcncb.com  
(800) 524-9472

9% \$175,000,000 Note – Due 5/1/03

Trustee:  
State Street Bank and Trust Company of California, N.A.  
Corporate Trust Department  
633 West 5th Street, 12th Floor  
Los Angeles, California 90071  
corporatetrust.statestreet.com  
(800) 531-0368

7<sup>3</sup>/<sub>4</sub>% \$175,000,000 Note – Due 10/15/04

9% \$125,000,000 Note – Due 11/15/06

9<sup>1</sup>/<sub>2</sub>% \$250,000,000 Note – Due 2/15/11

Trustee:  
Sun Trust Bank  
Corporate Trust Division  
Mail Code 008  
25 Park Place, 24th Floor  
Building 10, Suite 810  
Atlanta, Georgia 30303-2900  
olga.warren@suntrust.com  
(800) 711-1614



## two carpenters

*{an old story}*



two carpenters were asked what they were doing:  
the first replied, "i am hammering." the second answered,  
*" i am on a team, building a home."*

