



# home

kb home  
2006 annual report

## financial highlights

*\$ millions, except unit and per share data*

years ended november 30,	2001	2006	5-year cagr
units	24,538	39,013	10%
revenues	\$4,574	\$11,004	19%
net income	\$208	\$482	18%
eps	\$2.67	\$5.82	17%
closing stock price	\$17	\$52	25%



in the 50 years kb home has been building the places americans call home, we have seen more than our share of cycles: booms and busts, upticks and downturns, expansions and contractions. But the cycles that truly drive our business year-in and year-out are life cycles. Regardless of where the economy is headed at any given moment in time, people continue to live their lives, and the events and milestones that shape those lives unfold largely at home.







A man travels the world over  
in search of what he needs and  
returns home to find it.

george moore

## dear kb home stockholder

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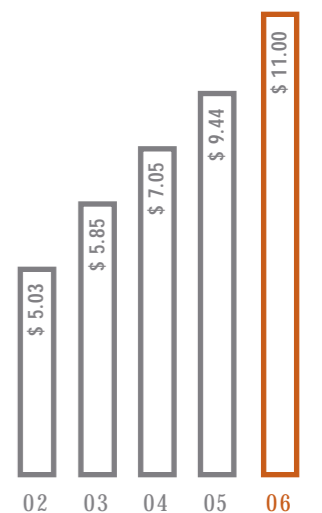
2006 was a challenging year for the homebuilding industry and our company. Yet in this less than favorable environment, the thousands of talented KB Home employees drove results that demonstrated our Company's resilience and underlying strength. For 2006, revenues reached a record-setting \$11 billion, an exceptional 17% gain over the prior year, and our new-home deliveries reached an all-time high of 39,013. At the same time, our net income of \$482 million was down 41% from 2005, due to lower operating margins and write-downs on land holdings that no longer met our internal investment standards.

2007 will be even more challenging. However, based on my 30 years of experience in the homebuilding industry, and having served the last 7 of my 13 years at KB Home as chief operating officer, I hold a highly optimistic view for the Company. Despite current market conditions and the internal difficulties we have endured in recent months, I have tremendous confidence in our long-term success.

Working with the senior management team, I have outlined a clear direction designed to not only weather the current housing slowdown, but to emerge stronger than ever as a company. In these fluid times, I believe a business needs to move fast. Over the past several months, we have quickly implemented a series of actions to right-size our overhead costs, lower inventory levels, reduce our land investments, garner additional savings from our subcontractor base, and focus on generating

free cash flow. We have re-visited every product offering in every market – re-tooling our designs and even disposing entirely of certain plans and communities – to make sure we are attuned to customer preferences and demand. As a result of these initiatives, I'm proud to say we are beginning 2007 as a business better aligned with current market conditions, while at the same time well-positioned both strategically and financially.

Moving forward, our strategy can be characterized as an all-out focus on our core business strengths and disciplines – taking a sensible,



total revenues  
in billions





sustainable approach aimed at achieving operational excellence. We call it KBNxt – the business model that is at the heart of KB Home. And while you have heard us outline the benefits of KBNxt before, it was truly designed for times like these, helping us to battle through a downturn and outperform other builders.

KBNxt puts a total focus on the customer. It champions a fact-based and process-driven approach to homebuilding founded on a constant and systematic assessment of consumer preferences and market opportunities. It emphasizes careful land selection, a built-to-order approach that offers buyers a tremendous number of choices in the layout and design features of their homes, an even-flow production of high quality homes at the lowest possible cost, and outstanding customer service.

Through our continued use of KBNxt, we aim to establish KB Home as the leader in every one of our markets while bringing greater operating efficiencies and consistency to our returns.

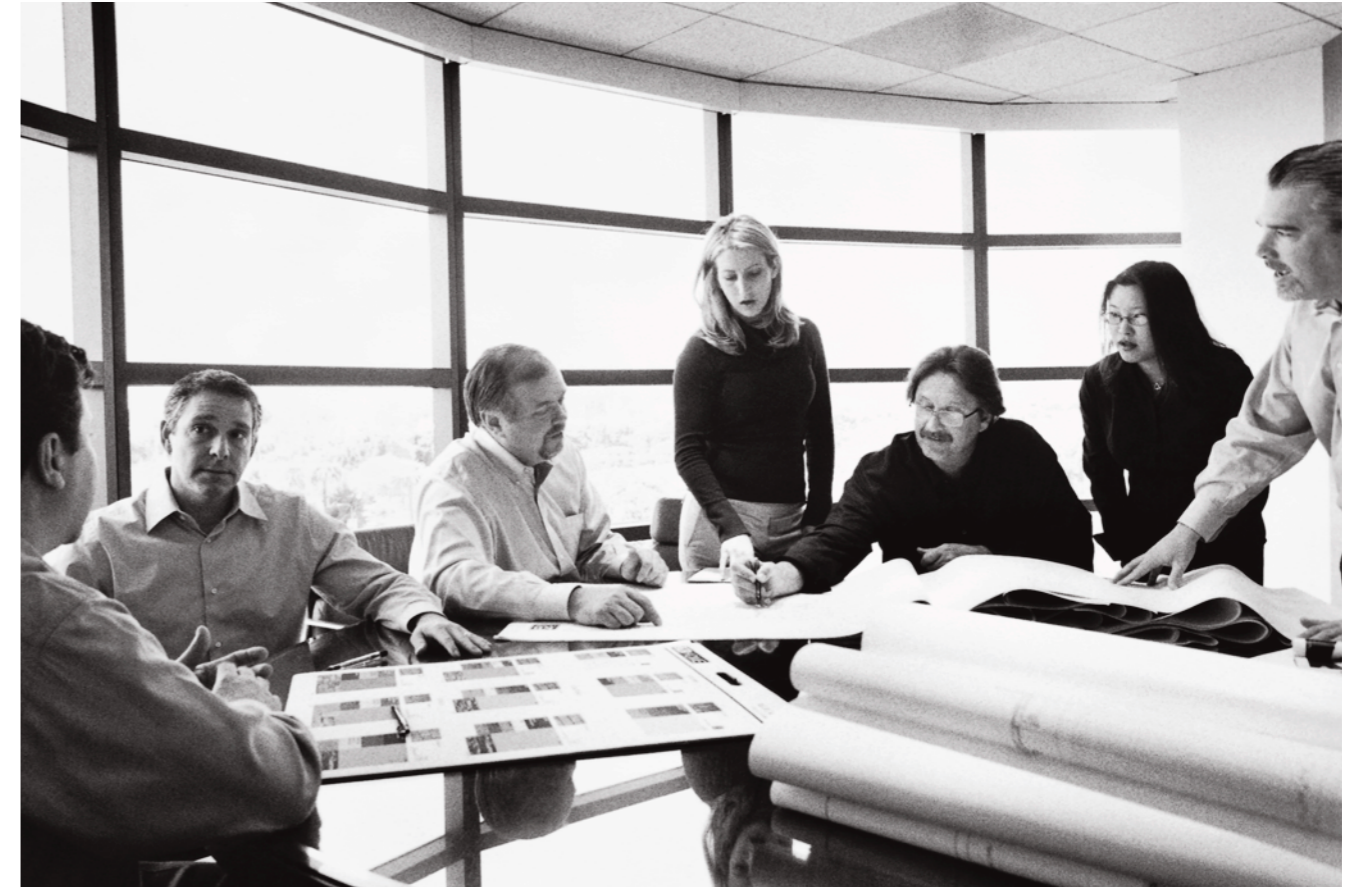


backlog value  
in billions

Looking back, some of our geographic expansion and product diversification initiatives, particularly our moves into significantly higher price ranges, were either premature or off-strategy – the result of an overeager reaction to an overheated market. Now, as an organization, we are determined to return to what we do best: serving as the premier low-cost producer of high quality, well-priced homes designed primarily for first-time, first-move-up and active adult buyers. We believe our renewed focus on KBNxt will help us fulfill the promise suggested both by our Company’s past performance and our unique strengths:

KB University (KBU), our proprietary professional education and knowledge-sharing system, offers new and seasoned employees alike a wide range of both live and Web-based tutorials ranging from sales fundamentals to model merchandising to customer satisfaction and so much more. Required KBNxt certifications in all functions ensure consistent levels of quality and performance across all skill sets.

- the unrivaled ability to offer homebuyers the luxury of a built-to-order home at a compelling and affordable price;
- an unsurpassed commitment to quality with stringent internal construction practices, as well as being the first to adopt rigorous third-party subcontractor certification provided by the National Association of Homebuilders (NAHB);
- a single, powerful brand that is respected and most-recognized from coast to coast;



- one comprehensive KBNxt playbook for running our business the same way in every operating division;
- an established presence in the majority of the fastest-growing U.S. housing markets; and
- a highly experienced management team with a deep industry background, averaging more than a decade of service at KB Home, and a work force with a single-minded commitment to customer satisfaction.

If it seems I am particularly close to the KBNxt operating model, it is because I was the first in KB Home to actually implement the processes and utilize them to turn around a business. In 1995, our Phoenix business was struggling in an extremely competitive marketplace. I had the opportunity to try something

KB Home boasts its own in-house architecture and design team, a significant attribute that’s unique from most other big builders. This highly skilled group utilizes detailed surveys as they refine both form and function to address homebuyer preferences and regional distinctions. The result is an extensive portfolio of proven designs tailored to the lives of our homeowners.

different – to hammer out a new kind of operating model that would eventually transform an entire industry. We changed the way we did everything from market research and land buying to the marketing and pre-selling of our homes. The value gained from cost efficiencies was passed on to homebuyers, giving them more home for the money. And, critical to the business model, the first KB Home Studio was opened, offering a level of choice that was previously available only in high-end custom homes.



At that time in Phoenix, we went from a business that was bleeding red ink, to a market leader in just a few short years. The KBnxt principles are the direct result of those early efforts – proof that you can make money through a strategically focused approach and better execution, without having to risk the vagaries of the marketplace.

### ALL THE RIGHT MOVES

So what are we doing to make certain KB Home reaps the full benefit of the trends working in our favor? In a word, we are intent on doing everything we do just *right*.

### adhering to the right model.

No single homebuilder can be all things to all buyers. The principal advantages of operating as one builder under one business model nationwide are the clarity of purpose and consistency in practice. With KBnxt we are able to realize considerable efficiencies through standardized systems, comprehensive training and the sharing of best practices companywide, while focusing on delivering homes at exceptional value to the largest concentration of buyers in any given market.

earnings per share



After an overwhelming public response in Atlanta, Raleigh and Southern California, the development of additional KB Home / Martha Stewart co-branded communities is underway.

This approach gives KB Home a distinct competitive edge on a national basis.

**doing business in all the right places.** Rapidly expanding into 18 new U.S. markets since 2001 was a challenge to the business. KB Home is now focused on increasing market share within each of the 40 markets where we build today. And since KB Home is already situated in many of the regions projected to experience the strongest long-term population and job growth, we believe there is an opportunity to double our deliveries without entering any new markets in the foreseeable future. There is also

huge growth potential within the industry. Despite considerable consolidation in recent years, the top 10 public homebuilders only represent an estimated 24% share of the U.S. housing market.

**offering precisely the right homes.** We continue to listen closely to our prospective customers through the feedback they provide in response to our homebuyers' survey, and use their input to make certain we offer the homes they want with the features they find most attractive and compelling. Unlike competitors who offer a limited range of products and force buyers to choose from among the "cars on the lot," KB Home distinguishes itself as a homebuilder that responds to consumer preferences and offers options that we know consumers will value and pay for. In addition,

while we will continue to be creative and enterprising in addressing housing needs in both urban and suburban environments, KB Home will not venture into product lines in which we are unlikely to be a dominant player.

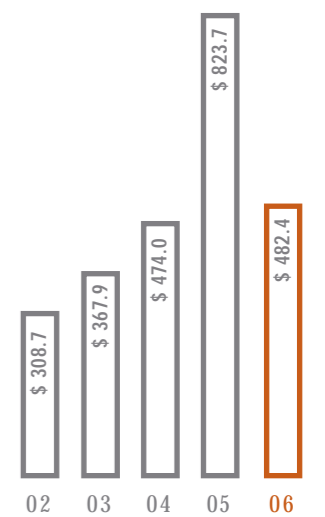
For many years, KB Home has benefited from the ingenuity and creativity of an in-house advertising and marketing organization that's made our brand the most-recognized in the business. Our team of marketers, artists and writers has devised the boldest campaigns and partnerships ever seen in our industry. The list includes nationwide promotions with FOX, Pepsi, The Simpsons, Live with Regis and Kelly, Extreme Makeover and most recently our astoundingly successful collaboration with Martha Stewart Living Omnimedia.

**making each home right for the customer.** Our commitment to quality, exemplified by our "100 Percent Complete and 100 Percent Satisfied" customer-satisfaction initiative, will not waver. Our mantra is and has always been to make certain that each of our homes is delivered complete and on time. Today's homebuyers are exceptionally selective, knowledgeable and well-informed, making it even more imperative that we continue to meet each customer's highest expectations.



**guided by the right values.** Ultimately, what buyers want in a home is what investors want in a home-builder: durability, value-creation, a safe haven and, above all, integrity. We at KB Home are committed to doing everything possible to deliver on all counts.

You should know that our Board of Directors, after overseeing a thorough internal review, has determined that current management had no involvement in the recent issues concerning our past stock option grant practices. As such, our team has been able to stay focused and get back to business very quickly. When the Board showed their faith in my



net income  
in millions





leadership by appointing me President and CEO in November, I immediately recognized the critical importance of restoring trust and confidence in our Company. I can assure you the incidents in question have underscored for me the need to institute improved corporate governance measures and provide greater

transparency to our investors. Together with our Board and senior management team, we are developing protocols and processes designed to ensure that our Company's good name remains above reproach.

This year, KB Home celebrates its 50th anniversary, a milestone that few American companies have achieved. This extraordinary moment gives us the opportunity to reflect on long-term trends from the vantage point of a mature industry player. It is worth noting that since our founding, the nation's homeownership rate has moved up from approximately 60% in 1957 to almost 70% at the end of 2006. During that period, the U.S. population has also been steadily increasing, reaching the 300 million mark in 2006. The increase in homeownership conveys how central and necessary it is to our daily lives,



KB Home was named top homebuilder in FORTUNE® magazine's rankings of "America's Most Admired Companies." This is a tremendous source of pride for the nationwide team of KB Home employees.

and underscores why we see growth in our future with exciting possibilities. Our customers today are motivated by the same events in life that motivated our very first homebuyers a half-century ago – a higher paying job, a new marriage, a growing family, an empty nest.

While I am honored and humbled to have been selected as our Company's chief executive, the truth is that the success of any business never rests with one individual. KB Home is over 5,000 men and women working together to fulfill the American Dream of homeownership, and to return exceptional value to the individuals and institutions who effectively endorse our efforts by purchasing a stake in our success.

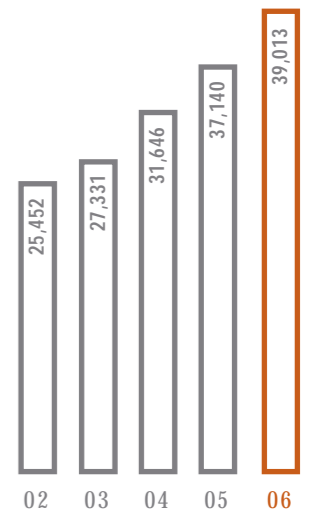


Your investment is a vote of confidence in our future. On behalf of all of us at KB Home, I thank you for that confidence, and promise to give our very best every day to earn the trust you have placed in us.

Sincerely,

*Jeff Mezger*

Jeffrey T. Mezger  
 president and  
 chief executive officer  
 kb home  
 February 2007



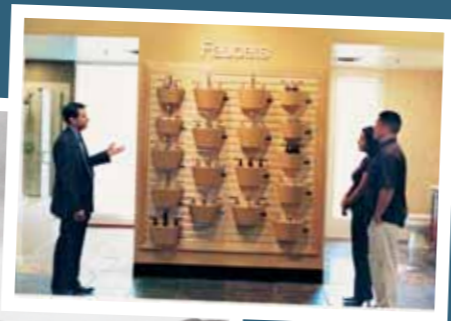
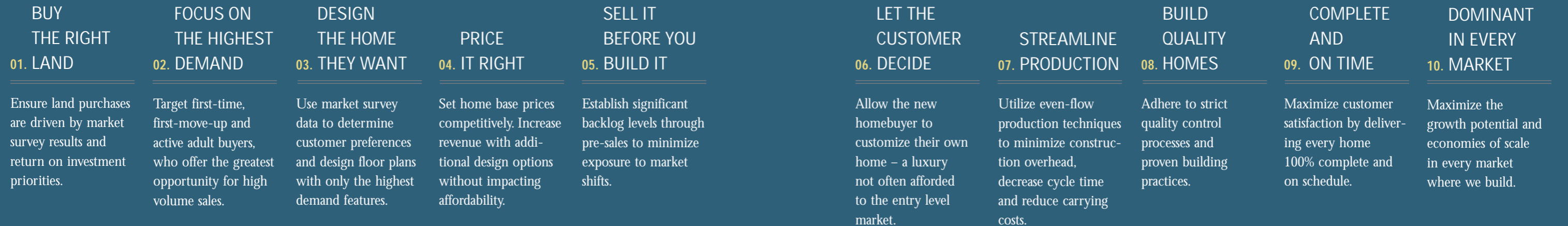
annual unit deliveries



# The 10 PRINCIPLES of the kbnxt business model

discipline and focus...with the customer front-and-center

KB Home developed and refined the KBnxt business model a decade ago as a means of offering our buyers greater control over the design and construction of their homes while shielding our Company from the risks associated with speculative building. The built-to-order approach effectively aligns homebuyers' preferences with our own need to exercise discipline and focus in all our business processes.





## board of directors and management

### BOARD OF DIRECTORS

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

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

Dr. Ray R. Irani  
Chairman, President and  
Chief Executive Officer,  
Occidental Petroleum Corporation  
Los Angeles, CA

Kenneth M. Jastrow, II  
Chairman and  
Chief Executive Officer,  
Temple-Inland, Inc.  
Austin, TX

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

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

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

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

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

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

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

*All directors, except Mr. Mezger, are independent as defined under listing standards of the New York Stock Exchange and KB Home's Corporate Governance Principles, which are available at [kbhome.com](http://kbhome.com).*

### CORPORATE OFFICERS

Glen Barnard  
Senior Vice President,  
KBnxt Group

Daniel Bridleman  
Vice President,  
National Contracts

Brian Bruce  
Vice President and  
Chief Information Officer

Domenico Cecere  
Executive Vice President and  
Chief Financial Officer

Cory F. Cohen  
Senior Vice President, Tax

Robert Freed  
Senior Vice President,  
Investment Strategy and  
Regional General Manager,  
Northern California

Ken Gancarczyk  
Senior Vice President,  
Builder Services

William R. Hollinger  
Senior Vice President and  
Chief Accounting Officer

Lisa G. Kalmbach  
Senior Vice President, Studios

Wendy L. Marlett  
Senior Vice President,  
Sales and Marketing

Kelly Masuda  
Senior Vice President and  
Treasurer

Jeffrey T. Mezger  
President and  
Chief Executive Officer

Christopher Reid  
Vice President,  
Internal Audit

Caroline Shaw  
Senior Vice President,  
Corporate Communications

### OPERATIONS MANAGEMENT

United States

*Regional General Managers and  
Territory Presidents*

Rick Carruthers  
Regional General Manager,  
Florida

Kyle Davison  
Regional General Manager,  
Dallas/Fort Worth, Houston,  
Illinois, Colorado, Gulf Coast,  
Indiana

Vincent P. DePorre  
Regional General Manager,  
Southeast, Mid-Atlantic

Barry Grant  
Territory President,  
Sacramento, Central Valley

Drew Kusnick  
Territory President,  
South Bay, South Valley

Larry E. Oglesby  
Regional General Manager,  
Austin, San Antonio,  
Rio Grande Valley, Arizona,  
New Mexico

Jim Widner  
Regional General Manager,  
Southern California, Nevada

*Division Presidents*

Chris Apostolopoulos  
President, Central Valley North

Dave Berman  
President, Indiana

John H. Bremond  
President, Tucson

Russell W. Crandall  
President, Colorado

Don DelGiorno  
President, Las Vegas

Augie Dent  
President, South Valley

Thomas C. DiPrima  
President, LA/Ventura

Marcia Dillon  
President, New Mexico

Jeffrey M. Gault  
President, Urban

Stephan M. George  
President, Fort Myers

George Glance  
President, Orlando

Patricia Hanchette  
President, Raleigh

Wayne Janzik  
President, Jacksonville

Mark Kinsley  
President, Mid-Atlantic

Ken Langston  
President, Austin

Scott B. Laurie  
President, Inland Valley

Martin Lighterink  
President, Orange County,  
San Diego

Lawrence E. Lippincott  
President, Atlanta

Tim Mayo  
President, Dallas/Fort Worth

Jeff Meyer  
President, South Carolina

Mark Rodocker  
President, Illinois

Stephen Ruffner  
President, Riverside

Clint Szubinski  
President, Gulf Coast

Fred Vandercook  
President, Charlotte

Craig Westmoreland  
President, San Antonio,  
Rio Grande Valley

Greg Williams  
President, Phoenix

Fred Wyborski  
President, Gold Coast

Joe Zimmerman  
President, Houston

France

Joel Monribot  
President, Kaufman & Broad S.A.,  
France

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

# stockholder information

## COMMON STOCK PRICES

	2006		2005	
	high	low	high	low
First Quarter	\$81.99	\$64.80	\$63.19	\$43.89
Second Quarter	69.10	50.40	67.55	54.21
Third Quarter	52.65	37.89	85.45	66.50
Fourth Quarter	52.18	38.66	77.92	60.82

## DIVIDEND DATA

KB Home paid a quarterly cash dividend of \$.25 per common stock share in 2006 and \$.1875 per common stock share in 2005. The per share amount reflects the impact of the two-for-one stock split effected in April 2005.

## ANNUAL STOCKHOLDERS' MEETING

The 2007 Annual Stockholders' meeting will be held at the Hotel Bel-Air, 701 Stone Canyon Road, in Los Angeles, California, at 9:00 a.m. on Thursday, April 5, 2007.

## STOCK EXCHANGE LISTINGS

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

Kaufman and Broad S.A., the Company's French subsidiary, is listed on Euronext Paris. The ticker symbol is KOF. Kaufman & Broad S.A.'s website address is ketb.com.

## TRANSFER AGENT

Mellon Investor Services, LLC  
P.O. Box 3315  
South Hackensack, New Jersey 07606  
(888) 667-7640  
melloninvestor.com

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
Los Angeles, California

## STOCKHOLDER INFORMATION

The Company's common stock is traded on the New York Stock Exchange under the symbol KBH. There were 114,648,604 shares (including shares held in treasury and by the grantor stock ownership trust) of common stock issued as of December 31, 2006.

## FORM 10-K

The Company's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by writing the Company's investor relations department at [investorrelations@kbhome.com](mailto:investorrelations@kbhome.com) or by visiting the Company's website at [kbhome.com](http://kbhome.com).

## HEADQUARTERS

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

## INVESTOR CONTACT

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

## BONDHOLDER SERVICES

### ADDRESS & PHONE NUMBER

8 5/8% \$200 million Senior Subordinated Notes — Due 2008  
7 3/4% \$300 million Senior Subordinated Notes — Due 2010  
9 1/2% \$250 million Senior Subordinated Notes — Due 2011  
6 3/8% \$350 million Senior Notes — Due 2011  
5 3/4% \$250 million Senior Notes — Due 2014  
5 7/8% \$300 million Senior Notes — Due 2015  
6 1/4% \$450 million Senior Notes — Due 2015  
7 1/4% \$300 million Senior Notes — Due 2018

### Trustee:

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





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