

KB HOME  
Form 424B5  
July 23, 2009

**Table of Contents**

**The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities or a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**As filed pursuant to Rule 424(b)(5)  
Under the Securities Act of 1933  
Registration No. 333-154432**

**SUBJECT TO COMPLETION, DATED JULY 23, 2009**

**PRELIMINARY PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 17, 2008)**

**\$**

**% Senior Notes due**

The notes offered hereby will bear interest at the rate of % per year. Interest on the notes is payable on and of each year, beginning on , 2010. The notes will mature on , . The notes may be redeemed, in whole at any time or from time to time in part, at our option at the redemption prices described in this prospectus supplement, plus accrued and unpaid interest to the applicable redemption date.

Upon a change of control triggering event, we will be required to make an offer to repurchase all outstanding notes at a price in cash equal to 101% of the principal amount of the notes, plus any accrued and unpaid interest to, but not including, the repurchase date.

The notes will be unconditionally guaranteed jointly and severally by certain of our subsidiaries on a senior unsecured basis. The notes will be senior unsecured obligations of KB Home and will rank equally with all other unsecured and unsubordinated indebtedness of KB Home.

**Investing in the notes involves risks. See Risk Factors beginning on page S-6 of this prospectus supplement.**

The underwriters propose to offer the notes from time to time for sale in negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale. The underwriters have agreed to purchase the notes from us at % of their principal amount (\$ of proceeds to us before deducting estimated expenses from the sale of the notes), subject to the terms and conditions in the underwriting agreement between the underwriters and us.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Delivery of the notes is expected to be made to investors through the book-entry delivery system of The Depository Trust Company on or about \_\_\_\_\_, 2009, which is the fifth business day following the date of this prospectus supplement (such settlement cycle is referred to as T+5). You should be advised that trading of the notes may be affected by the T+5 settlement.

**Citi**

The date of this prospectus supplement is \_\_\_\_\_, 2009.

---

**TABLE OF CONTENTS****Prospectus Supplement**

	<b>Page</b>
<u>Prospectus Supplement Summary</u>	S-1
<u>Forward-Looking Statements</u>	S-5
<u>Risk Factors</u>	S-6
<u>Use of Proceeds</u>	S-19
<u>Capitalization</u>	S-20
<u>Selected Consolidated Financial Data</u>	S-21
<u>Description of the Notes</u>	S-23
<u>Material United States Federal Income Tax Considerations</u>	S-29
<u>Underwriting</u>	S-33
<u>Legal Matters</u>	S-34
<u>Experts</u>	S-34

**Prospectus**

	<b>Page</b>
<u>Risk Factors</u>	1
<u>Forward-Looking Statements</u>	2
<u>About This Prospectus</u>	2
<u>Where You Can Find More Information</u>	3
<u>Description of KB Home</u>	3
<u>Use of Proceeds</u>	4
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Description of Debt Securities</u>	4
<u>Description of Capital Stock</u>	30
<u>Description of Warrants</u>	33
<u>Description of Depositary Shares</u>	34
<u>Description of Stock Purchase Contracts and Stock Purchase Units</u>	37
<u>Plan of Distribution</u>	37
<u>Legal Matters</u>	37
<u>Experts</u>	37

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor any of the underwriters have authorized anyone to provide you with any information other than the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not making any offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement or the prospectus is accurate only as of the date on the front of this prospectus supplement, the date on the front of the accompanying prospectus or the date of the applicable incorporated document, as the case may be. Our business, financial condition,

results of operations and prospects may have changed since those dates.

When this prospectus supplement uses the words KB Home, we, us, and our, they refer to KB Home, a Delaware corporation, and its subsidiaries unless otherwise stated or the context otherwise requires. When this prospectus supplement uses the words KB Home Mortgage, it refers to KB Home Mortgage, LLC, a joint venture with CWB Venture Management Corporation, a subsidiary of Bank of America, N.A.

S-i

---

**Table of Contents**

Our fiscal year ends on November 30. When this prospectus supplement refers to particular years or quarters in connection with the discussion of our results of operations or financial condition, those references mean the relevant fiscal years and fiscal quarters, unless otherwise stated.

When we refer in this prospectus supplement or in the documents incorporated or deemed incorporated by reference herein to homes or units, we mean single-family residences, which include detached and attached single-family homes, town homes and condominiums, and references to our homebuilding revenues and similar references refer to revenues derived from sales of single-family residences, in each case unless otherwise expressly stated or the context otherwise requires.

The information in this prospectus supplement and in the documents incorporated by reference or deemed incorporated by reference herein concerning the homebuilding industry, our market share or our size relative to other homebuilders and similar matters is derived principally from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources is reliable, we have not independently verified any of this information and we cannot assure you of its accuracy.

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

*The following is a brief summary of the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and the documents that are incorporated by reference in this prospectus supplement and the prospectus. It does not contain all of the information that may be important to you. You should read carefully this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the prospectus before you decide to invest in the notes.*

**KB HOME**

We are one of America's leading homebuilders with operating divisions in the following regions and states: West Coast California; Southwest Arizona and Nevada; Central Colorado and Texas; and Southeast Florida, North Carolina and South Carolina. We also offer mortgage services to our homebuyers through KB Home Mortgage, a joint venture with CWB Venture Management Corporation, a subsidiary of Bank of America, N.A. Founded in 1957, we are listed on the New York Stock Exchange under the ticker symbol KBH.

**RECENT DEVELOPMENTS**

**Tender Offer**

On July 23, 2009, we commenced an offer to purchase for cash up to \$250.0 million in aggregate principal amount (the Maximum Tender Amount) of our 63/8% Senior Notes due 2011 (the 2011 Notes).

As of May 31, 2009, \$350.0 million aggregate principal amount of the 2011 Notes was outstanding. The tender offer consideration payable for notes tendered and accepted by us for purchase in the tender offer will be \$980.00 per \$1,000 principal amount of the 2011 Notes. Holders of the 2011 Notes may also receive an early tender premium of \$30.00 per \$1,000 principal amount of notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on August 5, 2009 and accepted for purchase by us.

Additionally, accrued and unpaid interest will be paid on any notes accepted for purchase up to, but not including, the applicable settlement date. The amount of the 2011 Notes purchased in the tender offer will be subject to the Maximum Tender Amount. This means that the aggregate principal amount of 2011 Notes purchased in the tender offer may be subject to proration if the total aggregate principal amount of 2011 Notes tendered in the tender offer exceeds the Maximum Tender Amount. Holders of the 2011 Notes that are validly tendered at or prior to the early tender date and are accepted for purchase will receive the applicable tender offer consideration described above in addition to the early tender premium. Holders of the 2011 Notes that are validly tendered after the early tender date and are accepted for purchase by us will receive the applicable tender offer consideration but not the early tender premium.

The tender offer is not conditioned upon any minimum amount of the 2011 Notes being tendered, and we reserve the right to increase or modify the Maximum Tender Amount. We intend to fund our purchase of the 2011 Notes tendered and accepted from the net proceeds of this offering plus, if necessary, cash on hand. The tender offer is scheduled to expire at 9:00 a.m., New York City time, on August 20, 2009, and is conditioned, among other things, upon the issuance by us, prior to 9:00 a.m. on August 20, 2009, of a minimum of \$250.0 million aggregate principal amount of notes through this offering. For a discussion of the terms of the 2011 Notes, see our Annual Report on Form 10-K for the year ended November 30, 2008 and the notes to the financial statements, both of which are incorporated by reference in this prospectus supplement.

The tender offer is being made on the terms and subject to the conditions set forth in the offer to purchase, dated July 23, 2009, relating to the tender offer (the Offer to Purchase ). The tender offer is being made solely pursuant to, and is governed by, the Offer to Purchase. We cannot assure you that the tender offer will be consummated in accordance with its terms, or at all, or that a significant principal amount of the 2011 Notes will be tendered and cancelled pursuant to the tender offer. This offering is not conditioned upon the successful consummation of the tender offer.

S-1

---



**Table of Contents****OFFERING SUMMARY**

*The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. You should read this prospectus supplement and the accompanying prospectus before making an investment in the notes.*

<b>Issuer</b>	KB Home, a Delaware corporation.
<b>The Notes</b>	\$ million aggregate principal amount of % Senior Notes due .
<b>Maturity</b>	
<b>Interest</b>	Annual rate: %, accruing from , 2009. Payment frequency: Every six months on and . First payment: , 2010.
<b>Guarantees</b>	Payment of principal of and premium, if any, and interest on the notes offered hereby will be unconditionally guaranteed, jointly and severally, by certain of our operating subsidiaries, which we sometimes refer to as the guarantors. Each of these guarantors also guarantees, on an unsecured senior basis, our \$650.0 million revolving credit facility ( Credit Facility ) and our outstanding 2011 Notes, 53/4% Senior Notes due 2014, 57/8% Senior Notes due 2015, 61/4% Senior Notes due 2015 and 71/4% Senior Notes due 2018 (together, our Senior Notes ). Under certain circumstances, any or all of the guarantors may be released from their guarantees of the notes or other subsidiaries of KB Home may be required to guarantee the notes. Each guarantor s guarantee of the notes offered hereby will rank equally with all other unsecured and unsubordinated indebtedness and guarantees of that guarantor, including its guarantees of our borrowings and other obligations under our Credit Facility and our Senior Notes. At May 31, 2009, we had no cash borrowings outstanding and \$193.5 million of letters of credit outstanding under our Credit Facility and \$1.65 billion of Senior Notes outstanding. Your right to payment under the guarantees of the notes offered hereby will be effectively subordinated to all existing and future secured indebtedness of the guarantors of the notes to the extent of the value of the assets securing such indebtedness. See Description of Debt Securities Guarantees and Ranking Ranking of Senior Debt Securities and Guarantees in the accompanying prospectus.
<b>Ranking</b>	The notes offered hereby will be our unsecured and unsubordinated obligations and will rank equally with all of our unsecured and unsubordinated indebtedness including, without limitation, our Senior Notes and other obligations under our Credit Facility. Your right to payment under the notes will be:

effectively subordinated to all existing and future indebtedness, trade payables, guarantees and other liabilities of the subsidiaries of KB Home that are not guarantors of the notes; at May 31, 2009, these non-guarantor subsidiaries had approximately \$185.0 million of liabilities outstanding, excluding intercompany liabilities; and

effectively subordinated to all our existing and future secured indebtedness and all the existing and future secured indebtedness

S-2

---

## **Table of Contents**

of the guarantors of the notes to the extent of the value of the assets securing such indebtedness, which indebtedness is currently comprised principally of indebtedness secured by purchase money mortgages on real property, the aggregate principal amount of which indebtedness was approximately \$66.1 million at May 31, 2009.

See Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement Our ability to service our debt, including the notes, depends upon cash provided to us by our subsidiaries, and the notes are effectively subordinated to the liabilities of our subsidiaries that are not guarantors of the notes and to secured indebtedness of us and the guarantors in this prospectus supplement and Description of Debt Securities Ranking Ranking of Senior Debt Securities and Guarantees and Holding Company Structure in the accompanying prospectus.

## **Use of Proceeds**

We estimate that we will receive approximately \$ million in net proceeds from this offering, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use all or a portion of the net proceeds from this offering, plus cash on hand, if necessary, to purchase for cash up to the Maximum Tender Amount of our 2011 Notes tendered and accepted by us for purchase, including the payment of accrued interest and any applicable early tender premium, as described in this prospectus supplement under Recent Developments Tender Offer. We intend to use any remaining net proceeds from the sale of the notes for general corporate purposes.

## **Optional Redemption**

We may, at our option, redeem the notes, in whole at any time or from time to time in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (exclusive of interest accrued to the applicable redemption date), discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined herein) plus basis points, plus, in each case, accrued and unpaid interest on the notes being redeemed to the redemption date. See Description of the Notes Optional Redemption.

## **Covenants**

We have agreed to certain restrictions on secured debt, sale and leaseback transactions and mergers, consolidations and transfers of substantially all of our assets. However, these covenants are subject to a number of important exceptions and limitations, and you should carefully review the information with respect to these covenants and the related definitions appearing in the accompanying prospectus under Description of Debt Securities Certain Covenants, Consolidation, Merger and Sale of Assets and Certain Definitions.

## **Offer to Repurchase Upon a Change of Control Triggering Event**

Upon a change of control triggering event, we will be required to make an offer to repurchase all outstanding notes at a price in cash equal to 101%

of the principal amount of the notes, plus any accrued and unpaid interest to, but not including, the repurchase date. See Description of the Notes Change of Control Offer.

S-3

---

**Table of Contents**

**Book-Entry Notes**

The notes offered hereby will be issued in book-entry form and represented by one or more global notes deposited with a custodian for The Depository Trust Company and registered in the name of The Depository Trust Company or its nominee. See Description of Debt Securities Book-Entry; Delivery and Form in the accompanying prospectus.

**Credit Ratings**

Our long-term senior unsecured debt securities that are guaranteed by the guarantors are currently rated B1, BB- and BB-, each with a negative outlook, by Moody's Investors Service, Inc., Standard & Poor's Rating Services and Fitch Ratings, respectively. Credit ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a credit rating is not a recommendation to buy, sell or hold securities, inasmuch as the rating does not comment as the market price or suitability for a particular investor. See Risk Factors Risk Factors Relating to KB Home We could be adversely affected by a negative change in our credit rating.

**Governing Law**

The notes and the related indenture will be governed by the laws of the State of New York.

**Risk Factors**

You should carefully review the information appearing in this prospectus supplement under the caption Risk Factors, as well as the other information in this prospectus supplement, the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, in evaluating an investment in the notes.

**Listing**

We currently do not intend to list the notes on any securities exchange, there is currently no market for the notes and there can be no assurance that one will develop.

**Principal Executive Offices**

Our principal executive offices are located at 10990 Wilshire Boulevard, Los Angeles, California 90024. Our telephone number is (310) 231-4000.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

You are cautioned that certain statements contained or incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that 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 or operating performance (including future revenues, homes delivered, net orders, selling prices, expenses, expense ratios, margins, earnings or earnings per share, or growth or growth rates), future market conditions, future interest rates, and other economic conditions, ongoing business strategies or prospects, future dividends and changes in dividend levels, the value of backlog (including amounts that we expect to realize upon delivery of homes included in backlog and the timing of those deliveries), potential future acquisitions and the impact of completed acquisitions, future share repurchases and possible future actions, which may be provided by us, 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 our operations, economic and market factors, and the homebuilding industry, among other things. These statements are not guarantees of future performance, and we have no specific policy or intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The most important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to: general economic and business conditions; adverse market conditions that could result in additional inventory impairments or abandonment charges and operating losses, including an oversupply of unsold homes and declining home prices, among other things; conditions in the capital and credit markets (including consumer mortgage lending standards, the availability of consumer mortgage financing and mortgage foreclosure rates); material prices and availability; labor costs and availability; changes in interest rates; inflation; our debt level; weak consumer confidence; increases in competition; weather conditions, significant natural disasters and other environmental factors; government actions and regulations directed at or affecting the housing market, the homebuilding industry, or construction activities; the availability and cost of land in desirable areas; legal or regulatory proceedings or claims; the ability and/or willingness of participants in our unconsolidated joint ventures to fulfill their obligations; our ability to access capital, including our capacity under our Credit Facility; our ability to use the net deferred tax assets we have generated; our ability to successfully implement our current and planned product transition, geographic and market positioning and cost reduction strategies; consumer interest in our new product designs; and other events outside of our control. Please see our Annual Report on Form 10-K for the year ended November 30, 2008, our Quarterly Reports on Form 10-Q for the quarters ended February 28, 2009 and May 31, 2009 and our other filings with the Securities and Exchange Commission (the SEC) for a further discussion of these and other risks and uncertainties applicable to our business.

**Table of Contents**

**RISK FACTORS**

*You should carefully consider the risks and uncertainties described below before purchasing the notes offered hereby, as well as the risks and uncertainties described elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. The following important factors could adversely impact our homebuilding and financial services operations. These factors could cause our actual results to differ materially from the forward-looking and other statements that we make in this prospectus supplement and the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. However, these are not the only risks and uncertainties that we face. You are also cautioned that some of the statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus are forward-looking statements and are subject to risks, uncertainties and assumptions. See Forward-Looking Statements.*

**Risk Factors Relating to KB Home**

*The homebuilding industry is experiencing a prolonged and severe downturn that may continue for an indefinite period and adversely affect our business and results of operations compared to prior periods.*

In recent years, many of our served markets and the U.S. homebuilding industry as a whole have experienced a significant and sustained decrease in demand for new homes and an oversupply of new and existing homes available for sale, conditions that generally began in 2006. In many markets, a rapid increase in new and existing home prices in the years leading up to and including 2006 reduced housing affordability relative to consumer incomes and tempered buyer demand. At the same time, investors and speculators reduced their purchasing activity and instead stepped up their efforts to sell residential property they had earlier acquired. These trends, which were more pronounced in markets that had experienced the greatest levels of price appreciation, resulted in overall fewer home sales, greater cancellations of home purchase agreements by buyers, higher inventories of unsold homes and the increased use by homebuilders, speculators, investors and others of discounts, incentives, price concessions and other marketing efforts to close home sales since 2006 compared to the several years leading up to and including 2006. These negative supply and demand trends have been exacerbated by increasing foreclosure activity, a severe downturn in general economic conditions, rising unemployment, turmoil in credit and consumer lending markets and tighter lending standards.

Reflecting the impact of this difficult environment, we, like many other homebuilders, have experienced to varying degrees declines in net orders, decreases in the average selling prices of new homes we have sold and reduced margins relative to prior years, and we have generated operating losses. Though we have seen some improvement in net orders and margins in 2009, we can provide no assurances that the homebuilding market will improve substantially in the near future. In fact, we expect it to remain weak, and possibly worsen, for at least the remainder of 2009 and have a corresponding adverse effect on our business and our results of operations, including, but not limited to, the number of homes delivered and the amount of revenues generated.

*Further tightening of mortgage lending or mortgage financing requirements or further turmoil in credit and mortgage lending markets could adversely affect the availability of credit for some potential purchasers of our homes and thereby reduce our sales.*

In recent years, the mortgage lending and mortgage finance industries have experienced significant instability due to, among other things, delinquencies, defaults and foreclosures on home loans and a resulting decline in their market value, particularly subprime and adjustable- rate loans. A number of providers, purchasers and insurers of such loans

have gone out of business or exited the market. In light of these developments, lenders, investors, regulators and others have questioned the adequacy of lending standards and other credit requirements for several loan programs made available to borrowers in recent years. This has led to reduced investor demand for mortgage loans and mortgage-backed securities, tightened credit requirements, reduced liquidity, increased credit risk premiums and regulatory actions. Deterioration in credit quality among subprime, adjustable-rate and other nonconforming loans has caused most lenders to stop offering such loan products. Fewer loan products and providers and tighter loan qualifications in turn make it more difficult for some categories of borrowers to finance

S-6

---



**Table of Contents**

the purchase of our homes or the purchase of existing homes from potential move-up buyers who wish to purchase one of our homes. In general, these developments have resulted in a reduction in demand for our homes and slowed any general improvement in the housing market. Furthermore, they have resulted in a reduction in demand for the mortgage loans originated through our KB Home Mortgage joint venture. These reductions in demand have had, and are expected to continue to have, a materially adverse effect on our business and results of operations in 2009.

Many of our homebuyers obtain financing for their home purchases from KB Home Mortgage. Our partner, a Bank of America, N.A. subsidiary, provides the loan products that the joint venture offers to our homebuyers. If our partner refuses or is unable to make loan products available to the joint venture to provide to our homebuyers, our results of operations may be adversely affected.

***Our strategies in responding to the adverse conditions in the homebuilding industry have had limited success, and the continued implementation of these and other strategies may not be successful.***

While we have been successful in generating positive operating cash flow and reducing our inventories in recent years, we have done so at significantly reduced gross profit levels and have incurred significant asset impairment charges. Moreover, many of our strategic initiatives to generate cash and reduce our inventories have involved lowering overhead through workforce reductions, for which we incur significant costs, and reducing our active community counts through strategic wind downs or market exits, curbs in development and sales of land interests. These strategic steps have resulted in our generating to varying degrees fewer net orders, homes delivered and revenues compared to prior periods, and have contributed to the net losses we have recognized in recent years. Though we have seen some improvement in our net orders for 2009, there can be no assurance that positive net order trends will continue and, notwithstanding our sales strategies, we have continued to experience volatility in cancellations of home purchase contracts. We believe that the volatile cancellation rates have largely reflected a decrease in homebuyer confidence based on sustained home price declines, increased offerings of sales incentives in the marketplace for both new and existing homes and generally poor economic conditions, all of which prompted homebuyers to forgo or delay home purchases. The more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes have also led to lower demand for new homes and cancellations. Many of these factors affecting new orders and cancellation rates are beyond our control. It is uncertain how long these factors, and the reduced sales levels and volatility in cancellations we have experienced will continue. To the extent that they do, we expect that they will have a negative effect on our business and our results of operations.

***Our business is cyclical and is significantly affected by changes in general and local economic conditions.***

Our business can be substantially affected by adverse changes in general economic or business conditions that are outside of our control, including changes in:

short- and long-term interest rates;

the availability of financing for homebuyers;

consumer confidence generally and the confidence of potential homebuyers in particular;

U.S. and global financial system and credit market stability;

private and federal mortgage financing programs and federal and state regulation of lending practices;

federal and state income tax provisions, including provisions for the deduction of mortgage interest payments;

housing demand from population growth and demographic changes, among other factors;

the supply of available new or existing homes and other housing alternatives, such as apartments and other residential rental property;

employment levels and job and personal income growth; and

real estate taxes.

S-7

---

**Table of Contents**

Adverse changes in these conditions may affect our business nationally or may be more prevalent or concentrated in particular regions or localities in which we operate. In recent years, unfavorable changes in many of these factors have negatively affected all of our served markets, and we expect the widespread nature of the downturn in the housing market to continue for at least the remainder of 2009. A continued downturn in the economy would likely worsen the unfavorable trends the housing market has experienced in recent years.

Weather conditions and natural disasters, such as earthquakes, hurricanes, tornadoes, floods, droughts, fires and other environmental conditions, can also impair our homebuilding business on a local or regional basis. Civil unrest or acts of terrorism can also have a negative effect on our business.

Fluctuating lumber prices and shortages, as well as shortages or price fluctuations in other building materials or commodities, can have an adverse effect on our business. Similarly, labor shortages or unrest among key trades, such as carpenters, roofers, electricians and plumbers, can delay the delivery of our homes and increase our costs.

The potential difficulties described above can cause demand and prices for our homes to diminish or cause us to take longer and incur more costs to build our homes. We may not be able to recover these increased costs by raising prices because of market conditions and because the price of each home we sell is usually set several months before the home is delivered, as our customers typically sign their home purchase contracts before construction begins. The potential difficulties described above could cause some homebuyers to cancel or refuse to honor their home purchase contracts altogether. In fact, reflecting the difficult conditions in our served markets, we continued to experience volatile home purchase contract cancellation rates in 2008 and into 2009.

***Supply shortages and other risks related to demand for building materials and/or skilled labor could increase costs and delay deliveries.***

There is a high level of competition in the homebuilding industry for skilled labor and building materials. Increased costs or shortages in building materials or skilled labor could cause increases in construction costs and construction delays. We generally are unable to pass on increases in construction costs to customers who have already entered into home purchase contracts, as the purchase contracts generally fix the price of the home at the time the contract is signed, and may be signed well in advance of when construction commences. Further, we may not be able to pass on increases in construction costs because of market conditions. Sustained increases in construction costs due, among other things, to pricing competition for materials and skilled labor may, over time, decrease our margins.

***Inflation may adversely affect us by increasing costs that we may not be able to recover, particularly if sales prices decrease.***

Inflation can have a long-term impact on us because increasing costs of land, materials and skilled labor may call for us to increase sales prices of homes in order to maintain satisfactory margins. However, if the current challenging and highly competitive conditions in the homebuilding market persist, we may further decrease prices in an attempt to stimulate sales volume. Our lowering of sales prices, in addition to impacting our margins on new homes, may also reduce the value of our land inventory and make it more difficult for us to recover the full cost of previously purchased land with new home sales prices or, if we choose, in disposing of land assets. In addition, depressed land values may cause us to forfeit deposits on land option contracts if we cannot satisfactorily renegotiate the purchase price of the optioned land. We may incur noncash charges for inventory impairments if the value of our owned inventory is reduced or for land option contract abandonments if we choose not to exercise land option contracts.

***Reduced home sales may impair our ability to recoup development costs or force us to absorb additional costs.***

We incur many costs even before we begin to build homes in a community. Depending on the stage of development, these include costs of preparing land, finishing and entitling lots, and installing roads, sewage and other utilities, as well as taxes and other costs related to ownership of the land on which we plan to build homes. Reducing the rate at which we build homes extends the length of time it takes us to recover these costs. Also, we frequently acquire options to purchase land and make deposits that may be forfeited if we do not exercise the options

S-8

---

## **Table of Contents**

within specified periods. Because of current market conditions, we have strategically terminated some of these options, resulting in the forfeiture of deposits and unrecoverable due diligence and development costs.

***The value of the land and housing inventory we own or control may fall significantly and our profits may decrease.***

The value of the land and housing inventory we currently own or control depends on market conditions, including estimates of future demand for, and the revenues that can be generated from, such inventory. The market value of our land inventory can vary considerably because there is often a significant amount of time between our initial acquisition or optioning of land and the delivery of homes on that land. The downturn in the housing market has caused the fair value of certain of our owned or controlled inventory to fall, in some cases well below the estimated fair value at the time we acquired it. Because of our assessments of fair value, we have been required to write down the carrying value of certain of our inventory, including certain inventory that we have previously written down, and take corresponding noncash charges against our earnings to reflect the impaired value. We have also abandoned our interests in certain land inventory that no longer meets our internal investment standards, which also required us to take noncash charges. If the current downturn in the housing market continues, we may need to take additional charges against our earnings for inventory impairments or land option contract abandonments, or both. Any such noncash charges would have an adverse effect on our consolidated results of operations.

***Some homebuyers may cancel their home purchases because the required deposits are small and generally refundable.***

Our backlog numbers reflect the number of homes for which we have entered into a purchase contract with a customer but not yet delivered the home. Our home purchase contracts typically require only a small deposit, and in many states, the deposit is fully refundable at any time prior to closing. If the prices for new homes decline, competitors increase their use of sales incentives, interest rates increase, the availability of mortgage financing diminishes or there is a further downturn in local or regional economies or the national economy, homebuyers may terminate their existing home purchase contracts with us in order to negotiate for a lower price, explore other options or because they cannot, or become reluctant to, complete the purchase. In recent years, we have experienced elevated and volatile cancellation rates, in part because of these reasons. Continued elevated and volatile cancellation rates due to these conditions, or otherwise, could have an adverse effect on our business and our results of operations.

***Our long-term success depends on the availability of improved lots and undeveloped land that meet our land investment criteria.***

The availability of finished and partially developed lots, and undeveloped land for purchase that meet our internal investment standards, depends on a number of factors outside of our control, including land availability in general, competition with other homebuilders and land buyers for desirable property, inflation in land prices, zoning, allowable housing density and other regulatory requirements. Should suitable lots or land become less available, the number of homes we may be able to build and sell could be reduced, and the cost of attractive land could increase, perhaps substantially, which could adversely impact our results of operations including, but not limited to, our margins.

***Home prices and sales activity in the particular markets and regions in which we do business affect our results of operations because our business is concentrated in these markets.***

Home prices and sales activity in some of our key served markets have declined from time to time for market-specific reasons, including adverse weather, lack of affordability or economic contraction due to, among other things, the failure or decline of key industries and employers. If home prices or sales activity decline in one or more of our key served markets, particularly in Arizona, California, Florida, Nevada or Texas, our costs may not decline at all or at the same rate and, as a result, our overall results of operations may be adversely affected.



**Table of Contents**

***Interest rate increases or changes in federal lending programs or regulation could lower demand for our homes.***

Nearly all of our customers finance the purchase of their homes. Prior to 2006, historically low interest rates and the increased availability of specialized mortgage products, including mortgage products requiring no or low down payments, and interest-only and adjustable rate mortgages, had made homebuying more affordable for a number of customers and more available to customers with lower credit scores. Increases in interest rates or decreases in the availability of mortgage financing or of certain mortgage programs, as discussed above, may lead to fewer mortgage loans being provided, higher down payment requirements or monthly mortgage costs, or a combination of the foregoing, and, as a result, reduce demand for our homes.

Increased interest rates can also hinder our ability to realize our backlog because our home purchase contracts provide our customers with a financing contingency. Financing contingencies allow customers to cancel their home purchase contracts in the event they cannot arrange for adequate financing.

Because the availability of Fannie Mae, Freddie Mac, FHA- and VA-backed mortgage financing is an important factor in marketing and selling many of our homes, any limitations or restrictions in the availability of such government-backed financing could reduce our home sales and adversely affect our results of operations. This may occur as a result of the federal government's conservatorship of Fannie Mae and Freddie Mac in 2008.

***Tax law changes could make home ownership more expensive or less attractive.***

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for the purpose of calculating an individual's federal, and in some cases state, taxable income, subject to various limitations, under current tax law and policy. If the federal government or a state government changes income tax laws, as some policy makers have discussed recently, by eliminating or substantially reducing these income tax benefits, the after-tax cost of owning a new home would increase substantially. This could adversely impact demand for and/or sales prices of new homes.

***We are subject to substantial legal and regulatory requirements regarding the development of land, the homebuilding process and protection of the environment, which can cause us to suffer delays and incur costs associated with compliance and which can prohibit or restrict homebuilding activity in some regions or areas.***

Our homebuilding business is heavily regulated and subject to an increasing amount of local, state and federal regulation concerning zoning, resource protection and other environmental impacts, building design, construction and similar matters. These regulations often provide broad discretion to governmental authorities that oversee these matters, which can result in unanticipated delays or increases in the cost of a specified project or a number of projects in particular markets. We may also experience periodic delays in homebuilding projects due to building moratoria and permitting requirements in any of the areas in which we operate.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the environment, and in 2008 we entered into a consent decree with the U.S. Environmental Protection Agency and certain states concerning our storm water pollution prevention practices. These laws and regulations and the consent decree may cause delays in construction and delivery of new homes, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in certain environmentally sensitive regions or areas. In addition, environmental laws may impose liability for the costs of removal or remediation of hazardous or toxic substances whether or not the developer or owner of the property knew of, or was responsible for, the presence of those substances. The presence of those substances on our properties may prevent us from selling our homes and we may also be liable, under applicable laws and regulations or lawsuits brought by private parties, for hazardous or toxic substances on properties and lots that we have sold in the past.

Further, a significant portion of our business is conducted in California, one of the most highly regulated and litigious states in the country. Therefore, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than other homebuilders with a less significant California presence.

S-10

---



**Table of Contents**

The mortgage banking operations of KB Home Mortgage are heavily regulated and subject to the rules and regulations promulgated by a number of governmental and quasi-governmental agencies. There are a number of federal and state statutes and regulations which, among other things, prohibit discrimination, establish underwriting guidelines that include obtaining inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts. A finding that we or KB Home Mortgage materially violated any of the foregoing laws could have an adverse effect on our results of operations.

We are subject to a Consent Order that we entered into with the Federal Trade Commission in 1979 and related Consent Decrees that were entered into in 1991 and 2005. Pursuant to the Consent Order and the related Consent Decrees, we provide explicit warranties on the quality of our homes, follow certain guidelines in advertising and provide certain disclosures to prospective purchasers of our homes. A finding that we have significantly violated the Consent Order and/or the related Consent Decrees could result in substantial liabilities or penalties and could limit our ability to sell homes in certain markets.

***Homebuilding and financial services are very competitive, and competitive conditions could adversely affect our business or our financial results.***

The homebuilding industry is highly competitive. Homebuilders compete not only for homebuyers, but also for desirable land, financing, building materials, skilled management and trade labor. We compete in each of our served markets with other local, regional and national homebuilders, including those with a sales presence on the Internet, often within larger subdivisions containing portions designed, planned and developed by such homebuilders. These homebuilders may also have long-standing relationships with local labor, materials suppliers or land sellers, which may provide an advantage in their respective regions or local markets. We also compete with other housing alternatives, such as existing home sales (including existing homes sold through foreclosures, the number of which has increased significantly as part of the recent economic downturn) and rental housing. The competitive conditions in the homebuilding industry can result in:

our delivering fewer homes;

our selling homes at lower selling prices;

our offering or increasing sales incentives, discounts or price concessions;

our experiencing lower profit margins;

declining new home sales or increasing cancellations by homebuyers of their home purchase contracts with us;

impairments in the value of our inventory and other assets;

difficulty in acquiring desirable land that meets our investment return criteria, and in selling our interests in land that no longer meet such criteria on favorable terms;

difficulty in our acquiring raw materials and skilled management and labor at acceptable prices; or

delays in construction of our homes.

These competitive conditions may adversely affect our business and financial results by decreasing our revenues, increasing our costs and/or diminishing growth in our local or regional homebuilding business. In the current downturn in the homebuilding industry, the reactions of our new home and housing alternative competitors are

reducing the effectiveness of our efforts to achieve pricing stability, generate home sales, and reduce our inventory levels.

***Homebuilding is subject to warranty and liability claims in the ordinary course of business that can be significant.***

In the ordinary course of our homebuilding business, we are subject to home warranty and construction defect claims. We record warranty and other reserves for the homes we sell based on historical experience in our served markets and our judgment of the risks associated with the types of homes we build. We have, and require the

S-11

---

**Table of Contents**

majority of our subcontractors to have, general liability, property, errors and omissions, workers compensation and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured retentions, deductibles, and other coverage limits. Through our captive insurance subsidiary, we reserve for costs to cover our self-insured and deductible amounts under these policies and for any costs of claims and lawsuits, based on an analysis of our historical claims, which includes an estimate of claims incurred but not yet reported. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all our warranty and construction defect claims in the future, or that any potential inadequacies will not have an adverse affect on our results of operations. Additionally, the coverage offered by and the availability of general liability insurance for construction defects are currently limited and costly. There can be no assurance that coverage will not be further restricted, increasing our risks, and become more costly.

***Because of the seasonal nature of our business, our quarterly operating results fluctuate.***

We have experienced seasonal fluctuations in our quarterly operating results. We typically do not commence significant construction on a home before a home purchase contract has been signed with a homebuyer. Historically, a significant percentage of our home purchase contracts are entered into in the spring and summer months, and a corresponding significant percentage of our deliveries occur in the fall and winter months. Construction of our homes typically requires approximately four months and weather delays that often occur in late winter and early spring may extend this period. As a result of these combined factors, we historically have experienced uneven quarterly results, with lower revenues and operating income generally during the first and second quarters of the year. However, the increasingly challenging market conditions we experienced in 2008 resulted in lower sales in the spring and summer months and correspondingly lower deliveries in the fall and winter months as compared to 2007. With the current difficult market conditions expected to continue for at least the remainder of 2009, we can make no assurances that our normal seasonal patterns will occur in the near future.

***Failure to comply with the covenants and conditions imposed by the agreements governing our indebtedness could restrict future borrowing or cause our debt to become immediately due and payable.***

Our Credit Facility and, to a lesser degree, the indenture governing our outstanding Senior Notes, impose restrictions on our operations and activities. The restrictions in the Credit Facility primarily relate to cash dividends, stock repurchases, incurrence of indebtedness, creation of liens and asset dispositions, defaults with respect to other debt obligations and require maintenance of a maximum debt to equity (or leverage) ratio, a minimum interest coverage ratio, and a minimum level of tangible net worth. The indenture governing the Senior Notes does not contain any financial maintenance covenants, but does contain certain restrictive covenants that, among other things, limit our ability to incur secured indebtedness; engage in sale-leaseback transactions involving property or assets above a certain specified value; or engage in mergers, consolidations, or sales of assets. If we fail to comply with these restrictions or covenants, the holders of those debt instruments or the banks, as appropriate, could cause our debt to become due and payable prior to maturity or could demand that we compensate them for waiving instances of noncompliance. In addition, a default under any series of our Senior Notes or our Credit Facility could cause a default with respect to our other Senior Notes or the Credit Facility, as the case may be, and result in the acceleration of the maturity of all such defaulted indebtedness and our inability to borrow under the Credit Facility, which would have a significant adverse effect on our ability to invest in and grow our business. Moreover, we may curtail our investment activities and other uses of cash to maintain compliance with these restrictions and covenants.

***We participate in certain unconsolidated joint ventures where we may be adversely impacted by the failure of the unconsolidated joint venture or the other partners in the unconsolidated joint venture to fulfill their obligations.***

We have investments in and commitments to certain unconsolidated joint ventures with unrelated strategic partners to acquire and develop land and, in some cases, build and deliver homes. To finance these activities, our unconsolidated joint ventures often obtain loans from third-party lenders that are secured by the unconsolidated joint venture's assets. In certain instances, we and the other partners in an unconsolidated joint venture provide guarantees and indemnities to lenders with respect to the unconsolidated joint venture's debt, which may be

S-12

---

## **Table of Contents**

triggered under certain conditions when the unconsolidated joint venture fails to fulfill its obligations under its loan agreements. Because we do not have a controlling interest in these unconsolidated joint ventures, we depend heavily on the other partners in each unconsolidated joint venture to both (i) cooperate and make mutually acceptable decisions regarding the conduct of the business and affairs of the unconsolidated joint venture and (ii) ensure that they, and the unconsolidated joint venture, fulfill their respective obligations to us and to third parties. If the other partners in our unconsolidated joint ventures do not provide such cooperation or fulfill these obligations due to their financial condition, strategic business interests (which may be contrary to ours), or otherwise, we may be required to spend additional resources (including payments under the guarantees we have provided to the unconsolidated joint ventures' lenders) and suffer losses, each of which could be significant. Moreover, our ability to recoup such expenditures and losses by exercising remedies against such partners may be limited due to potential legal defenses they may have, their respective financial condition and other circumstances.

***The downturn in the housing market and the continuation of the disruptions in the credit markets could limit our ability to access capital and increase our costs of capital or stockholder dilution.***

We have historically funded our homebuilding and financial services operations with internally generated cash flows and external sources of debt and equity financing. However, during this downturn in the housing market, we have relied primarily on the positive operating cash flow we have generated to meet our working capital needs and repay outstanding indebtedness. While we anticipate generating positive operating cash flow in 2009, principally through the receipt of federal income tax refunds and from home and land sales, the prolonged downturn in the housing markets and the disruption in the credit markets have reduced the availability to us of other sources of liquidity.

Market conditions may significantly limit our ability to replace or refinance indebtedness, particularly due to the recent lowering of our senior debt ratings by three rating agencies. Pricing in the public debt markets has increased substantially, and the terms of future issuances of indebtedness by us may be more restrictive than the terms governing our current indebtedness, including the notes offered hereby. Moreover, due to the deterioration in the credit markets and the uncertainties that exist in the general economy and for homebuilders in particular, we cannot be certain that we would be able to replace existing financing or secure additional sources of financing on terms satisfactory to us or at all. In addition, the significant decline in our stock price, the ongoing volatility in the stock markets and the reduction in our stockholders' equity relative to our debt could also impede our access to the equity markets or increase the amount of dilution our stockholders would experience should we seek or need to raise capital through the issuance of equity.

While we believe we can meet our forecasted capital requirements from our cash resources, future cash flow and the sources of financing that we anticipate will be available to us, we can provide no assurance that we will be able to do so, particularly if current difficult housing or credit market or economic conditions continue or deteriorate further. The effects on our business, liquidity and financial results of these conditions could be material and adverse to us.

***Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.***

Since the end of our 2007 fiscal year, we have generated significant net operating losses, ( NOLs ), and we may generate additional NOLs in 2009. Under federal tax laws, we can use our NOLs (and certain related tax credits) to reduce our future taxable income for up to 20 years, after which they expire for such purposes. Until they expire, we can carry forward our NOLs (and certain related tax credits) that we do not use in any particular year to reduce our taxable income in future years.

The benefits of our NOLs would be reduced or eliminated if we experience an ownership change, as determined under Section 382 of the Internal Revenue Code. A Section 382 ownership change occurs if a stockholder or a group of

stockholders who are deemed to own at least 5% of our common stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an ownership change occurs, Section 382 would impose an annual limit on the amount of NOLs we can use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior

S-13

---

## **Table of Contents**

to the ownership change (reduced by certain items specified in Section 382) and the federal long-term tax-exempt interest rate in effect for the month of the ownership change. A number of special rules apply to calculating this annual limit.

While the complexity of Section 382's provisions and the limited knowledge any public company has about the ownership of its publicly-traded stock make it difficult to determine whether an ownership change has occurred, we currently believe that an ownership change has not occurred. However, if an ownership change were to occur, the annual limit Section 382 may impose could result in a material amount of our NOLs expiring unused. This would significantly impair the value of our NOL assets and, as a result, have a negative impact on our financial position and results of operations.

Our stockholders recently approved an amendment to our restated certificate of incorporation that is designed to block transfers of our common stock that could result in an ownership change, and a rights agreement pursuant to which we have issued certain stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change. However, these measures cannot guarantee complete protection against an ownership change and it remains possible that one may occur.

***A decline in our tangible net worth and the resulting increase in our leverage ratio may place burdens on our ability to comply with the terms of our indebtedness, may restrict our ability to operate and may prevent us from fulfilling our obligations.***

The amount of our debt could have important consequences. For example, it could:

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;

- require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;

- impact our flexibility in planning for, or reacting to, changes in our business;

- place us at a competitive disadvantage because we have more debt than some of our competitors; and

- make us more vulnerable in the event of a further downturn in our business or in general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. Our business is substantially affected by changes in economic cycles. Our revenues, earnings and cash flows vary with the level of general economic activity and competition in the markets in which we operate. Our business could also be affected by financial, political and other factors, many of which are beyond our control. Changes in prevailing interest rates may also affect our ability to meet our debt service obligations because borrowings under our Credit Facility bear interest at floating rates. A higher interest rate on our debt could adversely affect our operating results.

Our business may not generate sufficient cash flow from operations and borrowings may not be available to us under our Credit Facility in an amount sufficient to pay our debt service obligations, fulfill financial or operational guarantees we have provided for certain unconsolidated joint venture transactions, or to fund our other liquidity needs. In fact, the total commitment available under our Credit Facility has recently been reduced to \$650.0 million. Should we not generate sufficient cash flow from operations or have borrowings available to us under our Credit Facility, we may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all, or through equity issuances that would dilute existing stockholders' interests. However, we currently do

not anticipate a need to borrow under the Credit Facility through its November 2010 maturity.

***Our ability to obtain additional external financing could be adversely affected by a negative change in our credit rating by a third party rating agency.***

Our ability to access external sources of financing on favorable terms is a key factor in our ability to fund our operations and to grow our business. As of the date of this prospectus supplement, our credit rating by both Fitch Ratings and Standard and Poor's Financial Services is BB-, with both maintaining a negative outlook. On June 22,

S-14

---



## **Table of Contents**

2009, Moody's Investor Services lowered our credit rating to B1 from Ba3 and also maintained a negative outlook. Further downgrades of our credit rating by any of these principal credit rating agencies may make it more difficult and costly for us to access additional external financing.

*We may have difficulty in continuing to obtain the additional financing required to operate and develop our business.*

Our homebuilding operations require significant amounts of cash and/or available credit. It is not possible to predict the future terms or availability of additional capital. Moreover, the terms of the notes offered hereby and our other outstanding public debt and the Credit Facility contain provisions that may restrict the amount and nature of debt we may incur in the future. The Credit Facility limits our ability to borrow additional funds by placing a maximum cap on our leverage ratio. Under the most restrictive of these provisions, at May 31, 2009, we would have been permitted to incur up to \$1.40 billion of consolidated total indebtedness, as defined in the Credit Facility. This maximum amount exceeded our actual consolidated total indebtedness at May 31, 2009 by \$768.7 million. In addition, the Credit Facility limits our ability to borrow senior indebtedness, as defined in the Credit Facility, subject to a specified borrowing base. At May 31, 2009, we would have been permitted to incur up to \$2.28 billion of senior indebtedness under the Credit Facility. This maximum amount exceeded our actual total senior indebtedness at May 31, 2009 by \$632.0 million. There can be no assurance that we can actually borrow up to these maximum amounts of total consolidated indebtedness or senior indebtedness at any time, as our ability to borrow additional funds, and to raise additional capital through other means, also depends on conditions in the capital markets and our perceived credit worthiness, as discussed above. If conditions in the capital markets change significantly, it could reduce our ability to generate sales and may hinder our future growth and results of operations.

*Our results of operations could be adversely affected if we are unable to obtain performance bonds.*

In the course of developing our communities, we are often required to provide to various municipalities and other government agencies performance bonds to secure the completion of our projects. Our ability to obtain such bonds and the cost to do so depend on our credit rating, overall market capitalization, available capital, past operational and financial performance, management expertise and other factors, including prevailing surety market conditions and the underwriting practices and resources of performance bond issuers. If we are unable to obtain performance bonds when required or the cost to obtain them increases significantly, we may be unable or significantly delayed in developing a community or communities, and, as a result, our consolidated financial position, results of operations, consolidated cash flows and/or liquidity could be adversely affected.

## **Risk Factors Relating to the Notes Offered by this Prospectus Supplement**

*Our ability to service our debt, including the notes, depends upon cash provided to us by our subsidiaries, and the notes are effectively subordinated to the liabilities of our subsidiaries that are not guarantors of the notes and to secured indebtedness of us and the guarantors.*

The notes will initially be guaranteed by certain of our subsidiaries. However, a substantial portion of our revenue and income is generated by, and a substantial portion of our assets is held by, subsidiaries that are not guarantors of the notes, which we refer to as the non-guarantor subsidiaries. For example, during the six months ended May 31, 2009 and the fiscal year ended November 30, 2008, the non-guarantor subsidiaries generated approximately 13.0% and 23.1%, respectively, of our consolidated net revenues and, at May 31, 2009, the non-guarantor subsidiaries held approximately 9.1% of our consolidated assets. For further information, you should review note 21 to our consolidated financial statements appearing in our most recent Annual Report on Form 10-K and note 17 to our consolidated financial statements appearing in our most recent Quarterly Report on Form 10-Q, each of which is incorporated by reference in this prospectus supplement and includes condensed consolidating financial statements that separately

present the results of operations and financial condition of the guarantor and non-guarantor subsidiaries.

We are a holding company, and we conduct our operations through subsidiaries. We derive substantially all our revenues from our subsidiaries, and all of our operating assets are owned by our subsidiaries. As a result, our cash flow and our ability to service our debt, including the notes, depends on the results of operations of our subsidiaries

S-15

---

## **Table of Contents**

and upon the ability of our subsidiaries to provide us with cash to pay amounts due on our obligations, including the notes. Our subsidiaries are separate and distinct legal entities and the non-guarantor subsidiaries have no obligation to make payments on the notes or to make any funds available for that purpose. In addition, dividends, loans, or other distributions from our subsidiaries to us may be subject to contractual and other restrictions, are dependent upon results of operations of our subsidiaries and are subject to other business considerations.

Because of our holding company structure, the notes will be effectively subordinated to all existing and future liabilities of our non-guarantor subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. Therefore, our rights and the rights of our creditors, including the holders of the notes, to participate in the assets of any non-guarantor subsidiary upon that subsidiary's liquidation or reorganization will be subject to the prior claims of that subsidiary's creditors and of the holders of any indebtedness or other obligations guaranteed by that subsidiary, except to the extent that we may ourselves be a creditor with recognized claims against that subsidiary. However, even if we are a creditor of one of our non-guarantor subsidiaries, our claims would still be effectively subordinated to any security interests in, or mortgages or other liens on, the assets of that subsidiary and would be subordinate to any indebtedness of that subsidiary senior to that held by us. As of May 31, 2009, our non-guarantor subsidiaries had approximately \$185.0 million of liabilities outstanding, excluding intercompany liabilities, to which the notes would be structurally subordinated.

The notes will also be effectively subordinated to our existing and future secured indebtedness and the existing and future secured indebtedness of the guarantors of the notes, which indebtedness is currently comprised principally of indebtedness secured by purchase money mortgages on real property, the aggregate principal amount of which was approximately \$66.1 million at May 31, 2009.

Each of the initial guarantors of the notes offered hereby also guarantees, on an unsecured senior basis, our Credit Facility and our outstanding Senior Notes. Each guarantor's guarantee of the notes offered hereby will rank equally with all other unsecured and unsubordinated indebtedness and guarantees of that guarantor, including its guarantees of our borrowings and other obligations under our Credit Facility and our Senior Notes. At May 31, 2009, we had no cash borrowings and \$193.5 million of letters of credit outstanding under our Credit Facility and \$1.65 billion of Senior Notes outstanding. Your right to payment under the guarantees of the notes offered hereby will be effectively subordinated to the secured indebtedness of the guarantors of the notes to the extent of the value of the assets securing such indebtedness, as described above.

The indenture that will govern the notes will not contain any limitation on the amount of unsecured liabilities, including indebtedness and guarantees, that we and our subsidiaries may incur in the future.

***Federal and state laws allow courts, under specific circumstances, to void guarantees and to require you to return payments received from guarantors.***

The notes will initially be guaranteed by certain of our subsidiaries and, under certain circumstances, other subsidiaries of ours may be required to guarantee the notes. Any of these guarantees may be subject to review as fraudulent transfers under federal bankruptcy law and comparable provisions of state fraudulent transfer laws in the event a bankruptcy or reorganization case is commenced by or on behalf of one of the guarantors or if a lawsuit is commenced against one of the guarantors by or on behalf of an unpaid creditor of such guarantor. Although the elements that must be found for a guarantee to be determined to be a fraudulent transfer vary depending upon the law of the jurisdiction that is being applied, as a general matter, if a court were to find that, at the time any guarantor issued its guarantee of the notes:

it issued the guarantee to delay, hinder or defraud present or future creditors; or

it received less than reasonably equivalent value or fair consideration for issuing the guarantee at the time it issued the guarantee, and

was insolvent or rendered insolvent by reason of issuing the guarantee; or

was engaged, or about to engage, in a business or transaction for which its remaining assets constituted unreasonably small capital to carry on its business; or

intended to incur, or believed that it would incur, debts beyond its ability to pay as they mature,

S-16

---

**Table of Contents**

then the court could void the obligations under such guarantee, subordinate the guarantee to that of the guarantor's other debt or take other action detrimental to you and the guarantees of the notes, including directing the return of any payments received from the guarantors.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the law of the jurisdiction that is being applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a person would be considered insolvent if, at the time it incurred the debt or issued its guarantee:

the present fair value of its assets was less than the amount that would be required to pay its liabilities on its existing debts, including contingent liabilities, as they become due; or

it could not pay its debts as they become due.

We cannot be sure as to the standard that a court would use to determine whether or not the guarantors were solvent at the relevant time, or, regardless of the standard that the court uses, that the issuance of the guarantees would not be voided or the guarantees would not be subordinated to the guarantors' other debt. If that were to occur, any guarantee could also be subject to the claim that, because the guarantee was incurred for our benefit, and only indirectly for the benefit of the guarantor, the obligations of the applicable guarantor were incurred for less than fair consideration.

***The guarantors may be released from their guarantees of the notes under certain circumstances.***

Under certain circumstances specified in the indenture under which the notes will be issued, any or all of the guarantors of the notes may be released from their guarantees. If this were to occur, holders of the notes would be structurally subordinated to the liabilities of such released guarantors, as described above, and it could have a material adverse effect on the value of the notes. See "Description of Debt Securities - Guarantees" in the accompanying prospectus.

***A substantial portion of our currently outstanding unsecured indebtedness is scheduled to mature prior to the notes.***

At May 31, 2009, we had \$1.65 billion of Senior Notes outstanding that will rank equally with the notes offered hereby, without giving effect to the tender offer for our 2011 Notes. A substantial portion of these Senior Notes is scheduled to mature prior to stated maturity of the notes offered hereby. In addition, our Credit Facility is scheduled to expire in November 2010. If the Credit Facility is not then extended or replaced, we would be required to repay any borrowings and replace any letters of credit thereunder prior to the stated maturity of the notes offered hereby.

***We may not be able to repurchase the notes upon a change of control triggering event.***

Upon the occurrence of a change of control triggering event (as defined in "Description of the Notes"), each holder of notes will have the right to require us to repurchase all or any part of such holder's notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to, but not including, the date of repurchase. If we experience a change of control triggering event, we cannot assure you that we would have sufficient financial resources available to satisfy our obligations to repurchase the notes. Our failure to repurchase the notes as required under the indenture governing the notes would result in a default under the indenture, which could result in defaults under our other debt agreements and have material adverse consequences for us and the holders of the notes. A recent Delaware Chancery Court decision found that incumbent directors are permitted to approve as a continuing director any person, including one nominated by a dissident stockholder and not recommended by the board, as long as the approval is granted in good faith and in accordance with the board's fiduciary duties. Accordingly, a holder of notes

may not be able to require us to purchase notes as a result of the change in the composition of the directors on our board. The same court also observed that certain provisions in indentures, such as continuing director provisions, could function to entrench an incumbent board of directors and could raise enforcement concerns if adopted in violation of a board's fiduciary duties. If such a provision were found

S-17

---

**Table of Contents**

unenforceable, holders would not be able to require us to repurchase notes as a result of a change of control resulting from a change in the composition of our board. See Description of the Notes Change of Control Offer.

*The terms of the indenture and the notes provide only limited protection against significant corporate events that could affect adversely your investment in the notes.*

While the indenture and the notes contain terms intended to provide protection to holders upon the occurrence of certain events involving significant corporate transactions or our creditworthiness, these terms are limited and may not be sufficient to protect your investment in the notes. As described under Description of the Notes Change of Control Offer, upon the occurrence of a change of control triggering event, holders are entitled to require us to repurchase their notes at 101% of their principal amount. However, the definition of the term change of control triggering event is limited and does not cover a variety of transactions (such as acquisitions by us or recapitalizations) that negatively could affect the value of your notes. If we were to enter into a significant corporate transaction that negatively would affect the value of the notes, but that would not constitute a change of control triggering event, you would not have any rights to require us to repurchase the notes prior to their maturity, which also would adversely affect your investment.

*An active trading market may not develop for the notes.*

We cannot assure you that a trading market for the notes will ever develop or, if a trading market develops, that it will be maintained or provide adequate liquidity. We do not intend to apply for listing of the notes on any securities exchange or for quotation on any automated or other quotation system. The notes are a new issue of securities with no trading history or established trading market. Any trading market for the notes may be adversely affected by changes in interest rates, the overall market for these types of securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a consequence, you might not be able to sell your notes, or, even if you can sell your notes, you might not be able to sell them at an acceptable price.

**Table of Contents**

**USE OF PROCEEDS**

We expect the net proceeds from this offering of notes to be approximately \$     after deducting the underwriting discount and our estimated expenses relating to the offering. We intend to use all or a portion of the net proceeds from this offering, plus cash on hand, if necessary, to purchase for cash up to the Maximum Tender Amount of our 2011 Notes tendered and accepted by us for purchase, including the payment of accrued interest and any applicable early tender premium, as described under Prospectus Supplement Summary Recent Developments Tender Offer. We intend to use any remaining net proceeds from the sale of the notes for general corporate purposes.

As of May 31, 2009, \$350.0 million aggregate principal amount of the 2011 Notes was outstanding. The 2011 Notes bear interest at the rate of 63/8% per annum and are scheduled to mature on August 15, 2011.

The tender offer consideration payable for notes tendered and accepted by us for purchase in the tender offer will be \$980.00 per \$1,000 principal amount of the 2011 Notes. Holders of the 2011 Notes may also receive an early tender premium of \$30.00 per \$1,000 principal amount of notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on August 5, 2009 and accepted for purchase by us. Additionally, accrued and unpaid interest will be paid on any notes of each series accepted for purchase up to, but not including, the settlement date. The amount of the 2011 Notes purchased in the tender offer will be subject to the Maximum Tender Amount and possible proration as described under Prospectus Supplement Summary Recent Developments Tender Offer.

The tender offer is being made on the terms and subject to the conditions set forth in the Offer to Purchase. The tender offer is being made solely pursuant to, and is governed by, the Offer to Purchase. We cannot assure you that the tender offer will be consummated in accordance with its terms, or at all, or that a significant principal amount of the 2011 Notes will be tendered and cancelled pursuant to the tender offer. This offering is not conditioned upon the successful consummation of the tender offer.



**Table of Contents****CAPITALIZATION**

The following table shows our unaudited cash and cash equivalents and restricted cash and total capitalization at May 31, 2009:

on an actual basis; and

on an as adjusted basis to reflect (i) the issuance and the sale of the notes offered hereby and (ii) the application of the net proceeds therefrom to purchase for cash up to the Maximum Tender Amount of the 2011 Notes tendered and accepted by us for purchase pursuant to the tender offer described under Prospectus Supplement Summary Recent Developments Tender Offer.

You should read this table in conjunction with Prospectus Supplement Summary Recent Developments Tender Offer, Selected Consolidated Financial Data and Use of Proceeds appearing elsewhere in this prospectus supplement, the information set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 30, 2008 and our Quarterly Reports on Form 10-Q for the quarters ended February 28, 2009 and May 31, 2009, in each case incorporated by reference into this prospectus supplement, and the financial statements and notes thereto incorporated by reference into this prospectus supplement and the accompanying prospectus.

	<b>At May 31, 2009</b>	
	<b>Actual</b>	<b>As Adjusted(1)</b>
	<b>(In thousands, unaudited)</b>	
Cash, cash equivalents and restricted cash		
Cash and cash equivalents	\$ 997,357	\$
Restricted cash	102,160	
Total cash, cash equivalents and restricted cash	\$ 1,099,517	\$
Mortgages and notes payable(2)		
Mortgages and land contracts due to land sellers and other loans	\$ 66,144	\$ 66,144
63/8% Senior Notes due 2011(3)	349,096	99,096
53/4% Senior Notes due 2014	249,292	249,292
57/8% Senior Notes due 2015	298,782	298,782
61/4% Senior Notes due 2015	449,675	449,675
71/4% Senior Notes due 2018	298,737	298,737
Notes offered hereby		
Total mortgages and notes payable	1,711,726	
Total stockholders' equity	683,097	683,097
Total capitalization	\$ 2,394,823	\$

- (1) Reflects (a) receipt of the net proceeds of this offering (\$      million) after deducting underwriting discounts and estimated expenses relating to this offering and (b) the purchase of \$250.0 million aggregate principal amount of 2011 Notes for the tender offer consideration of \$1,010.00 per 2011 Note (\$252.5 million) in the tender offer, assuming that all holders tendering 2011 Notes receive the early tender premium. To the extent that a lesser or greater amount of the 2011 Notes are purchased in the tender offer, fewer holders thereof receive the early tender premium or the terms of the tender are otherwise changed, the amounts in the table above in the As Adjusted column will differ.
- (2) We are also party to the \$650.0 million Credit Facility. At May 31, 2009, we had no cash borrowings outstanding and \$193.5 million of letters of credit outstanding under the Credit Facility.
- (3) Series of debt securities subject to the tender offer.

S-20

---

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth summary consolidated financial information from our unaudited consolidated financial statements as of and for the six months ended May 31, 2009 and 2008 and our audited consolidated financial statements as of and for the fiscal years ended November 30, 2008, 2007, 2006, 2005 and 2004. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements, and, in the opinion of our management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth therein. Interim financial statements are not necessarily indicative of results that may be experienced for the fiscal year or any future reporting period. You should read the summary consolidated financial data presented below in conjunction with our financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 30, 2008, and our Quarterly Reports on Form 10-Q for the quarters ended February 28, 2009 and May 31, 2009, each of which is incorporated by reference into this prospectus supplement.

	<b>Six Months Ended May 31,</b>		<b>Years Ended November 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Building:</b>							
Assets	\$ 688,666	\$ 1,428,402	\$ 3,023,169	\$ 6,400,591	\$ 9,359,843	\$ 8,123,313	\$ 5,974,000
Operating income(loss)	(112,871)	(511,352)	(860,643)	(1,358,335)	570,316	1,188,935	637,000
Liabilities	3,407,964	4,787,772	3,992,148	5,661,564	7,825,339	6,881,486	4,760,000
Equity	1,711,726	2,161,220	1,941,537	2,161,794	2,920,334	2,211,935	1,771,000
<b>Financial Services:</b>							
Assets	\$ 3,165	\$ 4,887	\$ 10,767	\$ 15,935	\$ 20,240	\$ 31,368	\$ 44,000
Operating income	1,511	2,655	6,278	11,139	14,317	10,968	8,000
Liabilities	21,930	53,236	52,152	44,392	44,024	29,933	210,000
Payable							71,000
<b>Continued operations:</b>							
Assets	\$	\$	\$	\$	\$ 1,394,375	\$ 1,102,898	\$ 1,020,000
<b>Consolidated:</b>							
Assets	\$ 691,831	\$ 1,433,289	\$ 3,033,936	\$ 6,416,526	\$ 9,380,083	\$ 8,154,681	\$ 6,018,000
Operating income(loss)	(111,360)	(508,697)	(854,365)	(1,347,196)	584,633	1,199,903	645,000
Income(loss) from discontinued operations	(136,455)	(524,102)	(976,131)	(1,414,770)	392,947	754,534	430,000
Income taxes(a)				485,356	89,404	69,178	43,000
Income	(136,455)	(524,102)	(976,131)	(929,414)	482,351	823,712	474,000
Liabilities	3,429,894	4,841,008	4,044,300	5,705,956	9,263,738	8,014,317	5,990,000
Equity	1,711,726	2,161,220	1,941,537	2,161,794	2,920,334	2,211,935	1,843,000

Edgar Filing: KB HOME - Form 424B5

holders equity	683,097	1,274,429	830,605	1,850,687	2,922,748	2,773,797	2,039
earnings(loss) per							
uing operations	\$ (1.78)	\$ (6.77)	\$ (12.59)	\$ (18.33)	\$ 4.99	\$ 9.21	\$
tinued operations				6.29	1.13	0.85	
earnings(loss) per	\$ (1.78)	\$ (6.77)	\$ (12.59)	\$ (12.04)	\$ 6.12	\$ 10.06	\$
l earnings(loss) per							
uing operations	\$ (1.78)	\$ (6.77)	\$ (12.59)	\$ (18.33)	\$ 4.74	\$ 8.54	\$
tinued operations				6.29	1.08	0.78	
l earnings(loss) per	\$ (1.78)	\$ (6.77)	\$ (12.59)	\$ (12.04)	\$ 5.82	\$ 9.32	\$
ividends declared mmon share	\$ 0.125	\$ 0.75	\$ 0.8125	\$ 1.00	\$ 1.00	\$ 0.75	\$
of earnings to fixed s(b)(c)	(d)	(d)	(e)	(e)	2.90x	7.25x	

S-21

**Table of Contents**

- (a) Discontinued operations consist of only our French operations, which have been presented as discontinued operations for all periods presented. Income from discontinued operations, net of income taxes, in 2007 includes a gain of \$438.1 million realized on the sale of our French operations.
- (b) The ratio of earnings to fixed charges are computed on a consolidated basis excluding the French discontinued operations for the years ended November 30, 2007, 2006, 2005 and 2004. We compute earnings by adding fixed charges (except capitalized interest) and amortization of previously capitalized interest to pretax earnings (excluding undistributed earnings of unconsolidated joint ventures). We compute fixed charges by adding interest expense and capitalized interest and the portion of rental expense we consider to be interest.
- (c) The ratio of earnings to fixed charges are computed on a consolidated basis excluding the French discontinued operations for the years ended November 30, 2007, 2006, 2005 and 2004.
- (d) Earnings for the six months ended May 31, 2009 and 2008 were insufficient to cover fixed charges for the periods by \$112.3 million and \$499.2 million, respectively.
- (e) Earnings for the years ended November 30, 2008 and 2007 were insufficient to cover fixed charges for the periods by \$824.1 million and \$1.30 billion, respectively.

S-22

---

**Table of Contents****DESCRIPTION OF THE NOTES**

The % Senior Notes due of KB Home, which we sometimes refer to as the notes, are issuable under the senior indenture dated as of January 28, 2004, as amended and supplemented, by and among KB Home, the Guarantors (as defined in the accompanying prospectus under Description of Debt Securities Certain Definitions ) party thereto from time to time and U.S. Bank National Association (successor in interest to SunTrust Bank), as trustee (the Trustee ), which we refer to as the Indenture.

The notes are a series of senior debt securities and the Indenture is the senior indenture referred to in the accompanying prospectus under the heading Description of Debt Securities. This description of selected terms of the notes and the Indenture supplements and, to the extent inconsistent, replaces the description of the general terms and provisions of the debt securities, the senior debt securities and the senior indenture which appears in the accompanying prospectus under the heading Description of Debt Securities, to which description reference is made and which you should read. The following description of selected terms of the notes and the Indenture is not complete and is qualified in its entirety by reference to the Indenture and the form of certificate evidencing the notes, copies of which have been or will be filed as exhibits to the registration statement of which the accompanying prospectus is a part or to the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus.

Some of the terms, whether or not capitalized, used in this description are defined in the accompanying prospectus under Description of Debt Securities. Some of the terms, whether or not capitalized, used but not defined under this Description of the Notes or under Description of Debt Securities in the accompanying prospectus have the meanings given to them in the Indenture. As used in this Description of the Notes, the terms KB Home, we, our and us refer to KB Home and do not include its subsidiaries, except as otherwise expressly provided or as the context otherwise requires.

**General**

The notes will constitute a single series of senior debt securities under the Indenture, initially limited to \$ in aggregate principal amount. Under the Indenture, KB Home may, without the consent of the holders of the notes, from time to time in the future reopen the series and issue additional notes of the same series. The notes offered by this prospectus supplement and any additional notes we may issue in the future upon such a reopening will constitute a single series of debt securities under the Indenture. This means that, in circumstances where the Indenture provides for the holders of debt securities of any series to vote or take any action, the notes offered by this prospectus supplement and any additional notes that we may issue by reopening the series will vote or take that action as a single class.

The notes will mature on , . The notes will bear interest from , 2009 at the rate of % per annum, payable in cash semi-annually in arrears on and of each year, commencing , 2010, to the persons in whose names the notes are registered, subject to certain exceptions as provided in the Indenture, at the close of business on or , as the case may be, immediately preceding such or . Interest on the notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The notes will be unsecured and unsubordinated obligations of KB Home. See Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement Our ability to service our debt, including the notes, depends upon cash provided to us by our subsidiaries, and the notes are effectively subordinated to the liabilities of our subsidiaries that are not guarantors of the notes and to secured indebtedness of us and guarantors above and Description of Debt Securities Holding Company Structure and Ranking Ranking of Senior Debt Securities and Guarantees in the

accompanying prospectus.

The notes will initially have the benefit of guarantees from the Guarantors as described under Description of Debt Securities Guarantees in the accompanying prospectus. Each guarantee will be the unsecured and unsubordinated obligation of the related Guarantor. See Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement Our ability to service our debt, including the notes, depends upon cash provided to us by our subsidiaries, and the notes are effectively subordinated to the liabilities of our subsidiaries that

S-23

---

## **Table of Contents**

are not guarantors of the notes and to secured indebtedness of us and guarantors above and Description of Debt Securities Holding Company Structure and Ranking Ranking of Senior Debt Securities and Guarantees in the accompanying prospectus. Under certain circumstances specified in the Indenture, any or all of the Guarantors may be released from their guarantees of the notes or other subsidiaries of KB Home may be required to guarantee the notes. See Description of Debt Securities Guarantees in the accompanying prospectus. The guarantees may be subject to review as fraudulent transfers under applicable law. See Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement Federal and state laws allow courts, under specific circumstances, to void guarantees and to require you to return payments received from guarantors.

The notes will not be entitled to the benefit of any sinking fund. In addition, the Indenture does not contain any provisions to protect holders of the notes in the event of a highly leveraged transaction, other than with respect to certain change in control transactions. See Change of Control Offer and Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement The terms of the indenture and the notes provide only limited protection against significant corporate events that could affect adversely your investment in the notes.

The notes will be entitled to the benefit of the covenants described in the accompanying prospectus under Description of Debt Securities Certain Covenants and Consolidation, Merger and Sale of Assets. However, these covenants are subject to a number of important exceptions and limitations, and you should carefully review the information with respect to these covenants and the related definitions appearing in the accompanying prospectus under those captions and Description of Debt Securities Certain Definitions.

The notes will be issued in book-entry form and represented by one or more global notes registered in the name of The Depository Trust Company, as Depository, or its nominee. This means that you will not be entitled to receive a certificate for the notes that you purchase except under the limited circumstances described in the accompanying prospectus under Description of Debt Securities Book-Entry; Delivery and Form.

## **Optional Redemption**

The notes will be redeemable, in whole at any time or from time to time in part, at KB Home's option on any date (each, a Redemption Date) at a redemption price equal to the greater of:

- (a) 100% of the principal amount of the notes to be redeemed, and
- (b) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (exclusive of interest accrued to the applicable Redemption Date) discounted to such Redemption Date on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus basis points,

plus, in the case of both clause (a) and (b) above, accrued and unpaid interest on the principal amount of the notes being redeemed to such Redemption Date. Notwithstanding the foregoing, installments of interest on notes whose stated maturity is on or prior to the relevant Redemption Date will be payable to the holders of such notes (or one or more Predecessor Securities) registered as such at the close of business on the relevant Regular Record Date according to their terms and the provisions of the Indenture.

*Treasury Rate* means, with respect to any Redemption Date for the notes:

- (a) the yield, under the heading that represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States



Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Final Maturity Date for the notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month); or

S-24

---

**Table of Contents**

(b) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date.

The Treasury Rate shall be calculated on the third Business Day preceding the applicable Redemption Date. As used in the immediately preceding sentence and in the definition of Reference Treasury Dealer Quotations below, the term Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York are authorized or obligated by law, regulation or executive order to close.

*Comparable Treasury Issue* means, with respect to any Redemption Date for the notes, the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes to be redeemed.

*Independent Investment Banker* means, with respect to any Redemption Date for the notes, Citigroup Global Markets Inc. and its successors or, if such firm or any successor to such firm, as the case may be, is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the Trustee after consultation with KB Home.

*Comparable Treasury Price* means, with respect to any Redemption Date for the notes:

(a) the average of four Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or

(b) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

*Reference Treasury Dealer* means Citigroup Global Markets Inc. and its successors (provided, however, that if such firm or any such successor, as the case may be, shall cease to be a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer), the Trustee, after consultation with KB Home, will substitute therefor another Primary Treasury Dealer) and three other Primary Treasury Dealers selected by the Trustee after consultation with KB Home.

*Reference Treasury Dealer Quotations* means, with respect to each Reference Treasury Dealer and any Redemption Date for the notes, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

*Final Maturity Date* means , .

Notice of any redemption by KB Home will be mailed at least 30 days but not more than 60 days before any Redemption Date to each holder of notes to be redeemed. If less than all the notes are to be redeemed at the option of KB Home, the Trustee will select, in such manner as it deems fair and appropriate, the notes (or portions thereof) to be redeemed. Unless KB Home defaults in payment of the redemption price (including, without limitation, interest, if any, accrued to the applicable Redemption Date), on and after any Redemption Date interest will cease to accrue on the notes or portions thereof called for redemption on such Redemption Date.

**Change of Control Offer**

If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem the notes by notifying the noteholders to that effect as described above, we will be required to make an offer (a Change of Control Offer ) to each holder of notes to repurchase all or any part (equal to \$1,000 or any integral multiples of \$1,000 in excess thereof) of that holder's notes on the terms set forth in such notes. In a Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of the notes repurchased,

S-25

---

**Table of Contents**

plus accrued and unpaid interest, if any, on the notes repurchased up to, but not including, the date of repurchase (a Change of Control Payment ). Within 30 days following any Change of Control Triggering Event or, at our option, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, notice will be given to holders of the notes describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date that notice is given or, if the notice is given prior to the Change of Control, no earlier than 30 days and no later than 60 days from the date on which the Change of Control Triggering Event occurs, other than in each case as may be required by law (a Change of Control Payment Date ). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the Change of Control Offer is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

On each Change of Control Payment Date, we will, to the extent lawful:

accept for payment all notes or portions of notes properly tendered and not withdrawn pursuant to the terms of the Change of Control Offer;

deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

deliver or cause to be delivered to the trustee the notes properly tendered and accepted together with an Officers Certificate stating the aggregate principal amount of notes or portions of notes being repurchased.

We will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and price and otherwise substantially in compliance with the requirements for an offer made by us and the third party promptly purchases all notes properly tendered and not withdrawn under its offer. In addition, we will not repurchase any notes if there has occurred and is continuing on the Change of Control Payment Date an event of default under the indenture, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

To the extent that we are required to offer to repurchase the notes upon the occurrence of a Change of Control Triggering Event, we may not have sufficient funds to repurchase the notes in cash at such time. In addition, our ability to repurchase the notes for cash may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. The failure to make such repurchase would result in a default under the notes. See Risk Factors Risk Factors Relating to the Notes Offered by this Prospectus Supplement We may not be able to repurchase the notes upon a change of control triggering event.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, transfer, conveyance or other disposition of all or substantially all of our assets and the assets of our subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase such holder's notes as a result of a sale, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries, taken as a whole, to another person or group may be uncertain. In such case, the holders of the notes may not be able to resolve this uncertainty without legal action.

We will comply in all material respects with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change

of Control Offer provisions of the notes, we will comply with those securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Offer provisions of the notes by virtue of any such conflict.

S-26

---

**Table of Contents**

For purposes of the Change of Control Offer provisions of the notes, the following terms will be applicable:

*Change of Control* means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our assets and the assets of our subsidiaries, taken as a whole, to any person, other than to us or one of our subsidiaries;
- (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our outstanding Voting Stock or other Voting Stock into which our Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares;
- (3) our consolidation with, or our merger with or into, any person, or any person consolidates with, or merges with or into, us, in either case, pursuant to a transaction in which any of our outstanding Voting Stock or the Voting Stock of such other person is converted into or exchanged for cash, securities or other property, other than pursuant to a transaction in which shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person or any direct or indirect parent company of the surviving person immediately after giving effect to such transaction, measured by voting power rather than number of shares;
- (4) the first day on which a majority of the members of our board of directors are not Continuing Directors; or
- (5) the adoption by our Board of Directors of a plan relating to our liquidation or dissolution.

Notwithstanding the foregoing, a transaction (or series of related transactions) will not be deemed to involve a Change of Control under clauses (1) or (2) above if we become a direct or indirect wholly-owned subsidiary of a holding company and (a) the direct or indirect holders of a majority of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of a majority of our Voting Stock immediately prior to that transaction or (b) the shares of our Voting Stock outstanding immediately prior to such transaction are converted into or exchanged for a majority of the Voting Stock of such holding company immediately after giving effect to such transaction.

The term *person* is used in this definition as that term is used in Section 13(d)(3) of the Exchange Act.

*Change of Control Triggering Event* means the occurrence of both a Change of Control and a Rating Event.

*Continuing Director* means, as of any date of determination, any member of our Board of Directors who (1) was a member of our Board of Directors on the date the notes were issued, (2) was nominated for election to our Board of Directors with the approval of a committee of the Board of Directors consisting of a majority of independent Continuing Directors or (3) was nominated for election, elected or appointed to our Board of Directors with the approval of a majority of the Continuing Directors who were members of our Board of Directors at the time of such nomination, election or appointment (either by a specific vote or by approval of a proxy statement in which such member was named as a nominee for election as a director, without objection by such member to such nomination).

*Investment Grade Rating* means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or, if applicable, the equivalent investment grade credit rating by any Substitute Rating Agency or Substitute Rating Agencies.

*Moody's* means Moody's Investors Service, Inc., or any successor thereto.

*Rating Agencies* means (1) each of Moody's and S&P and (2) if any of Moody's or S&P ceases to rate the applicable notes or fails to make a rating of the applicable notes publicly available for reasons outside of our control, a Substitute Rating Agency in lieu thereof.

*Rating Event* means the rating on the notes is lowered independently by each of the Rating Agencies and the notes are rated below an Investment Grade Rating by each of the Rating Agencies, in each case on any day during

S-27

---

**Table of Contents**

the period (which period will be extended so long as either of the Rating Agencies has publicly announced that, as a result of the Change of Control, the rating of the notes is under consideration for a possible downgrade) commencing 60 days prior to the first public announcement of the occurrence of a Change of Control or of our intention to effect a Change of Control and ending 60 days following consummation of such Change of Control.

*S&P* means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business, or any successor thereto.

*Substitute Rating Agency* means a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by us (as certified by a resolution of our Board of Directors) as a replacement agency for Moody's or S&P, or both of them, as the case may be.

*Voting Stock* means, with respect to any specified person (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date, the capital stock of that person that is at the time entitled to vote generally in the election of the board of directors of that person.



**Table of Contents**

**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

**General**

The following discussion summarizes some of the U.S. federal income tax consequences of the purchase, ownership and disposition of the notes offered hereby by an initial holder of the notes who purchases the notes in the initial offering for cash at their issue price and who holds the notes as capital assets. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations, and judicial decisions and administrative interpretations thereunder, as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure you that the Internal Revenue Service (the IRS) will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal income tax consequences of purchasing, owning or disposing of the notes.

In this discussion, we do not purport to address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of investors (such as financial institutions, insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities electing to mark to market, persons who hold the notes offered hereby through partnerships or other pass-through entities, real estate investment trusts, regulated investment companies, personal holding companies, U.S. persons whose functional currency is not the U.S. dollar, U.S. expatriates or persons who hold the notes offered hereby as part of a hedge, conversion transaction, straddle or other risk reduction transaction) that may be subject to special rules. This discussion also does not address estate and gift tax consequences, alternative minimum tax consequences or any tax considerations arising under the laws of any foreign, state or local jurisdiction.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds the notes offered hereby, the tax treatment of a partner generally will depend upon the status of the partner and upon the activities of the partnership. A partnership considering a purchase of the notes, and partners in such a partnership, should consult their own tax advisors regarding the tax consequences to them of the purchase, ownership, and disposition of the notes.

Under the terms of the notes, we may be obligated in certain circumstances to pay amounts in excess of stated interest or principal on the notes. It is possible that the IRS could assert that the payment of such excess amounts is a contingent payment and the notes are therefore contingent payment debt instruments for U.S. federal income tax purposes. Under the applicable Treasury regulations, however, for purposes of determining whether a debt instrument is a contingent payment debt instrument, remote or incidental contingencies (determined as of the date the notes are issued) are ignored. We believe that the possibility of making additional payments is remote and/or incidental. Accordingly, we do not intend to treat the notes as contingent payment debt instruments. Our position will be binding on holders of the notes, unless a holder timely and explicitly discloses to the IRS that it takes a position different from ours. Our position, however, is not binding on the IRS. If the IRS successfully challenges this position, the timing and amount of income included and the character of the income recognized with respect to the notes may be materially different from the consequences discussed herein. Holders should consult their own tax advisors regarding this issue. The remainder of this discussion assumes that the notes are not treated as contingent payment debt instruments.

**YOU SHOULD CONSULT YOUR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES OFFERED HEREBY, INCLUDING THE EFFECT AND APPLICABILITY OF STATE, LOCAL OR FOREIGN TAX LAWS.**

**Consequences to U.S. Holders**

The following discussion summarizes certain U.S. federal income tax considerations relevant to a U.S. holder of the notes offered hereby. You are a U.S. holder for purposes of this discussion if you are a beneficial owner of the notes offered hereby and you are:

an individual who is a U.S. citizen or resident alien;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

S-29

---

## **Table of Contents**

an estate whose world-wide income is subject to U.S. federal income taxation; or

a trust that either is subject to the primary supervision of a court within the United States and which has one or more U.S. persons with authority to control all of its substantial decisions or has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

### ***Interest on the Notes***

Provided that the discount, if any, upon issuance of the notes at their issue price is less than 1/4 of 1% of the principal amount of the notes multiplied by the number of complete years to maturity, the notes will be issued without original issue discount for U.S. federal income tax purposes, and stated interest on a note will be includible in your gross income as ordinary interest income in accordance with your usual method of accounting for tax purposes. If, by contrast, the notes are issued with original issue discount, you will be required to include such original issue discount in gross income in advance of the receipt of cash attributable to that income. If the notes are issued to you at an issue price that is greater than the principal amount of the notes, you may elect to amortize such premium as an offset to interest income.

### ***Acquisition Not at Issue Price***

If you purchase notes in the initial offering for an amount different from their issue price within the meaning of Section 1273 of the Code, such notes may be treated as acquired at a premium, an acquisition premium, or with market discount. You should consult your own tax advisors regarding the tax consequences to you of the purchase, ownership, and disposition of any such notes.

### ***Sale, Exchange, Redemption or Other Disposition of the Notes***

Upon the disposition of a note offered hereby by sale, exchange, redemption or other disposition, you generally will recognize capital gain or loss equal to the difference between (i) the amount realized on the disposition (other than amounts attributable to accrued interest not previously recognized as income, which will be treated as ordinary interest income as described above) and (ii) your adjusted federal income tax basis in the note. Your adjusted federal income tax basis in a note offered hereby generally will equal the cost of the note to you (adjusted to account for any market discount and original issue discount previously included in income, and any amortized bond premium). Any capital gain or loss will be long-term capital gain or loss if you have held the note offered hereby for longer than one year on the date of disposition. You should consult your tax advisors regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for certain non-corporate taxpayers) and losses (the deductibility of which is subject to certain limitations).

### ***Backup Withholding and Information Reporting***

Information reporting will apply to payments of principal and interest made by us on, or the proceeds of the sale or other disposition of, the notes offered hereby with respect to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against your U.S. federal income tax liability, provided the required information is timely provided to the IRS.

### ***Consequences to Non-U.S. Holders***

The following discussion summarizes certain U.S. federal income tax considerations relevant to a non-U.S. holder of the notes offered hereby. You are a non-U.S. holder for purposes of this discussion if you are a beneficial owner of the notes offered hereby and are a nonresident alien individual, a foreign corporation, or a trust or estate that is not a U.S. holder.

S-30

---

**Table of Contents**

***U.S. Federal Withholding Tax***

The United States generally imposes a 30% (or lower applicable treaty rate) withholding tax on payments of interest to non-U.S. holders not effectively connected with their conduct of a trade or business in the United States (or, where a tax treaty applies, not attributable to a United States permanent establishment or fixed base). The 30% (or lower applicable treaty rate) U.S. federal withholding tax will not apply to any payment of interest on the notes offered hereby provided that:

you do not actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock within the meaning of the Code and applicable Treasury regulations;

you are not a controlled foreign corporation that is related to us through stock ownership; and

you are not a bank whose receipt of interest on the notes is pursuant to a loan agreement entered into in the ordinary course of business.

In each case, (a) you must provide your name and address on an IRS Form W-8BEN (or successor form), and certify under penalties of perjury, that you are not a U.S. person, (b) a financial institution holding the notes offered hereby on your behalf must certify, under penalties of perjury, that it has received an IRS Form W-8BEN (or successor form) from you and must provide us with a copy, or (c) you must hold your notes directly through a qualified intermediary, and the qualified intermediary must have sufficient information in its files indicating that you are not a U.S. holder. A qualified intermediary is a bank, broker or other intermediary that is acting out of a non-U.S. branch or office and has signed an agreement with the IRS providing that it will administer all or part of the U.S. federal tax withholding rules under specified procedures.

If you cannot satisfy the requirements described above, payments of interest made to you will be subject to the 30% U.S. federal withholding tax, unless you provide us with a properly executed (1) IRS Form W-8BEN (or successor form) claiming an exemption from or a reduction of withholding under the benefit of a tax treaty or (2) IRS Form W-8ECI (or successor form) stating that interest paid on the notes offered hereby is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the United States.

***U.S. Federal Income Tax***

*Interest.* If you are engaged in a trade or business in the United States and interest on the notes offered hereby is effectively connected with the conduct of that trade or business, you will be subject to U.S. federal income tax on the interest on a net income basis (although exempt from the 30% withholding tax) in the same manner as if you were a United States person as defined under the Code. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of your earnings and profits for the taxable year, including earnings and profits from an investment in the notes offered hereby, that are effectively connected with the conduct by you of a trade or business in the United States.

*Sale, Exchange, Redemption or Other Disposition of the Notes.* Any gain or income realized on the sale, exchange, redemption or other disposition of the notes offered hereby generally will not be subject to U.S. federal income tax unless:

that gain or income is effectively connected with the conduct of a trade or business in the United States by you (or, where a tax treaty applies, is attributable to a United States permanent establishment or fixed base), in which case, if you are a foreign corporation, the 30% (or lower applicable treaty rate) branch profits tax may also apply;

you are an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are present; or

the gain represents accrued interest, in which case the rules for taxation of interest would apply.

***Backup Withholding and Information Reporting***

Payments to non-U.S. holders of interest on a note offered hereby and amounts withheld from such payments, if any, generally will be reported to the IRS and such non-U.S. holders. Backup withholding will not apply to

S-31

---

**Table of Contents**

payments of principal and interest on the notes offered hereby if you certify as to your non-U.S. holder status on an IRS Form W-8BEN (or successor form) under penalties of perjury or you otherwise qualify for an exemption (provided that neither we nor our agent know or have reason to know that you are a United States person or that the conditions of any other exemptions are not in fact satisfied).

The payment of the proceeds of the disposition of the notes offered hereby to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and backup withholding unless you provide the certification described above or you otherwise qualify for an exemption. The proceeds of a disposition effected outside the United States by a non-U.S. holder to or through a foreign office of a broker generally will not be subject to backup withholding or information reporting. However, if such broker is a United States person, a controlled foreign corporation, a foreign person 50% or more of whose gross income from all sources for certain periods is effectively connected with a trade or business in the United States, or a foreign partnership that is engaged in the conduct of a trade or business in the United States or that has one or more partners that are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership, information reporting requirements will apply unless such broker has documentary evidence in its files of the holder's non-U.S. status and has no actual knowledge or reason to know to the contrary or unless the holder otherwise qualifies for an exemption. Backup withholding will apply if the sale or other disposition is subject to information reporting and the broker has actual knowledge or reason to know that the beneficial owner is a United States person that is not an exempt recipient. Any amount withheld under the backup withholding rules is allowable as a credit against your U.S. federal income tax liability, if any, provided the required information is timely provided to the IRS.

**Table of Contents****UNDERWRITING**

Citigroup Global Markets Inc. is acting as sole book-running manager of the offering of the notes and as representative of the underwriters named below. Under the terms and subject to the conditions contained in an underwriting agreement dated the date hereof, the underwriters named below have agreed to purchase, and we have agreed to sell to them, the principal amount of notes listed opposite their respective names.

<b>Underwriters</b>	<b>Principal Amount of Notes</b>
Citigroup Global Markets Inc.	\$
Total	\$

The underwriters propose to offer the notes from time to time for sale in negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale. The underwriters have agreed to purchase the notes from us at % of their principal amount (\$ of proceeds to us before deducting estimated expenses from the sale of the notes), subject to the terms and conditions in the underwriting agreement between the underwriters and us.

Under the terms and conditions of the underwriting agreement, the underwriters must buy all of the notes if they buy any of them. The underwriting agreement provides that the obligations of the underwriters pursuant thereto are subject to certain conditions. The underwriters will sell the notes to the public when and if the underwriters buy the notes from us.

We expect that delivery of the notes offered hereby will be made against payment for the notes on or about the closing date specified on the cover page of this prospectus supplement, which will be the fifth business day following the date of pricing of the notes (the settlement cycle being referred to as T+5 ). Under Rule 15c6-1 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. In addition, debt securities that trade in the same-day funds settlement system of The Depository Trust Company often settle on the trade date. Assuming that trades in the notes offered hereby settle on the trade date, purchasers who wish to trade notes offered hereby on the date of pricing or the next succeeding four business days will be required, by virtue of the fact that the notes offered hereby initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes offered hereby who wish to trade these notes on the date of pricing or the next succeeding four business days should consult their own advisors.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system. The underwriters may make a market in the notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.



In order to facilitate the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the notes for their own accounts. In addition, to cover over-allotments or to stabilize the price of the notes, the underwriters may bid for, and purchase, the notes in the open market. Finally, the underwriters may reclaim selling concessions allowed to a particular dealer for distributing the notes in the offering if the dealer repurchases previously distributed notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time without notice. These transactions may be effected in the over-the-counter market or elsewhere.

We estimate that the expenses we will incur in connection with the sale of the notes, other than underwriting discounts, will be \$ . This estimate includes printing costs, rating agency fees, trustees fees and accounting and legal fees, among other expenses.

S-33

---

**Table of Contents**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

In the ordinary course of their respective businesses, the underwriters and certain of their affiliates have in the past and may in the future engage in investment and commercial banking or other transactions of a financial nature with us or our affiliates, including the provision of certain advisory services and the making of loans to us and our affiliates, for which they have received, and will in the future receive, customary compensation. Each of the underwriters or one of their affiliates is a lender under our Credit Facility. In addition, Citigroup Global Markets Inc. is acting as dealer manager in connection with our offer to purchase for cash up to the Maximum Tender Amount of our 2011 Notes as described under Prospectus Supplement Summary Recent Developments Tender Offer.

**LEGAL MATTERS**

Certain legal matters in connection with the offering will be passed upon by Wendy C. Shiba, Executive Vice President, General Counsel and Secretary of KB Home. The validity of the notes offered hereby will be passed upon for KB Home by Munger, Tolles & Olson LLP, Los Angeles, California. Jones Day, Los Angeles, California, will act as counsel for the underwriters.

**EXPERTS**

The consolidated financial statements of KB Home appearing in KB Home's Annual Report (Form 10-K) for the year ended November 30, 2008, and the effectiveness of KB Home's internal control over financial reporting as of November 30, 2008, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such financial statements have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

**Table of Contents**

**PROSPECTUS**

**Debt Securities**  
**Guarantees of Debt Securities**  
**Preferred Stock**  
**Common Stock**  
**Warrants**  
**Stock Purchase Contracts**  
**Stock Purchase Units**  
**Depository Shares**

We will provide specific terms of these securities in supplements and/or in free writing prospectuses accompanying this prospectus. You should read this prospectus and any supplement and free writing prospectus accompanying this prospectus carefully before you invest.

Our common stock is listed on the New York Stock Exchange under the symbol KBH. Any common stock issued pursuant to a prospectus supplement will be listed, subject to notice of issuance, on the New York Stock Exchange or a successor thereof.

**Investment in any securities offered by this prospectus involves risk. See Risk Factors on page 1 of this prospectus and the risk factors disclosed in our periodic reports filed from time to time with the Securities and Exchange Commission and in the applicable prospectus supplement or free writing prospectus accompanying this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is October 17, 2008.

---

You should rely only on the information contained in or incorporated by reference in this prospectus and in any accompanying prospectus supplement or any free writing prospectus prepared by us or on our behalf. We have not authorized anyone to provide you with any information that is different or to make any different or additional representations. We are not making any offer to sell these or any securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus, in any accompanying prospectus supplement or in any free writing prospectus prepared by us or on our behalf is accurate as of any date other than the date on the front of each such document.

## TABLE OF CONTENTS

	<b>Page</b>
<u>Risk Factors</u>	1
<u>Forward-Looking Statements</u>	2
<u>About This Prospectus</u>	2
<u>Where You Can Find More Information</u>	3
<u>Description of KB Home</u>	3
<u>Use of Proceeds</u>	4
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Description of Debt Securities</u>	4
<u>Description of Capital Stock</u>	30
<u>Description of Warrants</u>	33
<u>Description of Depositary Shares</u>	34
<u>Description of Stock Purchase Contracts and Stock Purchase Units</u>	37
<u>Plan of Distribution</u>	37
<u>Legal Matters</u>	37
<u>Experts</u>	37

When this prospectus, any prospectus supplement or any free writing prospectus uses the words KB Home, we, us, and our, they refer to KB Home and its subsidiaries unless otherwise stated or the context otherwise requires. Our fiscal year ends on November 30. When this prospectus, any prospectus supplement or any free writing prospectus refers to particular years or quarters in connection with the discussion of our results of operations or financial condition, those references mean the relevant fiscal years and fiscal quarters, unless otherwise stated.

When we refer in this prospectus, in any accompanying prospectus supplement, in any free writing prospectus or in the documents incorporated or deemed incorporated by reference herein or therein to homes or units, we mean single-family residences, which include detached and attached single-family homes, town homes and condominiums, and references to our homebuilding revenues and similar references refer to revenues derived from sales of single-family residences, in each case unless otherwise expressly stated or the context otherwise requires.

The information in this prospectus, in any accompanying prospectus supplement, in any free writing prospectus and in the documents incorporated by reference or deemed incorporated by reference herein or therein concerning the homebuilding industry, our market share or our size relative to other homebuilders and similar matters is derived principally from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources is reliable, we have not independently verified any of this information and we cannot assure you of its accuracy.

## RISK FACTORS

Investment in any securities offered pursuant to this prospectus involves risks. You should carefully consider the risk factors incorporated herein by reference to our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q and the other information contained in this prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, and the risk factors and other

**Table of Contents**

information contained in the applicable prospectus supplement or free writing prospectus accompanying this prospectus before acquiring any of such securities.

**FORWARD-LOOKING STATEMENTS**

You are cautioned that certain statements contained or incorporated or deemed to be incorporated by reference in this prospectus are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that 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 or operating performance (including future revenues, homes delivered, selling prices, expenses, expense ratios, margins, liquidity, earnings or earnings per share, or growth or growth rates), future market conditions, future interest rates, and other economic conditions, ongoing business strategies or prospects, future dividends and changes in dividend levels, the value of backlog (including amounts that we expect to realize upon delivery of homes included in backlog and the timing of those deliveries), potential future acquisitions and the impact of completed acquisitions, future share repurchases and possible future actions, which may be provided by us, 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 our operations, economic and market factors and the homebuilding industry, among other things. These statements are not guarantees of future performance, and we have no specific policy or intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The most important risk factors that could cause our actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to: general economic and business conditions; adverse market conditions that could result in additional inventory impairments, abandonment charges or goodwill impairments, including an oversupply of unsold homes and declining home prices, among other things; material prices and availability; labor costs and availability; changes in interest rates; our debt level; declines in consumer confidence; increases in competition; weather conditions, significant natural disasters and other environmental factors; government regulations; the availability and cost of land in desirable areas; government investigations and shareholder lawsuits regarding our past stock option grant practices and the restatement of certain of our financial statements; other legal or regulatory proceedings or claims; conditions in the capital, credit (including consumer mortgage lending standards, the availability of consumer mortgage financing and mortgage foreclosure rates) and homebuilding markets; the ability and/or willingness of participants in our unconsolidated joint ventures to fulfill their obligations; our ability to access our available capacity under our primary unsecured revolving credit facility; and other events outside of our control. Please see our Annual Report on Form 10-K for the year ended November 30, 2007, our Quarterly Reports on Form 10-Q for the quarters ended February 29, 2008, May 31, 2008 and August 31, 2008 and our other filings with the Securities and Exchange Commission (the SEC) for a further discussion of these and other risks and uncertainties applicable to our business.

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may sell any combination of securities from time to time in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we or parties acting on our behalf will provide a prospectus supplement and/or free writing prospectus that will contain specific information about the terms of that offering and the securities being sold in that offering. The applicable prospectus supplement or free writing prospectus may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement and any free writing prospectus prepared by us or on our behalf, together with additional information described immediately below under the heading

Where You Can Find More Information.

Any statements in this prospectus, in any accompanying prospectus supplement or in any free writing prospectus concerning the provisions of any document are not complete. In each instance, reference is made to the

**Table of Contents**

copy of that document filed or incorporated or deemed to be incorporated by reference as an exhibit to the registration statement of which this prospectus is a part or otherwise filed with the SEC. Each statement concerning the provisions of any document is qualified in its entirety by reference to the document so filed.

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. The SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers like us that file electronically with the SEC. Our common stock is listed on the New York Stock Exchange. Our reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference the information contained in the documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings (other than filings or portions of filings that under applicable SEC rules are furnished instead of filed) we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), until this prospectus is no longer deemed effective.

- (1) Our Annual Report on Form 10-K for the year ended November 30, 2007;
- (2) Our Quarterly Reports on Form 10-Q for the quarters ended February 29, 2008, May 31, 2008 and August 31, 2008; and
- (3) Our Current Reports on Form 8-K filed January 25, 2008, January 28, 2008, February 8, 2008, June 13, 2008, July 10, 2008, July 15, 2008, August 29, 2008 and October 8, 2008 and our amended Current Reports on Form 8-K/A filed June 13, 2008 and October 8, 2008.

Any information contained in this prospectus or in any document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to have been modified or superseded to the extent that a statement contained in any other document we subsequently file with the SEC that also is incorporated or deemed to be incorporated by reference in this prospectus or in an applicable prospectus supplement or free writing prospectus modifies or supersedes the original statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to be a part of this prospectus.

We encourage you to read our periodic and current reports. We think these reports provide additional information about our company which prudent investors will find important. You may request a copy of these filings as well as any future filings incorporated by reference, at no cost, by writing to us at our principal executive offices at the following address: KB Home, 10990 Wilshire Boulevard, Los Angeles, CA 90024, Attention: Investor Relations. You may also telephone us at (310) 231-4000.

**DESCRIPTION OF KB HOME**

We are one of America's leading homebuilders with operating divisions in the following regions and states: West Coast—California; Southwest—Arizona and Nevada; Central—Colorado and Texas; and Southeast—Florida, Georgia, North Carolina and South Carolina. We also offer mortgage services to our homebuyers through Countrywide KB



Home Loans, LLC, a joint venture with CWB Venture Management Corporation, a subsidiary of Bank of America, N.A. Founded in 1957, we are a Fortune 500 company listed on the New York Stock Exchange under the ticker symbol KBH.

**Table of Contents****USE OF PROCEEDS**

Unless we otherwise specify in the applicable prospectus supplement, the net proceeds we receive from the sale of the securities offered by this prospectus and the accompanying prospectus supplement will be used for general corporate purposes. General corporate purposes may include the development of new residential properties and commercial projects, the repayment of debt and possible land or corporate acquisitions. The net proceeds may be invested temporarily or applied to repay debt until they are used for their stated purpose or for general corporate purposes.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated:

	<b>Nine Months Ended</b>		<b>Years Ended November 30,</b>			
	<b>August 31, 2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Ratio of earnings to fixed charges(1)	(2)	(2)	2.97x	7.25x	4.81x	4.50x

- (1) We compute earnings by adding fixed charges (except capitalized interest) and amortization of previously capitalized interest to pretax earnings (excluding undistributed earnings of unconsolidated joint ventures). We compute fixed charges by adding interest expense and capitalized interest and the portion of rental expense we consider to be interest. No preferred stock was outstanding during any of the periods presented in the above table.
- (2) Earnings for the year ended November 30, 2007 were insufficient to cover fixed charges for the period by \$1.28 billion and earnings for the nine months ended August 31, 2008 were insufficient to cover fixed charges for the period by \$613.5 million.

**DESCRIPTION OF DEBT SECURITIES**

The debt securities will be our senior, senior subordinated or subordinated debt securities. The senior debt securities will be issued under a senior indenture dated as of January 28, 2004, as amended on June 30, 2004, May 1, 2006, November 9, 2006 and August 17, 2007, and as may be further amended and supplemented, by and between us, the Guarantors (as defined below) party thereto from time to time and U.S. Bank National Association (successor in interest to SunTrust Bank), as trustee. The senior subordinated debt securities will be issued under a senior subordinated indenture by and between us, the Guarantors party thereto from time to time and the trustee named in the prospectus supplement relating to an issue of our senior subordinated debt securities. The subordinated debt securities will be issued under a subordinated indenture by and between us, the Guarantors party thereto from time to time and the trustee named in the prospectus supplement relating to an issue of our subordinated debt securities. Throughout this section, we will refer either to the indentures, which includes the senior indenture, the senior subordinated indenture and the subordinated indenture, each as it may be amended or supplemented from time to time, or individually to each separate indenture, as it may be amended or supplemented from time to time, where appropriate.

The following summary of some of the terms of our debt securities and the indentures sets forth certain general terms that might apply to the debt securities. The particular terms of any debt securities will be described in the prospectus supplement and/or free writing prospectus relating to those debt securities. To the extent that any description in a prospectus supplement or in a free writing prospectus of particular terms of debt securities or of an indenture differs from this description, this description will be deemed to have been superseded by the description in that prospectus supplement or in that free writing prospectus in respect of those particular terms of the debt securities or that indenture.

Copies of the forms of indentures and the forms of certificates evidencing the debt securities have been or will be filed as exhibits to the registration statement of which this prospectus is a part or as exhibits to documents that are or will be incorporated by reference in this prospectus. You may obtain copies of these documents as described above under **Where You Can Find More Information**, and we urge you to read these documents before you invest

## **Table of Contents**

in the debt securities. The following is a summary of selected provisions of the indentures and the debt securities. Certain terms used in this description are defined below in the subsection **Certain Definitions**. This summary is not complete and is subject to and qualified in its entirety by reference to all the provisions of the indentures and the certificates evidencing the debt securities, which are incorporated by reference in this prospectus. Some capitalized terms used in the following summary and not defined have the meanings given to those terms in the applicable indentures.

In this section, references to **KB Home**, **we**, **our** and **us** mean **KB Home** excluding, unless the context otherwise requires or we otherwise expressly state, our subsidiaries.

### **General**

Each indenture provides that we may issue debt securities under that indenture from time to time in one or more series and permits us to establish the terms of the debt securities of each series at the time of issuance. None of the indentures limits the amounts of debt securities we may issue under that indenture.

Under each indenture, we may, without the consent of the holders of any debt securities under that indenture, from time to time in the future **reopen** any series of debt securities and issue additional debt securities of that series. The debt securities of a series and any additional debt securities of that series that we may issue in the future upon a reopening will constitute together a single series of debt securities under that indenture. This means that, in circumstances where an indenture provides for the holders of debt securities of any series to vote or take any action, the original debt securities of a series, together with any additional debt securities of that series that we may issue by reopening the series, will vote or take that action as a single class.

The debt securities will be our unsecured senior, unsecured senior subordinated or unsecured subordinated obligations. See **Holding Company Structure** and **Ranking** below. The debt securities will initially have the benefit of guarantees (each a **Guarantee** and, collectively, the **Guarantees**) from certain of our subsidiaries. The Guarantors as of the date of this prospectus are **KB HOME Coastal Inc.**, a California corporation; **KB HOME Colorado Inc.**, a Colorado corporation; **KB HOME Greater Los Angeles Inc.**, a California corporation; **KB HOME Lone Star Inc.**, a Texas corporation; **KB HOME Nevada Inc.**, a Nevada corporation; **KB HOME Orlando LLC**, a Delaware limited liability company; **KB HOME Phoenix Inc.**, an Arizona corporation; **KB HOME Sacramento Inc.**, a California corporation; and **KB HOME South Bay Inc.**, a California corporation. Under certain circumstances, any or all of the Guarantors may be released from their Guarantees of the debt securities, or other of our Subsidiaries may be required to guarantee the debt securities. See **Guarantees**. Each Guarantee will be the unsecured senior, unsecured senior subordinated or unsecured subordinated obligation of the related Guarantor. See **Ranking**.

The debt securities may be denominated and payable in United States dollars or foreign currencies or units based on or relating to foreign currencies. Special United States federal income tax considerations applicable to any debt securities so denominated will be described in the applicable prospectus supplement.

Although the indentures permit us to issue debt securities in bearer form, unless otherwise provided in a prospectus supplement with respect to the debt securities offered thereby, the debt securities will be issued only in fully registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

The prospectus supplement relating to the debt securities of the series offered thereby, which we sometimes refer to as the **offered debt securities**, will specify the following terms of the offered debt securities, if applicable:

the title of the offered debt securities and whether those offered debt securities will be senior, senior subordinated or subordinated debt securities;

the aggregate principal amount of the offered debt securities;

the purchase price and denomination of the offered debt securities;

the date or dates on which the principal of the offered debt securities will be payable;

**Table of Contents**

the interest rate or rates, if any, that the offered debt securities will bear, or the method by which such rate will be determined;

the date from which interest, if any, will accrue, the interest payment dates and the regular record dates for the offered debt securities;

any optional or mandatory redemption or repayment provisions;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the offered debt securities;

the terms, if any, on which the offered debt securities may be converted into or exchanged for our stock or other securities or stock or other securities of other entities;

any restrictive covenants not described below in **Certain Covenants** and **Consolidation, Merger and Sale of Assets**, and any addition to, or modification or deletion of, any covenant, with respect to the offered debt securities;

whether the offered debt securities will be issued as individual certificates to each holder or in the form of global securities held by a depository on behalf of holders;

any special United States federal income tax considerations applicable to the offered debt securities, including in respect of any offered debt securities that are original issue discount securities, which bear no interest or bear interest payable in cash at below-market rates and are sold at a discount below their stated principal amount; and

any other specific terms of the offered debt securities.

**Exchange, Registration and Transfer**

Registered debt securities may be transferred and debt securities in registered or bearer form may be exchanged at the office or agency that we maintain for these purposes which, unless otherwise provided in respect of a series of debt securities in the prospectus supplement offering debt securities of that series, will be located in the Borough of Manhattan, The City of New York. The office or agency initially maintained by us for the foregoing purposes will be the office of the trustee in the Borough of Manhattan, The City of New York designated for such purpose. No service charge shall be made for any registration of transfer or exchange of debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Debt securities in bearer form and related coupons, if any, will be transferable upon delivery.

In the case of debt securities of any series that are redeemable at our option, we will not be required to issue, exchange or register a transfer of:

any debt securities of that series during a period beginning at the opening of business 15 days before any day of the selection for redemption of debt securities of like tenor and terms and of the same series and ending at the close of business on the day of such selection;

any debt securities of that series in registered form, or portion thereof, so selected for redemption except, in the case of any such debt securities to be redeemed in part, the portions thereof not selected to be redeemed;

any debt securities of that series in bearer form so selected for redemption except, to the extent provided with respect to such debt securities, that such debt securities may be exchanged for debt securities in registered form of like tenor and terms and of the same series, provided that the debt securities in registered form shall be simultaneously surrendered for redemption with written instruction for payment consistent with the provisions of the applicable indenture; or

any debt securities of that series which, in accordance with their terms, have been surrendered for repayment at the option of the holder and not withdrawn, except the portion, if any, of such debt securities not to be so repaid.

## **Table of Contents**

### **Payment and Paying Agent**

We will pay principal of and any premium or interest on registered debt securities in the designated currency or currency unit at the office or agency maintained by us for that purpose which, unless otherwise provided in respect of a series of debt securities in the prospectus supplement offering debt securities of that series, will be located in the Borough of Manhattan, The City of New York; provided that payments of interest on registered debt securities may be made, at our option, by check mailed to the address of the persons entitled thereto or by transfer to an account maintained by the payee with a bank located in the United States; and provided, further, that payments on registered debt securities in global form that are registered in the name of a depository or its nominee will be made by wire transfer, unless otherwise provided in the applicable prospectus supplement with respect to the debt securities of any such series. The office or agency initially maintained by us for the foregoing purposes will be the office of the trustee in the Borough of Manhattan, The City of New York designated for such purpose. Interest payable on coupons pertaining to debt securities in bearer form will be paid only upon presentation and surrender of those coupons.

If any amount payable on any debt security or coupon remains unclaimed at the end of two years after the amount became due and payable, the trustee or paying agent will, on our request, release any unclaimed amounts to us, and the holder of that debt security or coupon, as the case may be, shall look only to us and the Guarantors for any payment they may be entitled to collect, subject to the escheatment of any unclaimed amounts pursuant to applicable state law.

If any interest payment date, redemption date, date for repayment or repurchase at the option of the holder or maturity date of any of the debt securities is not a Business Day at any Place of Payment, then payment of principal and any premium or interest need not be made at such Place of Payment on such date but may be made on the next succeeding Business Day at such Place of Payment, and no interest will accrue on the amount so payable for the period from and after such interest payment date, redemption date, date for repayment or repurchase at the option of the holder or maturity date, as the case may be.

### **Book-Entry; Delivery and Form**

If the debt securities of any series will be issued in the form of one or more global debt securities in fully registered form, without interest coupons (each, a global debt security), each global debt security will be deposited with, or on behalf of, a custodian for the applicable depository (the Depository) and will be registered in the name of the Depository or its nominee. Unless we specify otherwise in a prospectus supplement, the Depository for the global debt securities will be The Depository Trust Company, New York, New York. Investors may hold their beneficial interests in a global debt security directly through the Depository, if they are participants in the Depository's electronic book-entry registration and transfer system, or indirectly through organizations that are participants in the system.

Except as set forth below, the global debt securities may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or its nominee to a successor depository or any nominee of such successor. Beneficial interests in global debt securities may not be exchanged for debt securities in definitive certificated form (certificated debt securities) except in the limited circumstances described below.

All interests in the global debt securities will be subject to the procedures and requirements of the Depository.

*Certificated Debt Securities.* The indentures provide that the global debt securities of any series will be exchangeable for certificated debt securities of that series if:



(a) the Depository notifies us that it is unwilling or unable to continue as Depository for the global debt securities of that series or the Depository for the global debt securities of that series ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, if so required by the applicable law or regulation, and no successor Depository for the global debt securities of that series shall have been appointed within 90 days of such notification or of our becoming aware of the Depository's ceasing to be so registered, as the case may be;

**Table of Contents**

(b) we, in our sole discretion, determine that the debt securities of that series will no longer be represented by global debt securities and execute and deliver to the applicable trustee an order to the effect that the global debt securities of that series shall be so exchangeable; or

(c) an Event of Default has occurred and is continuing with respect to the debt securities of that series.

Upon any such exchange, we will execute, and the applicable trustee will authenticate and deliver, certificated debt securities of the applicable series in exchange for interests in the global debt securities of that series. We anticipate that those certificated debt securities will be registered in such names as the Depository instructs the trustee and that those instructions will be based upon directions received by the Depository from its participants with respect to ownership of beneficial interests in the global debt securities of that series.

*Book-Entry System.* The Depository has advised us that it is:

- a limited purpose trust company organized under the New York Banking Law;
- a banking organization within the meaning of the New York Banking Law;
- a member of the Federal Reserve system;
- a clearing corporation within the meaning of the New York Uniform Commercial Code; and
- a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

The Depository holds securities of institutions that have accounts with the Depository ( participants ) and facilitates the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. The Depository s participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (or their representatives) own the Depository. Indirect access to the Depository s book-entry system is also available to others such as banks, brokers, dealers and trust companies ( indirect participants ) that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of the Depository only through participants or indirect participants.

We expect that, upon the issuance of a global debt security, the Depository will credit, on its book-entry registration and transfer system, the respective principal amounts of the debt securities represented by such global debt security to the accounts of participants. Ownership of beneficial interests in the global debt securities will be limited to participants or persons that may hold interests, directly or indirectly, through participants. Ownership of beneficial interests in the global debt securities will be shown on, and the transfer of those beneficial interests will be effected only through, records maintained by the Depository (with respect to participants interests) and records maintained by participants and indirect participants (with respect to the owners of beneficial interests in the global debt securities other than participants). Likewise, beneficial interests in global debt securities may be transferred only in accordance with the Depository s procedures, in addition to those provided for under the indentures. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such debt securities in definitive form. Such limits and laws may impair the ability to transfer or pledge beneficial interests in the global debt securities.

So long as the Depository or its nominee is the registered holder of the global debt securities of any series, the Depository or such nominee, as the case may be, will be considered the sole owner and holder of the related debt

securities for all purposes under the applicable indenture. Except as described herein, owners of beneficial interests in the global debt securities will not be entitled to have the debt securities represented by such global debt securities registered in their names and will not receive or be entitled to receive physical delivery of certificated debt securities. In addition, owners of beneficial interests in the global debt securities will not be considered to be the owners or registered holders of the debt securities represented by those beneficial interests under the applicable indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee. Accordingly, each person owning a beneficial interest in a global debt security of any series must rely on the procedures of the Depository and, if such person is not a participant, on the procedures of the person or persons through which such person owns its beneficial interest in order to exercise any right of a registered holder of debt

## **Table of Contents**

securities of that series. We understand that under existing industry practice, in the event that the Depository is entitled to take any action as the registered holder of a global debt security, the Depository would authorize its participants to take such action and that the participants and the indirect participants would authorize owners of beneficial interests owning through them to take such action or would otherwise act upon the instructions of owners of beneficial interests.

Payment of principal of and any premium or interest on debt securities represented by a global debt security registered in the name of the Depository or its nominee will be made to the Depository or its nominee, as the case may be, as the registered holder of such global debt security. We expect that the Depository or its nominee, upon receipt of any payment in respect of a global debt security, will credit its participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global debt security as shown on the records of the Depository or its nominee. We also expect that payments by participants and indirect participants to owners of beneficial interests in a global debt security will be governed by standing instructions and customary practices and will be the responsibility of such participants and indirect participants and not of the Depository. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership of beneficial interests in the global debt securities or for maintaining, supervising or reviewing any records relating to such beneficial interests or for any other aspect of the relationship between the Depository and its participants and indirect participants or the relationship between such participants and indirect participants and the owners of beneficial interests owning through such participants and indirect participants.

The information in this subsection **Book-Entry; Delivery and Form** concerning the Depository and its book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for its accuracy.

## **Holding Company Structure**

The debt securities will initially be guaranteed by certain of our subsidiaries. See **Guarantees** below. However, subsidiaries of ours that are not Guarantors of the debt securities can generate significant revenues and income for us and may hold a significant amount of our consolidated assets. We refer to these subsidiaries as the **Non-Guarantor Subsidiaries**.

We are a holding company, and we conduct our operations through subsidiaries. We derive substantially all our revenues from our subsidiaries, and all our operating assets are owned by our subsidiaries. As a result, our cash flow and our ability to service our debt, including the debt securities, depends on the results of operations of our subsidiaries and upon the ability of our subsidiaries to provide us cash. Our subsidiaries are separate and distinct legal entities, and the Non-Guarantor Subsidiaries have no obligation to make payments on the debt securities or to make any funds available for that purpose. In addition, dividends, loans or other distributions from our subsidiaries to us may be subject to contractual and other restrictions, depend on their results of operations and are subject to other business considerations.

Because of our holding company structure, the debt securities will be effectively subordinated to all existing and future liabilities of our Non-Guarantor Subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. Therefore, our rights and the rights of our creditors, including the holders of the debt securities, to participate in the assets of any Non-Guarantor Subsidiary upon that subsidiary's liquidation or reorganization will be subject to the prior claims of that subsidiary's creditors and of the holders of any indebtedness or other obligations guaranteed by that subsidiary, except to the extent that we may ourselves be a creditor with recognized claims against that subsidiary. However, even if we are a creditor of one of our Non-Guarantor Subsidiaries, our claims would still be effectively subordinated to any security interests in, or mortgages or other liens on, the assets of that subsidiary and would be subordinate to any indebtedness of that subsidiary senior to that held by us.

See Ranking Subordination of Senior Subordinated Debt Securities and Guarantees and Ranking Subordination of Subordinated Debt Securities and Guarantees below for information as to the terms on which the senior subordinated debt securities and the subordinated debt securities and the related Guarantees will be subordinated in right of payment to Senior Indebtedness. The debt securities and the Guarantees will also be effectively subordinated to our secured indebtedness and to the secured indebtedness of the Guarantors, respectively.

**Table of Contents****Guarantees**

The senior indenture provides that payment of principal of and any premium and interest on the senior debt securities will be unconditionally guaranteed, jointly and severally, on an unsecured senior basis by the Guarantors. The senior subordinated indenture provides that payment of principal of and any premium and interest on the senior subordinated debt securities will be unconditionally guaranteed, jointly and severally, on an unsecured senior subordinated basis by the Guarantors. The subordinated indenture provides that payment of principal of and any premium and interest on the subordinated debt securities will be unconditionally guaranteed, jointly and severally, on an unsecured subordinated basis by the Guarantors.

Each indenture provides that the obligations of each Guarantor under its Guarantee are limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor, result in the obligations of such Guarantor under its Guarantee not constituting a fraudulent conveyance or fraudulent transfer under applicable law. However, there can be no assurance that, notwithstanding this limitation, a court would not find that a Guarantee violated applicable fraudulent conveyance, fraudulent transfer or other similar laws. If that were to occur, the court could void the applicable Guarantor's obligations under that Guarantee, subordinate that Guarantee to other debt of the Guarantor or take other action detrimental to holders of the debt securities, including directing the return of any payments received by holders from the applicable Guarantor.

*Ranking of Guarantees.* For information regarding the ranking of the Guarantees of the senior debt securities, the Guarantees of the senior subordinated debt securities and the Guarantees of the subordinated debt securities, see **Ranking** below.

*Release of Guarantors.* Each indenture provides that, for so long as we are a party to or otherwise bound by the terms of the Credit Facility or any Substitute Credit Facility, if a Guarantor is released from all of its guarantees under or pursuant to the Credit Facility and all Substitute Credit Facilities, such Guarantor shall be automatically and unconditionally released and discharged from all of its obligations under such indenture and its Guarantee of the debt securities issued under such indenture without any further action required on the part of us, the other Guarantors, the trustee under such indenture or any holder of debt securities issued under such indenture; provided that all guarantees by such Guarantor of any other Indebtedness of ours and of any of our Subsidiaries are terminated at or prior to the time of such release. Each indenture also provides that, for so long as we are not a party to or bound by the terms of the Credit Facility or any Substitute Credit Facility, if a Guarantor shall cease to be a Domestic Significant Subsidiary, such Guarantor shall be automatically and unconditionally released and discharged from all of its obligations under such indenture and its Guarantee of the debt securities issued under such indenture without any further action required on the part of us, the other Guarantors, the trustee under such indenture or any holder of debt securities issued under such indenture; provided that all guarantees by such Guarantor of any other Indebtedness of ours and of any our Subsidiaries (other than, in the case of the senior subordinated indenture, guarantees that constitute Senior Indebtedness of such Guarantor under the senior subordinated indenture and, in the case of the subordinated indenture, guarantees that constitute Senior Indebtedness of such Guarantor under the subordinated indenture) are terminated at or prior to the time of such release.

*Additional Guarantors.* Each indenture provides that, for so long as we are a party to or bound by the terms of the Credit Facility or any Substitute Credit Facility, if any of our Subsidiaries that is not then a Guarantor guarantees any indebtedness or other obligations of ours under the Credit Facility or any Substitute Credit Facility, then, contemporaneously with or prior to the effectiveness of such guarantee, we shall cause such Subsidiary to enter into a supplemental indenture pursuant to which such Subsidiary becomes a Guarantor under such indenture. Each indenture also provides that, for so long as we are not a party to or bound by the terms of the Credit Facility or any Substitute Credit Facility, if any of our Subsidiaries that is not a Guarantor either (a) is or becomes a Domestic Significant Subsidiary or (b) guarantees any Subject Notes, then we shall cause such Subsidiary to enter into a supplemental

indenture pursuant to which such Subsidiary becomes a Guarantor under such indenture.

Each indenture also provides that, anything therein to the contrary notwithstanding, we will not cause or permit any of our Subsidiaries to guarantee any of the Subject Notes unless such Subsidiary is either a Guarantor of the debt securities under such indenture or, contemporaneously with or prior to the effectiveness of such Subsidiary's guarantee of such Subject Notes, such Subsidiary enters into a supplemental indenture pursuant to which such Subsidiary becomes a Guarantor under such indenture.

## **Table of Contents**

As used in the three preceding paragraphs, the term *guarantee* (but not the term *Guarantee*) means, with respect to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of any other Person including, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person to purchase or pay principal of or interest on (or advance or supply funds or pledge assets for the purchase or payment of or payment of interest on) Indebtedness of such other Person (whether by agreement to provide additional capital or to maintain financial condition or other similar agreement), and such term, when used as a verb in any of the three preceding paragraphs, shall have a correlative meaning.

## **Ranking**

### ***Ranking of Senior Debt Securities and Guarantees***

Our senior debt securities will be unsecured and will rank equally in right of payment with all of our other unsecured and unsubordinated indebtedness. Each Guarantee of senior debt securities by a Guarantor will be an unsecured senior obligation of such Guarantor and will rank equally in right of payment with all of such Guarantor's other unsecured and unsubordinated indebtedness and guarantees. However, the senior debt securities will be effectively subordinated to all existing and future liabilities of our Non-Guarantor Subsidiaries, and the senior debt securities and each Guarantor's Guarantee of the senior debt securities will also be effectively subordinated to all existing and future secured indebtedness of ours and of such Guarantor, respectively, all as described above under  Holding Company Structure.

### ***Subordination of Senior Subordinated Debt Securities and Guarantees***

Our senior subordinated debt securities will be unsecured and will be subordinate and junior in right of payment, to the extent and in the manner provided in the senior subordinated indenture, to all of our existing and future Senior Indebtedness, including the senior debt securities. Each Guarantee of senior subordinated debt securities by a Guarantor will be an unsecured obligation of such Guarantor and will be subordinate and junior in right of payment, to the extent and in the manner provided in the senior subordinated indenture, to all of such Guarantor's existing and future Senior Indebtedness, including any Guarantees of senior debt securities.

The senior subordinated indenture defines *Senior Indebtedness* with respect to us or any Guarantor of the senior subordinated debt securities, as the case may be, to mean the principal of (and premium, if any) and unpaid interest (including interest accruing after the filing of a petition initiating any proceeding pursuant to any Bankruptcy Laws, whether or not the payment of such interest is permitted by law) or accrued original issue discount on and other amounts due on or in connection with any Debt incurred, assumed or guaranteed by us or such Guarantor, as the case may be, whether outstanding on the date of the senior subordinated indenture or thereafter incurred, assumed or guaranteed and all renewals, extensions and refundings of any such Debt; *provided, however*, that the following will not constitute Senior Indebtedness of ours or such Guarantor, as the case may be:

any Debt of ours or of such Guarantor, as the case may be, as to which, in the instrument creating the same or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that such Debt is subordinate in right of payment to all other Debt of ours or of such Guarantor, as the case may be, not expressly subordinated to such Debt;

any Debt of ours or of such Guarantor, as the case may be, which by its terms refers explicitly, in our case, to the senior subordinated debt securities, or, in the case of such Guarantor, to the Guarantees of the senior subordinated debt securities and states that such Debt shall not be senior in right of payment to the senior subordinated debt securities or to the Guarantees of the senior subordinated debt securities, as the case may be;



in our case, any of our Debt in respect of the senior subordinated debt securities;

in the case of such Guarantor, all Guarantees of such Guarantor in respect the senior subordinated debt securities;

in our case, any of our Debt to any of our Subsidiaries;

in the case of such Guarantor, any Debt of such Guarantor to any Subsidiary of such Guarantor or of ours;

**Table of Contents**

in our case, any of our Debt to any joint venture or partnership, which joint venture or partnership is required, under generally accepted accounting principles, to be consolidated into our consolidated financial statements;

in the case of such Guarantor, any Debt of such Guarantor to any joint venture or partnership, which joint venture or partnership is required, under generally accepted accounting principles, to be consolidated into our or such Guarantor's consolidated financial statements;

in our case, any of our Debt that by its terms ranks *pari passu* with or subordinate to the senior subordinated debt securities; and

in the case of such Guarantor, any Debt of such Guarantor that by its terms ranks *pari passu* with or subordinate to such Guarantor's Guarantees of the senior subordinated debt securities.

The senior subordinated indenture provides that, for purposes of the foregoing definition, all references to Debt of any Guarantor shall include all obligations of such Guarantor as a guarantor of any Debt of others and, without limitation to the foregoing, any guarantee by such Guarantor of any senior debt securities issued by us under the senior indenture shall constitute Senior Indebtedness of such Guarantor.

*Anti-Layering Covenant.* The senior subordinated indenture provides that neither we nor any Guarantor of the senior subordinated debt securities will incur any Debt that is subordinated by the terms of the instrument creating such Debt in right of payment to any other Debt of ours or of such Guarantor, respectively, and that is not expressly by the terms of the instrument creating such Debt made *pari passu* with, or subordinate and junior in right of payment to, the senior subordinated debt securities or such Guarantor's Guarantee of the senior subordinated debt securities, respectively. The senior subordinated indenture provides that, for purposes of the preceding sentence, references to Debt of any Guarantor shall include all obligations of such Guarantor as guarantor of any Debt of others.

*Subordination Following Insolvency or Bankruptcy.* The senior subordinated indenture provides that, upon any distribution of our assets in the event of:

any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to us or our creditors, as such, or to our assets, or

our liquidation, dissolution or other winding up, whether voluntary or involuntary, or

any assignment for the benefit of our creditors or any other marshalling of our assets and liabilities, then and in that event:

holders of our Senior Indebtedness will be entitled to receive payment in full of all amounts due or to become due on or in respect of all of our Senior Indebtedness, or provision will be made for that payment in cash, before holders of senior subordinated debt securities are entitled to receive any payment on account of the principal of or any premium or interest on or any other amount owing in respect of the senior subordinated debt securities; and

any payment or distribution of our assets, of any kind or character, whether in cash, property or securities, by set-off or otherwise, to which holders of senior subordinated debt securities would be entitled but for the subordination provisions in the senior subordinated indenture will, subject to limited exceptions, be paid directly to the holders of our Senior Indebtedness or their representatives to the extent necessary to pay in full all of our Senior Indebtedness.

Notwithstanding the provisions described in the preceding paragraph, in the event that the trustee under the senior subordinated indenture or the holder of any senior subordinated debt securities receives any payment or distribution of our assets, subject to limited exceptions, before all of our Senior Indebtedness is paid in full or payment of all of our Senior Indebtedness is provided for, that payment or distribution will be held in trust for the benefit of and paid over or delivered to the holders of that Senior Indebtedness or their representatives to the extent necessary to pay all of our Senior Indebtedness in full.

## **Table of Contents**

Our consolidation with or our merger into another corporation or our liquidation or dissolution following the conveyance or transfer of all or substantially all our assets to another Person upon the terms and conditions described below under Consolidation, Merger and Sale of Assets will not be deemed a dissolution, winding-up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of our assets and liabilities for the purposes of the subordination provisions described above if the successor or transferee Person shall, as a part of that transaction, comply with the conditions described under Consolidation, Merger and Sale of Assets.

*Prohibition on Payments Following Acceleration of the Senior Subordinated Debt Securities.* If payment of any of our senior subordinated debt securities is accelerated because of an Event of Default, we must promptly notify holders of our Senior Indebtedness of the acceleration. We may not pay or acquire the senior subordinated debt securities until 135 days have passed after that acceleration occurs and may thereafter pay or acquire the senior subordinated debt securities only if we are permitted to do so under the subordination provisions of our senior subordinated indenture.

*Prohibition on Payments Following Certain Defaults on Senior Indebtedness.* We may not make any payment of the principal of or any premium or interest on or any other amount owing in respect of the senior subordinated debt securities, and we may not acquire any senior subordinated debt securities for cash or property, if:

a default on our Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity, and

unless that default relates to a failure by us to make any payment in respect of that Senior Indebtedness when due or within any applicable grace period (a Payment Default), that default is either the subject of judicial proceedings or we receive notice of the default. If we receive notice of the default, then a similar notice received within nine months after the original notice relating to the same default on the same issue of our Senior Indebtedness will not be effective for purposes of the provisions described in this paragraph.

We may resume making payments on the senior subordinated debt securities and may acquire senior subordinated debt securities if and when:

- (1) 135 days pass after, in the case of a Payment Default, the later of the date that payment was due and the expiration of any applicable grace period for that payment or, in the case of any other such default, the date the related judicial proceedings commence or that notice of the default is given to us, as the case may be, and
- (2) the Senior Indebtedness in respect of which the default exists has not been declared due and payable in its entirety within that 135 day period or, if declared due and payable, that declaration has been rescinded, waived or annulled; or

the default with respect to the applicable Senior Indebtedness is cured or waived,

and, in any case described above, the subordination provisions of the senior subordinated indenture otherwise permit the payment or acquisition of senior subordinated debt securities at that time.

In the event that, notwithstanding the provisions described in the two immediately preceding paragraphs, we make any payment to the trustee for, or the holders of, the senior subordinated debt securities that is prohibited by those provisions, then that payment will be held in trust for the benefit of and be paid over or delivered to the holders of the Senior Indebtedness or their representatives.

*Subordination Provisions Applicable to the Guarantors and Prohibitions on Payments by the Guarantors.* A Guarantor's obligations under its Guarantee of our senior subordinated debt securities are senior subordinated obligations of such Guarantor. As a result, a Guarantor's obligations to make payments under its Guarantee of our

senior subordinated debt securities will be subordinated in right of payment to all existing and future Senior Indebtedness of such Guarantor on substantially the same terms (as described above) as our obligations to make payments on our senior subordinated debt securities are subordinated in right of payment to all of our existing and future Senior Indebtedness. Accordingly, payments under each Guarantor's Guarantee of the senior subordinated debt securities will be subordinated to the prior payment of all Senior Indebtedness of such Guarantor under subordination and payment blockage provisions substantially the same as those pursuant to which our obligations under the senior subordinated debt securities will be subordinated to the prior payment of our Senior Indebtedness as described above. For example, in the event of any insolvency or bankruptcy case or proceeding relative to a

## **Table of Contents**

Guarantor, holders of Senior Indebtedness of such Guarantor will be entitled to receive payment in full of all amounts due or to become due in respect of the Senior Indebtedness of such Guarantor before any payment is made under its Guarantee of the senior subordinated debt securities, all on terms substantially similar to those described above under

Subordination Following Insolvency or Bankruptcy. Likewise, each Guarantor will be prohibited from making any payment under its Guarantee of the senior subordinated debt securities if the senior subordinated debt securities are accelerated because of an Event of Default or if a default on any of our Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity, all on terms substantially similar to those described above under Prohibition on Payments Following Acceleration of the Senior Subordinated Debt Securities and Prohibition on Payments Following Certain Defaults on Senior Indebtedness. In addition, the payment blockage provisions described under Prohibition on Payments Following Certain Defaults on Senior Indebtedness, insofar as they apply to any Guarantor of the senior subordinated debt securities, will also prohibit such Guarantor from making any payment under its Guarantee of the senior subordinated debt securities if a default on any of its Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity.

The consolidation of any Guarantor with, or the merger of any Guarantor into, another corporation or the liquidation or dissolution of any Guarantor following the conveyance or transfer of all or substantially all its assets to another Person upon the terms and conditions described below under Consolidation, Merger and Sale of Assets will not be deemed a dissolution, winding-up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of such Guarantor for the purposes of the subordination provisions described above under

Subordination Following Insolvency or Bankruptcy if the successor or transferee Person shall, as part of that transaction and if required by the provisions described above under Guarantees Additional Guarantors, become a Guarantor in accordance with the applicable provisions described above under Guarantees Additional Guarantors.

As a result of these subordination provisions, our creditors and creditors of the Guarantors who hold neither our senior subordinated debt securities nor our Senior Indebtedness may recover less, ratably, than holders of our Senior Indebtedness and may recover more, ratably, than the holders of our senior subordinated debt securities.

The senior subordinated indenture further provides that, anything therein to the contrary notwithstanding, the senior subordinated debt securities shall in all respects rank *pari passu* in right of payment with our outstanding 85/8% senior subordinated notes due December 15, 2008, and each Guarantor's Guarantee of the senior subordinated debt securities shall in all respects rank *pari passu* in right of payment with such Guarantor's guarantee of the 85/8% senior subordinated notes due December 15, 2008.

If this prospectus is being delivered in connection with a series of senior subordinated debt securities, the accompanying prospectus supplement or the information incorporated by reference in this prospectus will indicate the approximate amount of our Senior Indebtedness outstanding as of a recent date.

### ***Subordination of Subordinated Debt Securities and Guarantees***

Our subordinated debt securities will be unsecured and will be subordinate and junior in right of payment, to the extent and in the manner provided in the subordinated indenture, to all of our existing and future Senior Indebtedness, including the senior debt securities and the senior subordinated debt securities. Each Guarantee of subordinated debt securities by a Guarantor will be an unsecured obligation of such Guarantor and will be subordinate and junior in right of payment, to the extent and in the manner provided in the subordinated indenture, to all of such Guarantor's existing and future Senior Indebtedness, including any Guarantees of senior debt securities and senior subordinated debt securities.

The subordinated indenture defines Senior Indebtedness with respect to us or any Guarantor of the subordinated debt securities, as the case may be, to mean the principal of (and premium, if any) and unpaid interest (including interest

accruing after the filing of a petition initiating any proceeding pursuant to any Bankruptcy Laws, whether or not the payment of such interest is permitted by law) or accrued original issue discount on and other amounts due on or in connection with any Debt incurred, assumed or guaranteed by us or such Guarantor, as the case may be, whether outstanding on the date of the subordinated indenture or thereafter incurred,

**Table of Contents**

assumed or guaranteed and all renewals, extensions and refundings of any such Debt; *provided, however*, that the following will not constitute Senior Indebtedness of ours or of such Guarantor, as the case may be:

any Debt of ours or of such Guarantor, as the case may be, as to which, in the instrument creating the same or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that such Debt is subordinate in right of payment to all other Debt of ours or of such Guarantor, as the case may be, not expressly subordinated to such Debt;

any Debt of ours or of such Guarantor, as the case may be, which by its terms refers explicitly, in our case, to the subordinated debt securities, or, in the case of such Guarantor, to the Guarantees of the subordinated debt securities and states that such Debt shall not be senior in right of payment to the subordinated debt securities or the Guarantees of the subordinated debt securities, as the case may be;

in our case, any of our Debt in respect of the subordinated debt securities;

in the case of such Guarantor, all Guarantees of such Guarantor in respect the subordinated debt securities;

in our case, any of our Debt to any of our Subsidiaries;

in the case of such Guarantor, any Debt of such Guarantor to any Subsidiary of such Guarantor or of ours;

in our case, any of our Debt to any joint venture or partnership, which joint venture or partnership is required, under generally accepted accounting principles, to be consolidated in our consolidated financial statements;

in the case of such Guarantor, any Debt of such Guarantor to any joint venture or partnership, which joint venture or partnership is required, under generally accepted accounting principles, to be consolidated in our or such Guarantor's consolidated financial statements;

in our case, any of our Debt that by its terms ranks *pari passu* with or subordinate to the subordinated debt securities; and

in the case of such Guarantor, any Debt of such Guarantor that by its terms ranks *pari passu* with or subordinate to such Guarantor's Guarantees of the subordinated debt securities.

The subordinated indenture provides that, for purposes of the foregoing definition, all references to Debt of any Guarantor shall include all obligations of such Guarantor as a guarantor of any Debt of others and, without limitation to the foregoing, any guarantee by such Guarantor of (a) senior debt securities issued by us under the senior indenture, (b) senior subordinated debt securities issued by us under our senior subordinated indenture and (c) our 85/8% senior subordinated notes due December 15, 2008 shall constitute Senior Indebtedness of such Guarantor.

*Subordination Following Insolvency or Bankruptcy.* The subordinated indenture provides that, upon any distribution of our assets in the event of:

any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to us or our creditors, as such, or to our assets, or

our liquidation, dissolution or other winding up, whether voluntary or involuntary, or



any assignment for the benefit of our creditors or any other marshalling of our assets and liabilities, then and in that event:

holders of our Senior Indebtedness will be entitled to receive payment in full of all amounts due or to become due on or in respect of all of our Senior Indebtedness, or provision will be made for that payment in cash, before holders of subordinated debt securities are entitled to receive any payment on account of the principal of or any premium or interest on or any other amount owing in respect of the subordinated debt securities; and

any payment or distribution of our assets, of any kind or character, whether in cash, property or securities, by set-off or otherwise, to which holders of subordinated debt securities would be entitled but for the subordination provisions in the subordinated indenture will, subject to limited exceptions, be paid directly

**Table of Contents**

to the holders of our Senior Indebtedness or their representatives to the extent necessary to pay in full all of our Senior Indebtedness.

In the event that, notwithstanding the provisions described in the preceding paragraph, the trustee under the subordinated indenture or the holder of any subordinated debt securities receives any payment or distribution of our assets, subject to limited exceptions, before all of our Senior Indebtedness is paid in full or payment of all of our Senior Indebtedness is provided for, that payment or distribution will be held in trust for the benefit of and paid over or delivered to the holders of that Senior Indebtedness or their representatives to the extent necessary to pay all of our Senior Indebtedness in full.

Our consolidation with or our merger into another corporation or our liquidation or dissolution following the conveyance or transfer of all or substantially all our assets to another Person upon the terms and conditions described below under Consolidation, Merger and Sale of Assets will not be deemed a dissolution, winding-up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of our assets and liabilities for the purposes of the subordination provisions described above if the successor or transferee Person shall, as a part of that transaction, comply with the conditions described under Consolidation, Merger and Sale of Assets.

*Prohibition on Payments Following Acceleration of the Subordinated Debt Securities.* If payment of any of our subordinated debt securities is accelerated because of an Event of Default, we must promptly notify holders of our Senior Indebtedness of the acceleration. We may not pay or acquire the subordinated debt securities until 135 days have passed after that acceleration occurs and may thereafter pay or acquire the subordinated debt securities only if we are permitted to do so under the subordination provisions of our subordinated indenture.

*Prohibition on Payments Following Certain Defaults on Senior Indebtedness.* We may not make any payment of the principal of or any premium or interest on or any other amount owing in respect of the subordinated debt securities, and we may not acquire any subordinated debt securities for cash or property, if:

a default on our Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity, and

unless that default relates to a Payment Default, that default is either the subject of judicial proceedings or we receive notice of the default. If we receive notice of the default, then a similar notice received within nine months after the original notice relating to the same default on the same issue of our Senior Indebtedness will not be effective for purposes of the provisions described in this paragraph.

We may resume making payments on the subordinated debt securities and may acquire subordinated debt securities if and when:

- (1) 135 days pass after, in the case of a Payment Default, the later of the date that payment was due and the expiration of any applicable grace period for that payment or, in the case of any other such default, the date the related judicial proceedings commence or that notice of the default is given to us, as the case may be, and
- (2) the Senior Indebtedness in respect of which the default exists has not been declared due and payable in its entirety within that 135 day period or, if declared due and payable, that declaration has been rescinded, waived or annulled; or

the default with respect to the applicable Senior Indebtedness is cured or waived,

and, in any case described above, the subordination provisions of the subordinated indenture otherwise permit the payment or acquisition of subordinated debt securities at that time.

In the event that, notwithstanding the provisions described in the two immediately preceding paragraphs, we make any payment to the trustee for, or the holders of, the subordinated debt securities that is prohibited by those provisions, then that payment will be held in trust for the benefit of and be paid over or delivered to the holders of the Senior Indebtedness or their representatives.

*Subordination Provisions Applicable to the Guarantors and Prohibitions on Payments by the Guarantors.* A Guarantor's obligations under its Guarantee of our subordinated debt securities are subordinated obligations of such Guarantor. As a result, a Guarantor's obligations to make payments under its Guarantee of our subordinated debt securities will be subordinated in right of payment to all existing and future Senior Indebtedness of such Guarantor

## **Table of Contents**

on substantially the same terms (as described above) that our obligations to make payments on our subordinated debt securities are subordinated in right of payment to all of our existing and future Senior Indebtedness. Accordingly, payments under each Guarantor's Guarantee of the subordinated debt securities will be subordinated to the prior payment of all Senior Indebtedness of such Guarantor under subordination and payment blockage provisions substantially the same as those pursuant to which our obligations under the subordinated debt securities will be subordinated to the prior payment of our Senior Indebtedness as described above. For example, in the event of any insolvency or bankruptcy case or proceeding relative to a Guarantor, holders of Senior Indebtedness of such Guarantor will be entitled to receive payment in full of all amounts due or to become due in respect of the Senior Indebtedness of such Guarantor before any payment is made under its Guarantee of the subordinated debt securities, all on terms substantially similar to those described above under Subordination Following Insolvency or Bankruptcy. Likewise, each Guarantor will be prohibited from making any payment under its Guarantee of the subordinated debt securities if the subordinated debt securities are accelerated because of an Event of Default or if a default on any of our Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity, all on terms substantially similar to those described above under Prohibition on Payments Following Acceleration of the Subordinated Debt Securities and Prohibition on Payments Following Certain Defaults on Senior Indebtedness. In addition, the payment blockage provisions described under Prohibition on Payments Following Certain Defaults on Senior Indebtedness, insofar as they apply to any Guarantor of the subordinated debt securities, will also prohibit such Guarantor from making any payment under its Guarantee of the subordinated debt securities if a default on any of its Senior Indebtedness occurs and is continuing that permits holders of that Senior Indebtedness to accelerate its maturity.

The consolidation of any Guarantor with, or the merger of any Guarantor into, another corporation or the liquidation or dissolution of any Guarantor following the conveyance or transfer of all or substantially all its assets to another Person upon the terms and conditions described below under Consolidation, Merger and Sale of Assets will not be deemed a dissolution, winding-up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of such Guarantor for the purposes of the subordination provisions described above under Subordination Following Insolvency or Bankruptcy if the successor or transferee Person shall, as part of that transaction and if required by the provisions described above under Guarantees Additional Guarantors, become a Guarantor in accordance with the applicable provisions described above under Guarantees Additional Guarantors.

As a result of these subordination provisions, our creditors and creditors of the Guarantors who hold neither our subordinated debt securities nor our Senior Indebtedness may recover less, ratably, than holders of our Senior Indebtedness and may recover more, ratably, than the holders of our subordinated debt securities.

If this prospectus is being delivered in connection with a series of subordinated debt securities, the accompanying prospectus supplement or the information incorporated by reference in this prospectus will indicate the approximate amount of our Senior Indebtedness outstanding as of a recent date.

## **Certain Covenants**

Unless otherwise expressly provided in the prospectus supplement applicable to any series of debt securities, the following covenants will apply with respect to each series of senior debt securities but will not apply with respect to any series of senior subordinated debt securities or subordinated debt securities.

Except as described below with respect to the senior indenture, none of the indentures limits the amount of secured or unsecured indebtedness or the amount of lease obligations or other liabilities that may be incurred by us, our subsidiaries or entities in which we have an ownership interest but which do not constitute subsidiaries. Neither we nor any of our subsidiaries is restricted under any of the indentures from paying dividends or issuing or repurchasing securities. In addition, none of the indentures contains any provision that would permit holders of debt securities

issued under that indenture to require us to repurchase those debt securities in the event of a change in control of us or otherwise, nor do any of the indentures contain provisions intended to protect investors in the event of a recapitalization, highly leveraged transaction or other similar transaction affecting us or our subsidiaries.

As described below, the senior indenture contains a covenant that limits our ability and the ability of our Restricted Subsidiaries to incur Secured Debt and a covenant that limits our ability and the ability of our Restricted

**Table of Contents**

Subsidiaries to enter into certain Sale and Leaseback Transactions. However, these covenants are subject to a number of important exceptions and limitations and prospective purchasers of senior debt securities should carefully review the information with respect to these covenants and the related definitions appearing below. In that regard, the senior indenture does not limit the amount of unsecured indebtedness or the amount of lease obligations (other than lease obligations under certain Sale and Leaseback Transactions) or other liabilities that may be incurred by us and our Restricted Subsidiaries, nor does the senior indenture limit the amount of indebtedness, whether secured or unsecured, or the amount of lease obligations or other liabilities that may be incurred by our subsidiaries which are not Restricted Subsidiaries or by entities in which we have an ownership interest but do not constitute Restricted Subsidiaries.

The senior indenture contains, among others, the following covenants:

*Restrictions on Secured Debt.* The senior indenture provides that we will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or guarantee any Secured Debt unless the senior debt securities are secured equally and ratably with (or prior to) such Secured Debt; provided that this restriction does not prohibit the creation, incurrence, assumption or guarantee of Secured Debt which is secured by Security Interests:

(1) on (a) model homes, (b) homes held for sale, (c) homes that are under contract for sale, (d) contracts for the sale of homes, (e) land (improved or unimproved), (f) manufacturing plants, (g) warehouses or (h) office buildings, and fixtures and equipment located thereat or thereon;

(2) on property at the time of its acquisition by us or a Restricted Subsidiary which Security Interests secure obligations assumed by us or a Restricted Subsidiary in connection with the acquisition of such property or on the property of a corporation or other entity at the time it is merged into or consolidated with us or a Restricted Subsidiary (other than Secured Debt created in contemplation of the acquisition of such property or the consummation of such a merger or consolidation or where the Security Interest attaches to or affects any property that we or a Restricted Subsidiary own prior to such transaction);

(3) arising from conditional sales agreements or title retention agreements with respect to property we or a Restricted Subsidiary acquire;

(4) incurred by us or a Restricted Subsidiary in connection with pollution control, industrial revenue, water, sewage or any similar financing;

(5) securing Indebtedness of a Restricted Subsidiary owing to us or a Restricted Subsidiary that is wholly owned (directly or indirectly) by us and Security Interests securing our Indebtedness owing to a Guarantor; and

(6) for the sole purpose of extending, renewing or replacing in whole or in part Secured Debt referred to in the foregoing clauses (1) to (5), inclusive, or in this clause (6); *provided, however*, that the Secured Debt excluded pursuant to this clause (6) shall be excluded only in an amount not to exceed the principal amount of the Secured Debt being extended, renewed, or replaced at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or part of the assets subject to the Security Interest so extended, renewed or replaced (plus refurbishment of or improvements thereon or thereto).

In addition, we and our Restricted Subsidiaries may create, incur, assume or guarantee Secured Debt, without equally and ratably securing the senior debt securities, if immediately thereafter the sum of (a) the aggregate principal amount of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (6) above and any Secured Debt in relation to which the senior debt securities have been secured equally and ratably (or prior to)) and (b) all Attributable Debt in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions satisfying the conditions set forth in clauses (1), (2) and (3) of the first sentence, or

meeting the requirements set forth in the second sentence, under Restrictions on Sale and Leaseback Transactions ) as of the date of determination would not exceed 20% of our Consolidated Net Tangible Assets as of such date.

## Table of Contents

A substantial portion of the book value of our assets and the assets of our Restricted Subsidiaries could be pledged to secure Indebtedness without violating the foregoing covenant. Among other things, this covenant allows us and our Restricted Subsidiaries to incur Indebtedness secured by homes held for sale, homes that are under contract for sale, contracts for the sale of homes and both improved and unimproved land, which in the past have typically represented a substantial portion of the book value of our consolidated assets. Accordingly, investors should be aware that this covenant allows us and/or our Restricted Subsidiaries to incur substantial amounts of Secured Debt without being required to equally and ratably secure the senior debt securities.

The provisions described above with respect to limitations on Secured Debt are also not applicable to certain types of Non-Recourse Indebtedness by virtue of the definition of Secured Debt, and will not restrict or limit our or our Restricted Subsidiaries' ability to create, incur, assume or guarantee any unsecured Indebtedness, or the ability of any of our subsidiaries that is not a Restricted Subsidiary to create, incur, assume or guarantee any secured or unsecured Indebtedness.

*Restrictions on Sale and Leaseback Transactions.* The senior indenture provides that we will not, and will not cause or permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction after the date of the senior indenture, unless:

- (1) notice is promptly given to the trustee under the senior indenture of the Sale and Leaseback Transaction;
- (2) we or the relevant Restricted Subsidiary receive fair value for the property sold (as determined in good faith pursuant to a resolution of the Board of Directors delivered to the trustee); and
- (3) we or such Restricted Subsidiary, within 365 days after the completion of the Sale and Leaseback Transaction, applies, or enters into a definitive agreement to apply within such 365-day period, an amount equal to the net proceeds therefrom either:

to the redemption, repayment or retirement of (a) any senior debt securities outstanding under the senior indenture, (b) any of our indebtedness that is for borrowed money or is evidenced by a bond, note, debenture or similar instrument (other than a trade payable or a current liability arising in the ordinary course of business) and which indebtedness ranks equally in right of payment with the senior debt securities issued under the senior indenture, or (c) any indebtedness of any Guarantor that is for borrowed money or is evidenced by a bond, note, debenture or similar instrument (other than a trade payable or a current liability arising in the ordinary course of business) and which indebtedness ranks equally in right of payment with the Guarantee of such Guarantor, and/or

to the purchase by us or any Restricted Subsidiary of property used in our or its respective trade or business.

These provisions will not apply to a Sale and Leaseback Transaction if, at the time such Sale and Leaseback Transaction is entered into, the term of the related lease to us or the applicable Restricted Subsidiary of the property being sold pursuant to such transaction is three years or less. In addition, these provisions will not apply to a Sale and Leaseback Transaction that we and our Restricted Subsidiaries enter into if immediately thereafter the sum of (a) the aggregate principal amount of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (6) of the first paragraph under *Restrictions on Secured Debt* above and any Secured Debt in relation to which the senior debt securities have been secured equally and ratably (or prior to)) and (b) all Attributable Debt in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions satisfying the conditions set forth in clauses (1), (2) and (3) of the first sentence, or meeting the requirements set forth in the second sentence, under this caption *Restrictions on Sale and Leaseback Transactions* ) as



of the date of determination would not exceed 20% of our Consolidated Net Tangible Assets as of such date.

## **Table of Contents**

### **Consolidation, Merger and Sale of Assets**

Each indenture provides that neither we nor any of the Guarantors will, in any transaction or series of related transactions, consolidate or merge with or into any other Person or sell, lease, assign, transfer or otherwise convey all or substantially all its properties and assets to any other Person unless:

either (1) we or such Guarantor, as the case may be, shall be the continuing Person (in the case of a merger) or (2) the successor Person (if other than us or such Guarantor, as the case may be) formed by or resulting from the consolidation or merger or to which such properties and assets shall have been sold, leased, assigned, transferred or otherwise conveyed (A) is, in the case of a merger, consolidation or other such transaction involving us, a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and shall expressly assume, by a supplemental indenture, the due and punctual payment of the principal of and any premium and interest on all the debt securities outstanding under such indenture and the due and punctual performance and observance of all our other obligations under such indenture and the debt securities outstanding thereunder, and which supplemental indenture shall provide for conversion or exchange rights in accordance with the provisions of any debt securities outstanding under such indenture that are convertible or exchangeable into Common Stock or other securities and for the affirmation by all the Guarantors of their Guarantees and other obligations under such indenture, and (B) is, in the case of a merger, consolidation or other such transaction involving a Guarantor, a corporation or other entity organized and existing under the laws of the United States, any state thereof or the District of Columbia and (except in the case of a merger of such Guarantor into, or a sale, lease, assignment, transfer or other conveyance of all or substantially all such Guarantor's properties and assets to, us) shall expressly assume, by a supplemental indenture, the due and punctual performance and observance of all the Guarantor's obligations under such indenture (including its Guarantee), and which supplemental indenture shall provide for the affirmation by all the Guarantors of their Guarantees and other obligations under such indenture;

immediately after giving effect to such transaction or transactions, no Event of Default under such indenture, and no event that, after notice or lapse of time or both, would become an Event of Default under such indenture, shall have occurred and be continuing; and

the trustee shall have received the officers' certificate and opinion of counsel called for by such indenture.

Upon any consolidation by us or any Guarantor with, or any merger of us or any Guarantor into, any other Person or any sale, assignment, transfer, lease or conveyance of all or substantially all of the properties and assets of ours or any Guarantor to any Person in accordance with the provisions of any indenture described above, the successor Person formed by the consolidation or into which we are or such Guarantor, as the case may be, is merged or to which the sale, lease, assignment, transfer or other conveyance is made shall succeed to, and be substituted for, us or (except in the case of a merger of such Guarantor into, or a sale, lease, assignment, transfer or other conveyance of all or substantially all such Guarantor's properties and assets to, us) such Guarantor, as the case may be, and may exercise every right and power of ours or (except in the case of a merger of such Guarantor into, or a sale, lease, assignment, transfer or other conveyance of all or substantially all such Guarantor's properties and assets to, us) such Guarantor, as the case may be, under such indenture with the same effect as if such successor Person had been named as us or such Guarantor, as applicable, therein; and thereafter, except in the case of a lease, the predecessor Person shall be released from all obligations and covenants under such indenture and, in the case of a transaction involving us, the debt securities issued under such indenture or, in the case of a transaction involving a Guarantor, its Guarantee of such debt securities.

### **Events of Default**

An Event of Default with respect to the debt securities of any series issued under any indenture is defined as being:

(1) default in payment of any interest on any of the debt securities of that series when due and continuance of such default for a period of 30 days;

**Table of Contents**

- (2) default in payment of any principal of, or premium, if any, on any of the debt securities of that series when due (whether at maturity, upon redemption, upon repayment or repurchase at the option of the holder or otherwise and whether payable in cash or in shares of Common Stock or other securities or property);
- (3) default in the deposit of any sinking fund payment or payment under any analogous provision when due with respect to any of the debt securities of that series;
- (4) default by us or any Guarantor in the performance of, or breach of, any other covenant or warranty in such indenture or in any debt security of that series (other than a covenant or warranty included in such indenture solely for the benefit of a series of debt securities other than that series) and continuance of that default or breach for a period of 60 days after notice to us by the trustee under such indenture or to us and the trustee by the holders of not less than 25% in aggregate principal amount of the debt securities of that series then outstanding;
- (5) a default under any mortgage, indenture or other instrument or agreement under which there may be issued or by which there may be secured or evidenced any Indebtedness (other than Non-Recourse Indebtedness) of ours or any of our Significant Subsidiaries, whether such Indebtedness existed on the date of such indenture or shall be created thereafter, if (a) such default results from the failure to pay any such Indebtedness when due (provided that no such failure to pay Indebtedness when due shall be deemed to have occurred so long as we or such Significant Subsidiary, as the case may be, shall be contesting whether such Indebtedness is due in good faith by appropriate proceedings) or as a result of such default the maturity of such Indebtedness has been accelerated prior to its expressed maturity and (b) the sum of (x) the principal amount of such Indebtedness plus (y) the aggregate principal amount of all other such Indebtedness in default for failure to pay any such Indebtedness when due or the maturity of which has been so accelerated, equals \$20,000,000 or more, individually, or \$40,000,000 or more, in the aggregate, without such Indebtedness having been discharged or such acceleration having been rescinded or annulled within a period of 30 days after notice to us by the trustee under such indenture or to us and the trustee by the holders of at least 25% in aggregate principal amount of the debt securities of that series then outstanding;
- (6) certain events of bankruptcy, insolvency or reorganization with respect to us or any of our Significant Subsidiaries;
- (7) the Guarantee of any Guarantor ceases to be in full force and effect (other than by reason of the release of such Guarantor in accordance with such indenture) or is declared by a court or governmental authority of competent jurisdiction to be null and void or unenforceable or the Guarantee of any Guarantor is found by a court or governmental authority of competent jurisdiction to be invalid or a Guarantor denies its liability under its Guarantee (other than by reason of the release of such Guarantor in accordance with the terms of such indenture); or
- (8) any other Event of Default established for the debt securities of that series.

No Event of Default with respect to a series of debt securities necessarily constitutes an Event of Default with respect to any other series of debt securities. Each indenture requires the trustee, within 90 days after the occurrence of a default with respect to the debt securities of any series outstanding under that indenture, to mail notice of such default, if known to the trustee, to all holders of debt securities of that series unless the default has been cured or waived. However, each indenture provides that the trustee may withhold notice to the holders of the debt securities of any series of the occurrence of a default with respect to the debt securities of such series (except a default in payment of principal or any premium or interest) if the trustee in good faith determines it is in the interest of the holders to do so. As used in this paragraph, the term **default** means any event or condition that is, or with notice or lapse of time or both would be, an Event of Default.

If an Event of Default with respect to the debt securities of any series occurs and is continuing, either the applicable trustee or the holders of at least 25% of the aggregate principal amount of the outstanding debt securities of that series

may declare the principal of all the debt securities of that series, and accrued and unpaid interest, if any, thereon, to be due and payable immediately. At any time after the debt securities of any series have been accelerated, but before a judgment or decree based on acceleration has been obtained, the holders of a majority of the aggregate

## **Table of Contents**

principal amount of outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration.

Each indenture provides that, subject to the duty of the trustee thereunder during a default to act with the required standard of care, such trustee will be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of debt securities of any series issued under that indenture unless such holders shall have offered to the trustee reasonable security or indemnity. Subject to the foregoing, the holders of a majority of the aggregate principal amount of the outstanding debt securities of any series will have the right, subject to certain limitations, to direct the time, method and place of conducting any proceeding for any remedy available to the trustee under the applicable indenture with respect to the debt securities of that series.

No holder of any debt securities of any series will have any right to institute any proceeding with respect to the indenture under which such debt securities were issued or for any remedy thereunder unless:

- (1) such holder previously has given written notice to the trustee under such indenture of a continuing Event of Default with respect to debt securities of that series;
- (2) the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request to the trustee to institute such proceeding as trustee, and offered to the trustee reasonable indemnity against costs, expenses and liabilities incurred in compliance with such request;
- (3) in the 60-day period following receipt of the notice, request and offer of indemnity referred to above, the trustee has failed to institute any such proceeding; and
- (4) during such 60-day period, the trustee has not received from the holders of a majority of the aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with such request.

Notwithstanding the provisions described in the immediately preceding paragraph or any other provision of the indentures, the holder of any debt security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium or interest on such debt security on the respective dates such payments are due, and to receive any payments required to be made by any Guarantor pursuant to its Guarantee when due, and, in the case of any debt security that is convertible into or exchangeable for other securities or property, to convert or exchange such debt security in accordance with its terms, and to institute suit for the enforcement of any such payment or any such right to convert or exchange, and such right shall not be impaired without the consent of such holder.

We are required to furnish to the trustee annually a statement as to any default in the performance of our obligations under the applicable indenture. Each of the Guarantors also is required to furnish to the trustee annually a statement as to any default in the performance of its obligations under the applicable indenture.

## **Discharge, Defeasance and Covenant Defeasance**

Each indenture provides that, upon our direction, such indenture shall cease to be of further effect with respect to any series of debt securities issued thereunder specified by us (subject to the survival of certain provisions thereof) when:

- (1) either (A) all outstanding debt securities of such series have been delivered to the trustee for cancellation (subject to certain exceptions) or (B) all outstanding debt securities of such series have become due and payable, will become due and payable at their stated maturity within one year or are to be called for redemption by us within one year and, in each case, we have deposited with the applicable trustee, in trust, funds in an amount sufficient to pay the entire

indebtedness on such debt securities in respect of principal and any premium or interest to the date of such deposit (if such debt securities have become due and payable) or to the stated maturity or redemption date thereof, as the case may be;

(2) we have paid all other sums payable under such indenture with respect to the debt securities of such series; and

(3) certain other conditions specified in the indenture are met.

**Table of Contents**

Subject to meeting the conditions described below, we may elect with respect to any series of debt securities either:

(1) to defease and be discharged from any and all obligations with respect to the debt securities of such series (except for, among other things, the obligations to register the transfer or exchange of such debt securities, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency in respect of such debt securities and to hold money for payment in trust) ( defeasance ); or

(2) to be released from our obligations with respect to the debt securities of such series under certain restrictive covenants in the indenture (including, in the case of any series of senior debt securities, the covenants described above under Certain Covenants Restrictions on Secured Debt and Certain Covenants Restrictions on Sale and Leaseback Transactions ), and any omission to comply with such obligations shall not constitute a default or an Event of Default with respect to the debt securities of such series ( covenant defeasance );

in either case upon the irrevocable deposit with the applicable trustee (or other qualifying trustee), in trust for such purpose, of money, or Government Obligations that through the scheduled payment of principal and interest in accordance with their terms will provide money, in an amount sufficient, in the opinion of a nationally recognized firm of public accountants, to pay the principal of and any premium and interest on such debt securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor or the applicable redemption date, as the case may be. Upon any defeasance (but not covenant defeasance) of the debt securities of any series, the Guarantors will be released from their Guarantees of the debt securities of that series.

Such defeasance or covenant defeasance with respect to the debt securities of any series shall be effective if, among other things,

(1) it shall not result in a breach or violation of, or constitute a default under, the applicable indenture or any other material agreement or instrument to which we or any of our Subsidiaries is a party or is bound;

(2) in the case of defeasance, we shall have delivered to the applicable trustee an opinion of independent counsel stating that (A) we have received from, or there has been published by, the Internal Revenue Service a ruling, or (B) since the date of the applicable indenture there has been a change in applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion of independent counsel shall confirm that, the holders of the debt securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(3) if the action is taken under the senior subordinated indenture or subordinated indenture, no event or condition exists that, pursuant to the subordination provisions in that indenture, prevents us, or with notice or lapse of time or both would prevent us, from making payments on the debt securities of that series on the date we make the deposit of cash or Government Obligations into trust or at any time during the period ending on and including the 91st day after the date of such deposit into trust;

(4) in the case of covenant defeasance, we shall have delivered to the applicable trustee an opinion of independent counsel to the effect that the holders of the debt securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(5) if the cash and Government Obligations deposited are sufficient to pay the outstanding debt securities of such series, provided such debt securities are redeemed on a particular redemption date, we shall have given the applicable



trustee irrevocable instructions to redeem such debt securities on such date.

It shall also be a condition to the effectiveness of such defeasance or covenant defeasance that no Event of Default or event that, with notice or lapse of time or both, would become an Event of Default with respect to the debt securities of such series shall have occurred and be continuing on the date of deposit of cash or Government Obligations into trust and, solely in the case of defeasance, no Event of Default described in clause (6) of the first

## **Table of Contents**

paragraph under Events of Default above shall have occurred and be continuing at any time during the period ending on and including the 91st day after the date of such deposit into trust.

In the event we effect covenant defeasance with respect to the debt securities of any series, then any failure by us to comply with any covenant as to which there has been covenant defeasance will not constitute an Event of Default with respect to the debt securities of such series. However, if the debt securities of such series are declared due and payable because of the occurrence of any other Event of Default, the amount of monies and/or Government Obligations deposited with the trustee to effect such covenant defeasance may not be sufficient to pay amounts due on such debt securities at the time of any acceleration resulting from such Event of Default. However, we and the Guarantors would remain liable to make payment of such amounts due at the time of acceleration.

## **Modification, Waivers and Meetings**

Each indenture contains provisions permitting us, the Guarantors and the applicable trustee, with the consent of the holders of a majority in principal amount of the outstanding debt securities of each series issued under such indenture that is affected by the modification or amendment, to modify, amend or eliminate any of the provisions of such indenture (including the Guarantees of the debt securities of such series) or of the debt securities of such series or the rights of the holders of the debt securities of such series under such indenture; provided that no such modification or amendment shall, among other things:

- change the stated maturity of the principal of, or premium, if any, on, or any installment of interest, if any, on any debt securities;

- reduce the principal amount of any debt securities or any premium on any debt securities;

- reduce the rate of interest on any debt securities;

- reduce the amount payable on any debt securities upon redemption thereof by us;

- change any place where, or the currency in which, any debt securities are payable;

- impair a holder's right to institute suit to enforce the payment of any debt securities when due;

- modify in any manner adverse to holders the obligations of the Guarantors in respect to the due and punctual payment of the principal of, or premium or interest, if any, on any debt securities or release any Guarantor from its obligations under its Guarantee otherwise than in accordance with the terms of such indenture; or

- reduce the aforesaid percentage of debt securities of any series issued under such indenture the consent of whose holders is required for any such modification or amendment or the consent of whose holders is required for any waiver (of compliance with certain provisions of such indenture or certain defaults thereunder and their consequences) or reduce the requirements for a quorum or voting at a meeting of holders of such debt securities;

without in each such case obtaining the consent of each holder of each outstanding debt security issued under such indenture so affected.

In addition, we may not amend our senior subordinated indenture or our subordinated indenture to alter the subordination of any outstanding debt securities issued under that indenture or any Guarantees of any such debt securities without first obtaining the written consent of each holder of Senior Indebtedness then outstanding that

would be adversely affected by the amendment.

Each indenture also contains provisions permitting us, the Guarantors and the applicable trustee, without notice to or the consent of the holders of any debt securities issued thereunder, to modify or amend such indenture in order to, among other things:

add to the Events of Default or the covenants made by us or the Guarantors for the benefit of the holders of all or any series of debt securities issued under such indenture;

to establish the form or terms of debt securities of any series and any related coupons;

**Table of Contents**

to cure any ambiguity or correct or supplement any provision therein that may be defective or inconsistent with other provisions therein or to make any other provisions with respect to matters or questions arising under such indenture that shall not adversely affect the interests of the holders of any series of debt securities issued thereunder;

to provide for the assumption of our or a Guarantor's obligations in the case of a merger, consolidation or sale, lease, assignment, transfer or other conveyance of all or substantially all of our or its properties and assets in accordance with the provisions of the indenture;

to secure the debt securities;

to add Guarantors or to evidence the release of any Guarantor in accordance with the provisions of the indenture;

to qualify or maintain the qualification of the indenture under the Trust Indenture Act of 1939; or

to amend or supplement any provision contained in the indenture, provided that such amendment or supplement does not apply to any outstanding debt securities issued prior to the date of such amendment or supplement and entitled to the benefits of such provision.

Each indenture provides that the holders of a majority in aggregate principal amount of the outstanding debt securities of any series may, on behalf of all holders of debt securities of that series, waive compliance by us and the Guarantors with certain covenants and other provisions of the indenture. The holders of a majority in aggregate principal amount of the outstanding debt securities of any series may, on behalf of all holders of debt securities of that series, waive any past default under the indenture with respect to debt securities of that series and its consequences, except a default in the payment of the principal of or any premium or interest on any debt securities of such series; or in the case of any debt securities that are convertible into or exchangeable for Common Stock or other securities or property, a default in any such conversion or exchange; or in respect of a covenant or provision that cannot be modified or amended without the consent of the holder of each outstanding debt security of such series affected.

Each indenture contains provisions for convening meetings of the holders of debt securities of a series issued thereunder. A meeting may be called at any time by the trustee and also, upon request, by us or the holders of at least 10% in principal amount of the outstanding debt securities of such series, in any such case upon notice given in accordance with the provisions of the indenture. Except for any consent that must be given by the holder of each outstanding debt security affected thereby, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum (as described below) is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding debt securities of that series; provided, however, that any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the holders of a specified percentage, other than a majority, in principal amount of the outstanding debt securities of a series may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding debt securities of that series. Any resolution passed or decision taken at any meeting of holders of debt securities of any series duly held in accordance with the indenture will be binding on all holders of debt securities of that series. The quorum at any meeting called to adopt a resolution, and at any reconvened meeting, will be Persons holding or representing a majority in principal amount of the outstanding debt securities of a series, subject to certain exceptions.

In determining whether the holders of the requisite principal amount of the outstanding debt securities of any series have given any request, demand, authorization, direction, notice, consent or waiver under an indenture or are present at a meeting of holders of debt securities for quorum purposes, any debt security of that series owned by us or any Guarantor or any other obligor on such debt securities or the Guarantees of such debt securities or any Affiliate of ours, any Guarantor or such other obligor shall be deemed not to be outstanding.

## **Table of Contents**

### **Applicable Law**

The indentures, the Guarantees and the debt securities will be governed by and construed in accordance with the laws of the State of New York.

### **Concerning the Trustee**

U.S. Bank National Association is the trustee under the senior indenture. U.S. Bank National Association is one of a number of banks with which we and our subsidiaries maintain ordinary banking relationships and with which we and our subsidiaries maintain credit facilities. U.S. Bank National Association is a participant in our primary unsecured revolving credit facility and trustee under the indenture relating to our outstanding senior subordinated notes. U.S. Bank National Association makes no representations or warranties regarding the securities or the adequacy or accuracy of this prospectus, except as provided herein under **Description of Debt Securities Concerning the Trustee**.

### **Certain Definitions**

*Attributable Debt* means, in respect of a Sale and Leaseback Transaction, the present value (discounted at the weighted average effective interest rate per annum of the outstanding debt securities of all series outstanding under the applicable indenture at the date of determination, compounded semiannually) of the obligation of the lessee for rental payments during the remaining term of the lease included in such transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended or, if earlier, until the earliest date on which the lessee may terminate such lease upon payment of a penalty (in which case the obligation of the lessee for rental payments shall include such penalty), after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water and utility rates and similar charges.

*Bankruptcy Laws* means Title 11, United States Code, or any similar Federal or state law for the relief of debtors.

*Board of Directors* means our board of directors or any committee of that board duly authorized to act generally or in any particular respect for us under the applicable indenture.

*Capital Lease* means with respect to any Person at any date, any lease of property the liability under which, in accordance with generally accepted accounting principles, is required to be capitalized on such Person's balance sheet or for which the amount of the liability thereunder is required to be disclosed in a note to such balance sheet.

*Capital Stock* of any Person means any and all shares, interests, participations or other equivalents (however designated) in or of such Person, including, without limitation, common stock, preferred stock, limited liability company interests and partnership and joint venture interests; provided that, notwithstanding the foregoing, the term *Capital Stock*, as used in the proviso to the definition of *Common Stock*, of any Person means any and all shares, interests, participations or other equivalents (however designated) in or of the equity (which includes, but is not limited to, common stock, preferred stock and partnership and joint venture interests) of such Person.

*Capitalized Lease Obligations* of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

*Common Stock* of any Person means all *Capital Stock* of the Person that is generally entitled to (1) vote in the election of directors of the Person or (2) if the Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management and policies of the Person; provided that, notwithstanding the foregoing, the term *Common Stock*, as used in the proviso to the definition

of Subsidiary, of any Person means all Capital Stock of such Person that is generally entitled to: (1) vote in the election of directors of such Person or (2) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management and policies of such Person.

**Table of Contents**

*Consolidated Net Tangible Assets* means the total amount of assets which would be included on a combined balance sheet of KB Home and its Restricted Subsidiaries under GAAP (less applicable reserves and other properly deductible items) after deducting therefrom:

(1) all short-term liabilities, except for liabilities payable by their terms more than one year from the date of determination (or renewable or extendible at the option of the obligor for a period ending more than one year after such date) and liabilities in respect of retiree benefits other than pensions for which the Restricted Subsidiaries are required to accrue pursuant to Statement of Financial Accounting Standards No. 106;

(2) investments in Subsidiaries that are not Restricted Subsidiaries; and

(3) all goodwill, trade names, trademarks, patents, unamortized debt discount, unamortized expense incurred in the issuance of debt and other intangible assets.

*Credit Facility* currently means that certain Revolving Loan Agreement, dated as of November 22, 2005, between KB Home, the banks party thereto and Bank of America, N.A., as Administrative Agent, Citicorp North America, Inc. and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Calyon New York Branch, Wachovia Bank, N.A., Barclays Bank plc and the Royal Bank of Scotland plc, as Co-Documentation Agents, and Banc of America Securities LLC and Citigroup Global Markets Inc., as Joint Lead Arrangers and Joint Book Managers, as the same may be amended, supplemented or modified from time to time and including any increase in the amount of credit available thereunder.

*Debt* means, with respect to any Person at any date, without duplication, (1) all obligations of such Person for borrowed money, (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (3) all obligations of such Person in respect of letters of credit or other similar instruments (or reimbursement obligations with respect thereto), (4) all obligations of such Person to pay the deferred purchase price of property or services, except Trade Payables, (5) all obligations of such Person as lessee under Capital Leases, (6) all Debt of others for the payment of which such Person is responsible or liable as obligor or guarantor and (7) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person.

*Domestic Significant Subsidiary* means, as of any date of determination, a Significant Subsidiary (1) that is organized under the laws of the United States or any state thereof or the District of Columbia and (2) the majority of the assets of which (as reflected on a balance sheet of such Subsidiary prepared in accordance with GAAP) is located in the United States.

*Exchange Act* means the Securities Exchange Act of 1934, as amended, or any successor thereto, in each case as amended from time to time.

*Financial Services Subsidiary* means KB HOME Mortgage Company, an Illinois corporation, and any other Subsidiary, if any, engaged in mortgage banking (including mortgage origination, loan servicing, mortgage brokerage and title and escrow businesses), master servicing and related activities, including, without limitation, a Subsidiary which facilitates the financing of mortgage loans and mortgage-backed securities and the securitization of mortgage-backed bonds and other related activities.

*GAAP* and *generally accepted accounting principles* mean, unless otherwise specified with respect to any series of debt securities issued under the applicable indenture, such accounting principles as are generally accepted in the United States as of the date or time of any computation required thereunder; provided that, notwithstanding the foregoing, the term *generally accepted accounting principles*, as used in the subordination provisions of the indentures and in the definition of *Capital Lease*, means generally accepted accounting principles as in effect and implemented



by us from time to time.

*Guarantor* or *Guarantors* means, with respect to the debt securities issued under any indenture, (1) KB HOME Phoenix Inc., an Arizona corporation; KB HOME Coastal Inc., a California corporation; KB HOME Sacramento Inc., a California corporation; KB HOME South Bay Inc., a California corporation; KB HOME Greater Los Angeles Inc., a California corporation; KB HOME Colorado Inc., a Colorado corporation; KB HOME Nevada Inc., a Nevada corporation; KB HOME Orlando LLC, a Delaware limited liability company; and KB HOME Lone Star Inc., a Texas corporation, and (2) any Person that becomes a guarantor of debt securities under such indenture

**Table of Contents**

pursuant to the provisions described above under Guarantees Additional Guarantors, or otherwise enters into a supplemental indenture pursuant to which such Person becomes a guarantor of debt securities under such indenture, but excluding in each case any Person whose Guarantee has been released pursuant to such indenture. If a successor Person replaces any of the Guarantors named in clause (1) of the preceding sentence in accordance with the provisions of the applicable indenture, the term Guarantor shall, for purposes of such indenture, thereafter include such successor instead of the Guarantor originally named in such clause (1).

*Indebtedness* means, without duplication, with respect to any Person,

(1) any liability of such Person (A) for borrowed money, or (B) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business), or (C) for the payment of money relating to a Capitalized Lease Obligation, or (D) for all Redeemable Capital Stock valued at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends;

(2) any liability of others described in the preceding clause (1) that such Person has guaranteed or that is otherwise its legal liability;

(3) all Indebtedness referred to in (but not excluded from) clauses (1) and (2) above of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Security Interest upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and

(4) any amendment, supplement, modification, deferral, renewal, extension, refinancing or refunding of any liability of the types referred to in clauses (1), (2) and (3) above.

*Lien* means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or other similar encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including, without limitation, any conditional sale or other title retention agreement and any lease in the nature thereof, any option or other agreement to sell, and any filing of, or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statute) of any jurisdiction).

*Non-Recourse Indebtedness* means Indebtedness secured by a Security Interest in or on property to the extent that the liability for such Indebtedness (and any premium, if any, and interest thereon) is limited to the security of such property without liability on our part or on the part of any of our Subsidiaries for any deficiency, including liability by reason of any agreement by us or any of our Subsidiaries to provide additional capital or maintain the financial condition of or otherwise support the credit of the Person incurring such Indebtedness, but provided that obligations or liabilities of ours or our Subsidiaries solely for indemnities, covenants or breaches of warranties, representations or covenants in respect of any Indebtedness will not prevent such Indebtedness from being classified as Non-Recourse Indebtedness.

*Person* means any individual, Corporation, joint venture, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof. As used in the immediately preceding sentence, the term Corporation means corporations, partnerships, associations, limited liability companies and other companies, and business trusts. Notwithstanding the foregoing provisions of this paragraph, the term Person, as used in the subordination provisions of the indentures, in the definitions of Capital Lease, Debt and Trade Payables and in the proviso to the definitions of Capital Stock, Common Stock and Subsidiary, means any individual, corporation,

partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*Redeemable Capital Stock* means any Capital Stock of any Person that, either by its terms, by the terms of any security into which it is convertible or exchangeable or otherwise, (1) is required or upon the happening of an event or passage of time would be required to be redeemed on or prior to the final stated maturity of the debt securities of any series outstanding under the applicable indenture, or (2) is redeemable at the option of the holder

**Table of Contents**

thereof at any time prior to such final stated maturity or (3) is convertible into or exchangeable for debt securities at any time prior to such final stated maturity.

*Restricted Subsidiary* means any Subsidiary which is not a Financial Services Subsidiary.

*Sale and Leaseback Transaction* means a sale or transfer made by us or a Restricted Subsidiary (except a sale or transfer made to us or another Restricted Subsidiary) of any property which is either (a) a manufacturing facility, office building or warehouse whose book value equals or exceeds 1% of our Consolidated Net Tangible Assets as of the date of determination or (b) another property or group of properties (not including model homes) whose book value exceeds 5% of our Consolidated Net Tangible Assets as of the date of determination, in each case if such sale or transfer is made with the agreement, commitment or intention of leasing such property to us or a Restricted Subsidiary.

*Secured Debt* means any Indebtedness which is secured by (i) a Security Interest in or on any of our property or any property of any Restricted Subsidiary or (ii) a Security Interest in or on shares of stock owned directly or indirectly by us or a Restricted Subsidiary in a corporation or in or on equity interests owned by us or a Restricted Subsidiary in a partnership or other entity not organized as a corporation or in or on our rights or the rights of a Restricted Subsidiary in respect of Indebtedness of a corporation, partnership or other entity in which we or a Restricted Subsidiary has an equity interest; provided that Secured Debt shall not include Non-Recourse Indebtedness that is secured exclusively by land under development, land held for future development, or improved lots and parcels, as such categories of assets are determined in accordance with GAAP. The securing in the foregoing manner of any Indebtedness which immediately prior thereto was not Secured Debt shall be deemed to be the creation of Secured Debt at the time security is given.

*Securities Act* means the Securities Act of 1933, as amended, or any successor thereto, in each case as amended from time to time.

*Security Interest* means any mortgage, pledge, lien, encumbrance or other security interest.

*Significant Subsidiary* means any Subsidiary that is a significant subsidiary as defined in Rule 1-02 of Regulation S-X under the Securities Act and the Exchange Act (as such Regulation S-X was in effect on June 1, 1996).

*Subject Notes* means, with respect to any series of debt securities issued under an indenture, debt securities of any other series issued under that indenture and KB Home's 85/8% senior subordinated notes due December 15, 2008, or any of the foregoing.

*Subsidiary* means any (1) corporation the majority of the Common Stock of which is owned, directly or indirectly, by us or one or more of our Subsidiaries and (2) entity other than a corporation the majority of the Common Stock of which is owned, directly or indirectly, by us or one or more of our Subsidiaries; provided that, notwithstanding the foregoing, the term Subsidiary, as used in the subordination provisions of the indentures and in the definition of Senior Indebtedness, of any Person means (a) any corporation at least a majority of the aggregate voting power of the Common Stock of which is owned by such Person, directly or through one or more other Subsidiaries of such Person, and (b) any entity other than a corporation at least a majority of the Common Stock of which is owned by such Person, directly or through one or more other Subsidiaries of such Person.

*Substitute Credit Facility* means any credit facility (as the same may be amended, supplemented or modified from time to time) of ours which is created subsequent to December 18, 2003 and which replaces all or part of the Credit Facility or a Substitute Credit Facility (and which may provide for an increase in the amount of credit available

thereunder), so long as we are a borrower under such Substitute Credit Facility.

*Trade Payables* means, with respect to any Person, accounts payable or any other indebtedness or monetary obligations to trade creditors created or assumed by such Person in the ordinary course of business in connection with the obtaining of materials or services.

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

We are authorized to issue (i) 290,000,000 shares of common stock, of which 89,623,718 shares were outstanding as of August 31, 2008 (including 12,020,382 shares held by our Grantor Stock Ownership Trust and excluding 25,483,921 shares held in treasury), (ii) 25,000,000 shares of special common stock, none of which is outstanding, and (iii) 10,000,000 shares of preferred stock, none of which is outstanding. However, we have reserved 1,600,000 shares of our Series A Participating Cumulative Preferred Stock, which we sometimes refer to as the rights preferred stock, for issuance under our stockholder rights plan as described below. At August 31, 2008, our common stock was held by 862 holders of record.

The following summarizes certain provisions of our certificate of incorporation and stockholder rights plan. These summaries are not complete and are subject to, and are qualified in their entirety by reference to, our certificate of incorporation and stockholder rights plan. We have filed copies of these documents with the SEC and have incorporated them by reference as exhibits to the registration statement of which this prospectus is a part. You should read these documents, which may be obtained as described above under **Where You Can Find More Information**.

**Common Stock and Special Common Stock**

*Voting.* Our common stock and special common stock generally have identical rights, except holders of common stock are entitled to one vote per share while holders of our special common stock are entitled to one-tenth of a vote per share on all matters to be voted on by stockholders and except that holders of our special common stock have the conversion rights described below. Holders of common stock and special common stock are not entitled to cumulate their votes in the election of directors. Generally all matters to be voted on by stockholders must be approved by a majority of the combined voting power of the outstanding shares of common stock and special common stock, voting together as a single class, subject to any voting rights of holders of any outstanding preferred stock. Any amendments to our certificate of incorporation generally must be approved by a majority of the combined voting power of all shares of common stock and special common stock, voting together as a single class. However, an amendment that adversely affects the rights of the common stock or special common stock must be approved by a majority of the votes entitled to be cast by holders of the affected class, voting as a separate class, in addition to the approval of a majority of the votes entitled to be cast by the holders of the common stock and special common stock voting together as a single class.

*Preemptive Rights; Conversion.* Our common stock and special common stock have no preemptive rights, and neither provides for redemption. Our common stock is not convertible into any other securities. If we make a tender or exchange offer for shares of our common stock or if another person makes a tender offer for our common stock, each share of special common stock will be convertible at the option of the holder into one share of common stock solely to enable those shares of common stock to be tendered pursuant to that offer. Each share of special common stock converted into common stock and not purchased pursuant to that offer will be automatically reconverted into one share of special common stock. All our outstanding shares of common stock are fully paid and nonassessable and shares of our special common stock, if issued, will be fully paid and nonassessable.

*Dividends.* Subject to any prior dividend rights of our outstanding preferred stock, if any, holders of our common stock and special common stock may receive dividends and distributions from funds legally available for dividends in the discretion of our board of directors. Holders of common stock and special common stock will share equally in all dividends and distributions on a per share basis. If we pay dividends or other distributions in capital stock other than preferred stock (including stock splits), only shares of common stock will be distributed with respect to common stock and only shares of special common stock will be distributed with respect to special common stock, in each case in an

amount per share equal to the amount per share distributed with respect to the common stock or the special common stock, as the case may be. If we combine or reclassify our common stock or special common stock, the shares of each such class will be combined or reclassified so as to retain the proportionate interest of each class after giving effect to the combination or reclassification.

*Distributions on Liquidation.* The common stock and special common stock are entitled to share pro rata in any distribution upon our liquidation, dissolution or winding up, after payment or provision for our liabilities and after giving effect to any liquidation preference of any preferred stock.

## **Table of Contents**

*Reorganization, Consolidation or Merger.* If we reorganize, consolidate or merge, each holder of a share of common stock will receive the same kind and amount of property that a holder of a share of special common stock receives, and each holder of a share of special common stock will receive the same kind and amount of property receivable by a holder of common stock.

## **Preferred Stock**

We are authorized to issue preferred stock in one or more series with the designations, rights, preferences and limitations determined by our board of directors, including the consideration to be received for the preferred stock, the number of shares comprising each series, dividend rates, redemption provisions, liquidation preferences, mandatory retirement provisions, conversion rights and voting rights, all without any stockholder approval.

If we issue preferred stock with voting rights, it could make it more difficult for a third party to acquire control of us and could adversely affect the rights of holders of common stock and special common stock. Preferred stockholders typically are entitled to satisfaction in full of specified dividend and liquidation rights before any payment of dividends or distribution of assets on liquidation can be made to holders of common stock or special common stock. Also, any voting rights granted to our preferred stock may dilute the voting rights of our common stock and special common stock. Under some circumstances, control of us could shift from the holders of common stock to the holders of preferred stock with voting rights. Certain fundamental matters requiring stockholder approval (such as mergers, sale of assets, and certain amendments to our certificate of incorporation) may require approval by the separate vote of the holders of preferred stock in addition to any required vote of the common stock and special common stock.

## **Stockholder Rights Plan**

On February 4, 1999 our board of directors declared a dividend of one preferred stock purchase right for each share of our common stock. On April 7, 2005 our board of directors declared a 2-for-1 stock split paid in the form of 100% stock dividend, which adjusted each right such that each share of our common stock is now associated with one-half of a right. The terms of the rights are set forth in a rights agreement between KB Home and BNY Mellon Shareowner Services, LLC (successor to ChaseMellon Shareholder Services, L.L.C.), as rights agent, as amended. These rights replace the preferred stock purchase rights we issued in 1989 under our previous rights agreement. Throughout this discussion of our stockholder rights plan, subsequent references to our common stock mean our common stock and our special common stock, collectively, unless otherwise expressly stated or the context otherwise requires.

Each whole right entitles the holder thereof the right to purchase one-one hundredth (1/100th) of a share of our rights preferred stock at an exercise price of \$270.

The rights will be evidenced by certificates of our common stock until the distribution date, which will be the earlier to occur of:

10 days following a public announcement that a person or group (referred to in this section as an acquiring person ) has acquired beneficial ownership of common stock entitled to 15% or more of the aggregate votes entitled to be cast by all outstanding shares of common stock; or

10 business days following the commencement of a tender offer or exchange offer the consummation of which would result in a person or group becoming an acquiring person.

Until the distribution date or, if earlier, the redemption or expiration of the rights:

the rights will be transferred only with the common stock;



common stock certificates will refer to the rights and the rights agreement (the notation on outstanding common stock certificates referring to our prior rights agreement will be deemed to refer to the new rights); and

a transfer of shares of common stock will also constitute the transfer of the rights associated with the transferred shares of common stock.

**Table of Contents**

As soon as practicable after we have notified the rights agent of the occurrence of the distribution date, separate certificates evidencing the rights will be mailed to holders of record of our common stock as of the close of business on the distribution date. Afterwards, the separate right certificates alone will evidence the rights.

The rights are not exercisable until the distribution date. The rights will expire on March 5, 2009, unless we redeem or exchange the rights before the expiration date.

The exercise price payable, and the number of shares of rights preferred stock or other securities or property issuable, upon exercise of the rights may be adjusted to prevent dilution in certain circumstances specified in the rights agreement, such as payment of a stock dividend on our common stock or a subdivision, combination or reclassification of our voting stock.

If any person or group becomes an acquiring person, each holder of a right (other than rights beneficially owned by the acquiring person, which become void) will have the right to receive, upon exercise and payment of the then current exercise price, in lieu of our rights preferred stock, that number of shares of common stock or special common stock, as the case may be, having a market value of two times the exercise price.

If, after a person or group has become an acquiring person, we are acquired in a merger or other business combination transaction, or 50% or more of our consolidated assets or earning power are sold, we are required to make proper provision so that each holder of a right (other than the acquiring person, whose rights will become void) will afterwards have the right to receive, upon exercise at the then current exercise price, that number of shares of common stock of the person with whom we have engaged in the acquisition transaction (or its parent) which at the time of the transaction has a market value of two times the exercise price.

At any time after any person or group becomes an acquiring person, our board of directors may exchange each right (other than rights owned by the acquiring person, which become void) in whole or in part for shares of common stock or special common stock at an exchange ratio of two shares of common stock or special common stock per right, as appropriately adjusted for changes in the common stock or special common stock after the date of the rights agreement.

We will not issue any fractional shares of rights preferred stock, except for fractions which are integral multiples of one-hundredth of a share, which may, at our election, be evidenced by depositary receipts. Instead of any other fractional interest, we will make an adjustment in cash based on the market price of the rights preferred stock.

At any time prior to the earlier of the expiration date of the rights or ten days after a person or group becomes an acquiring person (or any later date determined by our board of directors), our board of directors may redeem the rights in whole, but not in part, at a redemption price of \$.005 per right, subject to adjustment. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and holders of rights will only have a right to receive the redemption price. We may amend the rights to the extent and on the conditions set out in the rights agreement. Until a right is exercised, the holder of the right, as such, will have no rights as a stockholder, including, without limitation, the right to vote or to receive dividends.

The rights will make it more difficult to acquire us without the approval of our board of directors. The rights will cause substantial dilution to a person or group that attempts to acquire us without conditioning their offer on substantially all the rights being acquired. The rights will not interfere with any merger or other business combination approved by our board of directors, which may, at its option, at any time before a person or group becoming an acquiring person, redeem the then outstanding rights.

**Additional Provisions of Our Certificate of Incorporation**

We have adopted certain defensive measures, including restricting stockholders' ability to call special meetings of stockholders, implementing our stockholder rights plan and amending our certificate of incorporation to provide that Section 203 of the Delaware General Corporation Law shall apply to us. In addition, our certificate of incorporation prohibits stockholder action by written consent.

These defensive measures could require a potential acquiror of us to pay a higher price than might otherwise be the case or to obtain the approval of a larger percentage of our stockholders than might otherwise be the case. These

## **Table of Contents**

measures may also discourage a proxy contest or make it more difficult to complete a merger involving us, or a tender offer, open-market purchase program or other purchase of our shares, in circumstances that would give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares.

### **Section 203 of the Delaware General Corporation Law**

As a Delaware corporation, we are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware. Under Section 203, if a person or group acquires 15% or more of a corporation's voting stock (thereby becoming an interested stockholder) without prior board approval, the interested stockholder may not, for a period of three years, engage in a wide range of business combination transactions with the corporation. However, this restriction does not apply to a person who becomes an interested stockholder in a transaction resulting in the interested stockholder owning at least 85% of the corporation's voting stock (excluding from the outstanding voting stock, shares held by persons who are directors and also officers and shares held pursuant to employee stock plans without confidential tender offer decisions), or to a business combination approved by the board of directors and authorized by the affirmative vote of a least 66<sup>2</sup>/<sub>3</sub>% of the outstanding voting stock not owned by the interested stockholder. In addition, Section 203 does not apply to certain business combinations proposed subsequent to the public announcement of specified business combination transactions which are not opposed by the board of directors.

### **Transfer Agent**

The transfer agent and registrar for our common stock is BNY Mellon Shareowner Services.

## **DESCRIPTION OF WARRANTS**

We may issue warrants for the purchase of debt securities, preferred stock, depositary shares or common stock. Warrants may be issued independently or together with our debt securities, preferred stock, depositary shares or common stock and may be attached to or separate from any offered securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a bank or trust company, as warrant agent. The warrant agent will act solely as our agent in connection with the warrants and will not have any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. A copy of the warrant agreement will be filed with the SEC in connection with any offering of warrants.

The prospectus supplement relating to a particular issue of warrants to purchase debt securities, preferred stock, depositary shares or common stock will describe the terms of those warrants, including the following:

the title of the warrants;

the offering price for the warrants, if any;

the aggregate number of the warrants;

the designation and terms of the debt securities, preferred stock, depositary shares or common stock that may be purchased upon exercise of the warrants;

if applicable, the designation and terms of the securities that the warrants are issued with and the number of warrants issued with each security;

if applicable, the date from and after which the warrants and any securities issued with them will be separately transferable;

if applicable, the principal amount of debt securities that may be purchased upon exercise of a warrant and the price at which the debt securities may be purchased upon exercise;

if applicable, the number of shares of preferred stock, common stock or depositary shares that may be purchased upon exercise of a warrant and the price at which the shares may be purchased upon exercise;

the dates on which the right to exercise the warrants will commence and expire;

**Table of Contents**

if applicable, the minimum or maximum amount of the warrants that may be exercised at any one time;

whether the warrants represented by the warrant certificates or debt securities that may be issued upon exercise of the warrants will be issued in registered or bearer form;

information relating to book-entry procedures, if any;

the currency or currency units in which the offering price, if any, and the exercise price are payable;

if applicable, a discussion of material United States federal income tax considerations;

anti-dilution provisions of the warrants, if any;

redemption or call provisions, if any, applicable to the warrants;

any additional terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants; and

any other information we think is important about the warrants.

**DESCRIPTION OF DEPOSITARY SHARES**

We may, at our option, elect to offer depositary shares, each of which will represent a fractional interest in a share of a particular series of preferred stock as specified in the applicable prospectus supplement and/or free writing prospectus. We may offer depositary shares rather than offering fractional shares of preferred stock of any series. Subject to the terms of the applicable deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fractional interest in shares of preferred stock underlying that depositary share, to all rights and preferences of the preferred stock underlying that depositary share. Those rights may include dividend, voting, redemption and liquidation rights.

The shares of preferred stock underlying the depositary shares will be deposited with a depositary under a deposit agreement between us, the depositary and the holders of the depositary receipts evidencing the depositary shares. The depositary will be a bank or trust company selected by us. The depositary will also act as the transfer agent, registrar and, if applicable, dividend disbursing agent for the depositary shares. We anticipate that we will enter into a separate deposit agreement for the depositary shares representing fractional interests in preferred stock of each series.

Holders of depositary receipts will be deemed to agree to be bound by the deposit agreement, which requires holders to take certain actions such as filing proof of residence and paying certain charges.

The following is a summary of selected terms of the depositary shares and the related depositary receipts and deposit agreement. The deposit agreement, the depositary receipts, our certificate of incorporation and the certificate of designation for the applicable series of preferred stock that have been, or will be, filed with the SEC will set forth all of the terms relating to each issue of depositary shares. To the extent that any particular terms of any depositary shares or the related depositary receipts or deposit agreement described in a prospectus supplement or free writing prospectus differ from any of the terms described below, then the terms described below will be deemed to have been superseded by the applicable terms described in that prospectus supplement or free writing prospectus. The following summary of selected provisions of the depositary shares and the related depositary receipts and deposit agreement is not complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the applicable depositary receipts

and deposit agreement, including terms defined in those documents.

Immediately following our issuance of shares of a series of preferred stock that will be offered as depositary shares, we will deposit the shares of preferred stock with the applicable depositary, which will then issue and deliver the depositary receipts. Depositary receipts will only be issued evidencing whole depositary shares. A depositary receipt may evidence any number of whole depositary shares.

## **Table of Contents**

### **Dividends**

The depositary will distribute all cash dividends or other cash distributions received relating to the series of preferred stock underlying the depositary shares to the record holders of depositary receipts in proportion to the number of depositary shares owned by those holders on the relevant record date. The record date for the depositary shares will be the same date as the record date for the preferred stock.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the record holders of depositary receipts that are entitled to receive the distribution. However, if the depositary determines that the distribution cannot be made proportionately among the holders or that it is not feasible to make the distribution, the depositary may, with our approval, adopt another method for the distribution. The method may include selling the securities or property and distributing the net proceeds to the holders.

The amount distributed in any of the foregoing cases will be reduced by any amounts required to be withheld by us or the depositary on account of taxes or other governmental charges.

### **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of each depositary share will be entitled to receive the fraction of the liquidation preference accorded each share of the applicable series of preferred stock, as set forth in the applicable prospectus supplement.

### **Redemption**

If the series of preferred stock underlying the depositary shares is subject to redemption, the depositary shares will be redeemed from the proceeds received by the depositary from the redemption, in whole or in part, of preferred stock held by the depositary. Whenever we redeem any preferred stock held by the depositary, the depositary will redeem, as of the same redemption date, the number of depositary shares representing the preferred stock so redeemed. The depositary will mail the notice of redemption to the record holders of the depositary receipts promptly upon receiving the notice from us and not less than 35 nor more than 60 days prior to the date fixed for redemption of the preferred stock and the depositary shares. The redemption price per depositary share will be equal to the applicable fraction of the redemption price payable per share for the applicable series of preferred stock. If fewer than all the depositary shares are redeemed, the depositary shares to be redeemed will be selected by lot or ratably as the depositary will decide.

After the date fixed for redemption, the depositary shares so called for redemption will no longer be deemed to be outstanding and all rights of the holders of the depositary shares will cease, except the right to receive the moneys payable upon redemption and any moneys or other property to which the holders of the depositary shares were entitled upon the redemption, upon surrender to the depositary of the depositary receipts evidencing the depositary shares.

### **Voting**

Upon receipt of notice of any meeting at which the holders of preferred stock are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary receipts representing the preferred stock. Each record holder of those depositary receipts on the record date will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the amount of preferred stock underlying that holder's depositary shares. The record date for the depositary shares will be the same date as the record date for the preferred stock. The depositary will try, as far as practicable, to vote the preferred stock underlying the depositary shares in a manner consistent with the instructions of the holders of the depositary receipts. We will agree to take all action which



may be deemed necessary by the depositary in order to enable the depositary to do so. The depositary will not vote the preferred stock to the extent that it does not receive specific instructions from the holders of depositary receipts.

## **Table of Contents**

### **Withdrawal of Preferred Stock**

Owners of depositary shares are entitled, upon surrender of depositary receipts at the applicable office of the depositary and payment of any unpaid amount due the depositary, to receive the number of whole shares of preferred stock underlying the depositary shares. Partial shares of preferred stock will not be issued. After the withdrawal of shares of preferred stock as described in the preceding sentence, the holders of those shares of preferred stock will not be entitled to deposit the shares under the deposit agreement or to receive depositary receipts evidencing depositary shares for those shares of preferred stock.

### **Amendment and Termination of Deposit Agreement**

The form of depositary receipt evidencing the depositary shares and any provision of the applicable deposit agreement may be amended at any time and from time to time by agreement between us and the depositary. However, any amendment which materially and adversely alters the rights of the holders of depositary shares, other than any change in fees, will not be effective unless the amendment has been approved by at least a majority of the depositary shares then outstanding. The deposit agreement automatically terminates if:

all outstanding depositary shares have been redeemed; or

there has been a final distribution relating to the preferred stock in connection with our liquidation, dissolution or winding up, and that distribution has been made to all the holders of depositary shares.

### **Charges of Depositary**

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will also pay charges of the depositary in connection with the initial deposit of the preferred stock and the initial issuance of the depositary shares and receipts, any redemption of the preferred stock and all withdrawals of preferred stock by owners of depositary shares. Holders of depositary receipts will pay transfer, income and other taxes and governmental charges and certain other charges as provided in the deposit agreement. In certain circumstances, the depositary may refuse to transfer depositary shares, withhold dividends and distributions, and sell the depositary shares evidenced by the depositary receipt, if the charges are not paid.

### **Reports to Holders**

The depositary will forward to the holders of depositary receipts all reports and communications we deliver to the depositary that we are required to furnish to the holders of the preferred stock. In addition, the depositary will make available for inspection by holders of depositary receipts at the applicable office of the depositary and at other places as it thinks is advisable any reports and communications we deliver to the depositary as the holder of preferred stock.

### **Liability and Legal Proceedings**

Neither we nor the depositary will be liable if either of us is prevented or delayed by law or any circumstance beyond our control in performing our obligations under the deposit agreement. Our obligations and those of the depositary will be limited to performance in good faith of our duties under the deposit agreement. Neither we nor the depositary will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. We and the depositary may rely on written advice of counsel or accountants, on information provided by holders of depositary receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by

the proper persons.

**Resignation and Removal of Depositary**

The depositary may resign at any time by delivering a notice to us of its election to do so. We may also remove the depositary at any time. Any such resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of such appointment. The successor depositary must be appointed within 60 days after delivery of the notice for resignation or removal. In addition, the successor depositary must be a bank or trust company having its principal office in the United States and must have a combined capital and surplus of at least \$150,000,000.

**Table of Contents**

**DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS**

We may issue stock purchase contracts, including contracts obligating holders to purchase from us, and us to sell to the holders, a specified number of shares of common stock at a future date or dates, which we refer to herein as stock purchase contracts. The price per share of common stock and the number of shares of common stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts, and may be subject to adjustment under anti-dilution formulas. The stock purchase contracts may be issued separately or as part of units consisting of a stock purchase contract and debt securities, preferred stock, depositary shares, debt obligations of third parties, including United States Treasury securities, any other securities described in the applicable prospectus supplement or free writing prospectus or any combination of the foregoing, which may secure the holders' obligations to purchase the common stock under the stock purchase contracts, which we refer to herein as stock purchase units. The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner, and in some circumstances we may deliver newly issued prepaid common stock purchase contracts, which are referred to as prepaid securities, upon release to a holder of any collateral securing that holder's obligations under the original purchase contract. The stock purchase contracts also may require us to make periodic payments to the holders of the stock purchase contracts or stock purchase units, as the case may be, or vice versa, and those payments may be unsecured or prefunded on some basis.

The applicable prospectus supplement or free writing prospectus will describe the terms of the stock purchase contracts or stock purchase units and, if applicable, prepaid securities. This description is not complete and the description in the applicable prospectus supplement or in the applicable free writing prospectus will not necessarily be complete, and reference is made to the stock purchase contracts, and, if applicable, collateral or depositary agreements, relating to the stock purchase contracts or stock purchase units. If any particular terms of the stock purchase contracts or stock purchase units described in an applicable prospectus supplement or free writing prospectus differ from any of the terms described herein, then the terms described herein will be deemed to have been superseded by that prospectus supplement or free writing prospectus. Selected United States federal income tax considerations applicable to the stock purchase units and the stock purchase contracts may also be discussed in the applicable prospectus supplement or free writing prospectus.

**PLAN OF DISTRIBUTION**

We may sell the securities:

through underwriters or dealers;

through agents;

directly to one or more purchasers; or

through a combination of any of those methods of sale.

We will identify the specific plan of distribution, including any underwriters, dealers, agents or direct purchasers and their compensation in a prospectus supplement.

**LEGAL MATTERS**

Munger, Tolles & Olson LLP, our outside counsel, will issue to us an opinion about the validity of the offered securities.

### **EXPERTS**

The consolidated financial statements of KB Home appearing in KB Home's Annual Report (Form 10-K) for the year ended November 30, 2007, and the effectiveness of KB Home's internal control over financial reporting as of November 30, 2007, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements and the effectiveness of our internal control over financial reporting as of the respective dates (to the extent covered by consents filed with the Securities and Exchange Commission) given on the authority of such firm as experts in accounting and auditing.

**Table of Contents**