

KB HOME
Form DEF 14A
March 01, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

KB HOME

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

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DEAR FELLOW
STOCKHOLDER

JEFFREY T. MEZGER

CHAIRMAN, PRESIDENT
AND CHIEF EXECUTIVE OFFICER

MARCH 1, 2019

HOUSING REVENUES

(millions)

PRETAX INCOME

(millions)

BOOK VALUE PER SHARE

RETURN ON EQUITY

Together with the Board of Directors and the management team of KB Home, I am pleased to invite you to our 2019 Annual Meeting of Stockholders. The meeting will be held at 9:00 a.m., Pacific Time, on Thursday, April 11, 2019, at our Corporate Office, which is located at 10990 Wilshire Boulevard in Los Angeles, California.

2018 IN REVIEW

The KB Home team achieved several significant milestones in 2018. We delivered solid financial results, as we increased our scale and, together with the growth in our revenues, meaningfully improved our profitability and returns, as well as reduced our debt to capital ratio — all central components of our Returns-Focused Growth Plan. We also repositioned our brand, launching a new logo and “Built on Relationships” tagline to underscore the value we place on our relationships with homebuyers, subcontractors, suppliers, business partners, and each other. While the values underlying our brand remain true to the principles we have had since our founding, we modernized the look and feel of our brand to better represent who we are today. And finally, we continued to earn recognition for our leadership in sustainable homebuilding, with an emphasis on resource-efficient, healthier and technology-enabled homes.

In 2018, which was the second year of our three-year Returns-Focused Growth Plan, we continued to deliver strong performance, having achieved or exceeded most of the Plan’s targets a year early. We expanded our total revenues to over \$4.5 billion and grew our homebuilding operating income margin by 120 basis points to 8.3%, excluding inventory-related charges. The combined effect of increasing our scale and measurably improving our profitability drove a 27% increase in our pretax income to nearly \$370 million. And, excluding the non-cash accounting charge related to federal tax legislation, we also made considerable progress in our key returns metrics, with our return on invested capital increasing by 300 basis points to 10.4% and return on equity improving 440 basis points to 14.4%.

Returns-Focused Growth Plan Financial Targets	2018 Results	2019 Target
Housing revenues	\$4.5 billion	> \$5.0 billion
Homebuilding operating income margin (a)	8.3%	8.0% to 9.0%
Return on invested capital (b)	10.4%	> 10.0%
Return on equity (b)	14.4%	10.0% to 15.0%
Net debt to capital ratio (c)	41.6%	35.0% to 45.0%

(a)

Excludes inventory-related charges.

(b)

The 2018 metrics exclude the impact from the non-cash charge of \$112.5 million due to the Tax Cuts and Jobs Act of 2017.

(c)

In the 2018 fourth quarter, we lowered our net debt to capital ratio target to a range of 35.0% to 45.0% from the original 2019 target range of 40.0% to 50.0%.

At the heart of our Returns-Focused Growth Plan is our ability to generate substantial levels of cash flow and to allocate this capital in a balanced way to both fuel profitable growth and reduce our debt. We delivered on these goals in 2018 by generating considerable operating cash that enabled us to invest approximately \$1.9 billion in land acquisition and development, retire \$300 million of our senior notes and return about \$44 million in cash to stockholders in the form of share repurchases and dividends. At the end of our fiscal year, we had over \$1 billion in total liquidity, including nearly \$575 million in cash. The solid execution of our Plan drove year-over-year progress in our leverage ratios, as we ended the fiscal year with a debt to capital ratio of 49.7% (a 500-basis point improvement) and net debt to capital ratio of 41.6% (a 380-basis point improvement), with the latter firmly within our lowered target range of 35% to 45% for 2019.

In 2018, we entered the Seattle market with a start-up division. We have been evaluating this market for several years and saw an opening to offer more affordable product, in the high \$300,000 to \$400,000 price range, in keeping with our strategy to be positioned below the median new home price, which is approximately \$550,000 in Seattle. With a small local team in place, we are planning for our first deliveries in 2019 and excited about the opportunity to expand our West Coast business.

The factors supporting housing demand remained generally favorable in 2018, as the economy expanded, jobs and wages grew, and new households continued to form. At the same time, supply remained low, with existing home inventory at a 3.7-month supply in December 2018 across the U.S., and below that level in many of our served markets. It is this backdrop that gives us reason to remain encouraged about the year ahead, even as heightened affordability pressures driven by several years of home price appreciation coupled with rising mortgage interest rates caused consumers to pause on their purchases of new homes in the latter part of 2018.

We believe the flexibility of our Built-to-Order™ model is a competitive advantage that enabled us to move quickly to respond to these affordability concerns. We began repositioning our product offerings in many of our existing communities, as well as upcoming grand openings, by adding smaller square footage plans selected from our existing plan series and repositioning model parks to demonstrate the expanded range of more affordable choices. In addition, we also began lowering the specification levels for our standard features within many of our communities, leveraging

our Design Studio to showcase buyers' options and educate them on both standard and upgraded features.

For additional details on our 2018 performance, our outlook for our 2019 first quarter and related business risk factors, please refer to our Annual Report on Form 10-K for the year ended November 30, 2018.

SUSTAINABILITY AND INNOVATION

We take a broad approach to sustainability, encompassing energy efficiency, water conservation, healthier indoor environments, smart home capabilities and waste reduction. In 2018, we continued our longstanding industry leadership in this area, which is grounded in making homeownership more affordable for our buyers and better for the environment. The 115,000+ ENERGY STAR homes that we have built over an 18-year period have collectively saved our homeowners an estimated \$658 million in utility bills and reduced CO2 emissions by an estimated 4 billion pounds—the equivalent of removing 382,000 cars from the road.

Our accomplishments in this area were recognized with two key industry-first honors, including eight consecutive ENERGY STAR® Partner of the Year —

Sustained Excellence Awards and four consecutive WaterSense® Sustained Excellence Awards. In addition, we earned an ENERGY STAR Certified Homes Market Leader Award in each of our primary markets—20 in total for 2018—reflecting our leadership in building homes that meet ENERGY STAR efficiency standards.

Another area that we are dedicated to is integrating technology into our homes and one of our key initiatives in 2018 was launching the KB Smart Home System featuring Google Assistant™. This first-in-the-industry partnership with Google® allows homeowners to control the functionality of their smart home features and automate routines to their individual preferences. The Smart Home System was a central component of our KB Home ProjeKt concept home, located in our Inspirada community in Las Vegas, which we unveiled earlier this year. This full-scale concept home showcased how smart and sustainable technology can be leveraged to offer personalized convenience and wellness features.

IN CLOSING

We are continuing to make solid progress on our Returns-Focused Growth Plan, as we have grown into a larger and significantly more profitable company with a stronger balance sheet. We believe we are well positioned for 2019, with significant growth expected in our community count, and compelling products that are designed to maximize affordability and choice for our buyers. We remain committed to increasing stockholder value and thank you for your continued support of KB Home. We hope to see you at our Annual Meeting.

Sincerely,

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NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS

THURSDAY, APRIL 11, 2019

9:00 a.m., Pacific Time

**KB Home Corporate Office
10990 Wilshire Boulevard
Los Angeles, CA 90024**

ITEMS OF BUSINESS

1.
Elect ten directors, each to serve for a one-year term.
2.
Advisory vote to approve named executive officer compensation.
3.
Ratify Ernst & Young LLP's appointment as KB Home's independent registered public accounting firm for the fiscal year ending November 30, 2019.

The accompanying Proxy Statement describes these items in more detail. We have not received notice of any other matters that may be properly presented at the meeting.

RECORD DATE

You are entitled to vote at the meeting and at any adjournment or postponement of the meeting if you were a stockholder as of the close of business on February 8, 2019.

VOTING

Please vote as soon as possible, even if you plan to attend the meeting, to ensure your shares will be represented. You do not need to attend the meeting to vote if you vote before the meeting. If you are a holder of record, you may vote your shares via the Internet, telephone or mail. If your shares are held by a broker or financial institution, you must vote your shares using a method the broker or financial institution provides.

ATTENDING THE MEETING

Only stockholders on the record date, authorized proxy holders of such stockholders and invited guests of the Board of Directors ("Board") may attend the meeting in person. An admission ticket will be required to attend. The accompanying Proxy Statement describes how to request an admission ticket. We must receive written admission ticket requests by March 29, 2019.

ANNUAL REPORT

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Copies of our Annual Report on Form 10-K for the fiscal year ended November 30, 2018 (“Annual Report”), including audited financial statements, are being made available to stockholders concurrently with the accompanying Proxy Statement. We anticipate these proxy materials will first be made available on or about March 1, 2019.

By order of the Board of Directors,

WILLIAM A. (TONY) RICHELIEU

*Vice President, Corporate Secretary and
Associate General Counsel*

Los Angeles, California

March 1, 2019

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on April 11, 2019: Our Proxy Statement and Annual Report are available at <http://www.kbhome.com/investor/proxy>.

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2019 ANNUAL MEETING SUMMARY

Your Board is furnishing this Proxy Statement and a proxy/voting instruction form or Notice of Internet Availability to you to solicit your proxy for KB Home's 2019 Annual Meeting of Stockholders ("Annual Meeting"). We anticipate these proxy materials will be made available on or about March 1, 2019. A brief summary of information about the Annual Meeting is below. Please review the more detailed information in this Proxy Statement before voting.

ANNUAL MEETING INFORMATION

Date: Thursday, April 11, 2019

Time: 9:00 a.m., Pacific Time

Location: KB Home Corporate Office: 10990 Wilshire Boulevard, Los Angeles, CA 90024

Admission: You will need an admission ticket to attend the Annual Meeting in person. To request an admission ticket, please see the instructions under "Admission to the Annual Meeting."

MEETING AGENDA

Items of Business	Board Recommendation	Voting Standard
Election of Directors	FOR each of the ten nominees	Majority of Votes Cast
Advisory vote to approve named executive officer ("NEO") compensation	FOR	Majority of Shares Present/Entitled to Vote
Ratify Ernst & Young LLP's appointment as our independent registered public accounting firm ("Independent Auditor") for the fiscal year ending November 30, 2019.	FOR	Majority of Shares Present/Entitled to Vote

VOTING PROCEDURES

	Holders of Record	Beneficial Holders	Plan Participant Holders
			If you can vote any shares
How to Vote	If your shares are registered directly with our transfer agent, Computershare Inc., vote via the Internet, telephone or mail following the instructions on your mailed or electronic proxy form.	If your shares are held in "street name" by a broker/other holder of record, vote via the Internet, telephone or mail following the instructions on your mailed or electronic voting instruction form.	under the KB Home 401(k) Savings Plan ("401(k) Plan") or the Grantor Stock Ownership Trust ("GSOT"), vote via the Internet, telephone or mail following the instructions on your mailed or electronic proxy form.
Voting Deadlines	Internet and telephone voting is available until 11:59 p.m., Eastern Time, on April 10, 2019. Mailed proxy forms must	Your broker/other holder of record sets the voting deadlines.	Internet and telephone voting is available until, and mailed proxy forms must be received by, 11:59 p.m., Eastern Time,

Voting in Person	be received before polls close. You (or someone designated by a signed legal proxy) may vote in person at the Annual Meeting.	You must present a legal proxy from your broker/other holder of record with your ballot.	on April 9, 2019. You must present a legal proxy from the applicable plan trustee with your ballot.
Changing Your Vote	You may revoke voting instructions by submitting a later vote in person before polls close, or via the Internet, telephone or mail before the above-noted deadlines.	You must contact your broker/other holder of record to revoke any prior voting instructions.	You may revoke voting instructions by submitting a later vote in person before polls close, or via the Internet, telephone or mail before the above-noted deadline.

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CORPORATE GOVERNANCE

The Board oversees the management of our business to help assure that our stockholders' long-term interests are being served. The Board carries out its role subject to Delaware law, our state of incorporation, and within the framework of our Corporate Governance Principles. During 2018, the Board held four meetings and also acted by written consent. The Board committees additionally met as or more frequently than the Board, as shown under "Board Leadership and Organizational Structure," and also acted by written consent.

CORPORATE GOVERNANCE HIGHLIGHTS*

All of our directors, except for our President and Chief Executive Officer ("CEO"), are independent.	Only independent directors serve on our Board committees.
Each director attended at least 75% of his or her total Board and committee meetings.	Directors are elected annually under a majority voting standard.
Non-employee directors meet in executive sessions at each in-person Board meeting.	During 2018, there were no related party transactions.
We expect directors to attend our annual stockholder meetings. All directors attended our 2018 annual meeting.	We have only one class of voting securities. We have no supermajority voting requirements (except per Delaware law).
Directors and senior executives are subject to strong stock ownership requirements.	Executive officers are subject to a robust incentive compensation claw-back policy.
Directors, senior executives and employees may not pledge or hedge holdings of our securities.	Employee equity awards from 2017 forward require double-trigger vesting in a change in control.

Governance Documents Availability

Our Certificate of Incorporation, By-Laws, Corporate Governance Principles, Board-approved charters for each standing committee and Ethics Policy serve as the foundation of our corporate governance. Each document is available online for viewing, printing or downloading at <http://investor.kbhome.com/corporate-governance>. These documents are also available in print upon request. The information on our website is not incorporated by reference into and does not form a part of this Proxy Statement.

*

Additional information about our corporate governance processes and procedures is provided in Annex 1 to this Proxy Statement.

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BOARD LEADERSHIP AND ORGANIZATIONAL STRUCTURE

BOARD LEADERSHIP STRUCTURE

Mr. Mezger, our CEO, has served as Chairman of the Board since 2016. The non-employee directors of the Board have elected Mr. Mezger as Chairman based on his fundamental understanding of our business model, effective operational leadership and capable service as a director since 2006, and their belief that combining the roles of Chairman and CEO enhances our ability to achieve our long-term growth goals. Board governance is balanced with a strong Lead Independent Director position, which is designed to maintain the Board's firm independent oversight of our business. Ms. Lora has served as Lead Independent Director since 2016.

Compensation Committee Interlocks and Insider Participation

None of our directors or executive officers had any relationship that would constitute a "compensation committee interlock" under SEC rules.

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Key Lead Independent Director Duties

Presides at all Board meetings where the Chairman is not present and at all executive sessions and meetings of the non-employee directors, which may be called at any time and for any purpose.

Consults with the Chairman and the non-employee directors regarding meeting agendas and schedules and the content and flow of information to the Board.

Provides Board leadership if there is (or there is perceived to be) a conflict of interest with respect to the role of the Chairman who is also the CEO.

If requested by major stockholders, being available to them for consultation and communication as appropriate.

Any additional duties as set forth in our Corporate Governance Principles or By-Laws, or as the Board may otherwise determine.

BOARD COMMITTEE COMPOSITION CHANGES

On April 12, 2018, Dr. Gilligan succeeded Ms. Lora as Chair of the Audit and Compliance Committee (“Audit Committee”); Mr. Weaver joined the Management Development and Compensation Committee (“Compensation Committee”); Mr. Johnson succeeded Mr. Finchem as Chair of the Nominating and Corporate Governance Committee (“Nominating Committee”); and Ms. Dominguez joined the Nominating Committee. Otherwise, the above-noted committee assignments were effective throughout our 2018 fiscal year.

Board Evaluation Process

In October 2018, the Board and each committee conducted an annual in-person evaluation of their respective performance guided by a set of subjects the Nominating Committee approved in July 2018. The subjects included, among others, Board/committee structure, composition, diversity, skills, meeting processes, interaction with management, and performance of the Board Chairman/committee chair and the Lead Independent Director. Each committee reported on the results of its own assessment to the full Board.

Communicating with the Board

Any interested party may write to the Board, to the Chairman of the Board, to the Lead Independent Director or to any other director in care of our Corporate Secretary at KB Home, 10990 Wilshire Boulevard, Los Angeles, CA 90024.

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BOARD ROLE IN RISK OVERSIGHT

The Board oversees our management's plans, policies and processes for identifying, assessing and addressing business risks while advancing our strategic growth goals. The Board has delegated risk oversight responsibilities to its committees, as described below. At each in-person Board meeting, the chair of each committee reports on the risks their committee has discussed with management, as well as their committee's other activities.

Audit Committee	The Audit Committee oversees our management's performance of an annual enterprise risk management assessment that identifies significant risks in our business and operations based on probability, impact and mitigating factors. This assessment's outcome drives our internal audit department's activities, the results of which are provided at the committee's quarterly meetings and upon request. The committee also monitors cybersecurity risks and our evolving physical, electronic and other protection strategies and initiatives, with the lead responsible executive periodically reporting to the committee. Further, at each of its regular meetings, the committee receives reports from our senior finance, accounting, legal and internal audit executives, and conducts separate executive sessions with each of those executives and with our Independent Auditor to discuss matters relevant to their respective duties and roles, including risk areas.
Compensation Committee	The Compensation Committee oversees an annual employee compensation risk assessment performed by FWC together with our management that largely focuses on potential policy and program design and implementation risks. The committee also annually reviews our compliance with our equity-based award grant policy, and our workforce development and management succession planning (both short- and long-term) for all levels of our organization. In addition, the committee reviews and, as appropriate, approves the compensation arrangements developed by our senior human resources department personnel. Based on this oversight approach, including the results of our most recent annual risk assessment, we do not believe that risks arising from our present employee compensation policies and programs are reasonably likely to have a material adverse effect on us.
Nominating Committee	The Nominating Committee oversees risks relating to corporate governance, including assessing potential related party transactions, as well as evaluating the current mix of skills and experience of the Board and of potential director candidates. The committee also reviews updates to our core governance policies and documents based on input from management and recommends changes to the full Board.

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BOARD EXPERIENCE AND SKILLS

We have a balanced and well-diversified Board, with skill sets in a number of sectors relevant to our business, as summarized in the charts below.

Diversity

The Board considers diversity for directors and director candidates as encompassing race, ethnicity, national origin and gender, geographic residency, educational and professional history, community or public service, expertise or knowledge base and/or other tangible and intangible aspects of an individual.

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DIRECTOR COMPENSATION

Directors, other than Mr. Mezger, who is not paid for his Board service, are compensated as described below. We also pay directors' travel-related expenses for Board meetings and Board activities.

NON-EMPLOYEE DIRECTOR COMPENSATION*

Board Retainer:	\$100,000
Equity Grant (grant date fair value):	\$145,000
Lead Independent Director Retainer:	\$40,000
	\$25,000 (Audit Committee)
Committee Chair Retainers:	\$18,000 (Compensation Committee)
	\$15,000 (Nominating Committee)
	\$10,000 (Audit Committee)
Committee Member Retainers:	\$7,000 (Compensation Committee)
	\$5,000 (Nominating Committee)
Meeting Fees:	\$1,500 (per applicable meeting, as described below)

*

The Board set the above compensation levels in October 2014, except the Lead Independent Director retainer (which was set in August 2016). Directors elected to the Board other than at an annual meeting receive prorated compensation.

RETAINERS

Each director may elect to receive their retainers in equal quarterly cash installments, in unrestricted shares of our common stock and/or in fully vested deferred common stock awards ("stock units"), with any such equity-based grants made as described below. Committee retainer differences reflect relative workloads.

EQUITY GRANT

Each director may generally elect to receive their equity grant in shares of our common stock and/or in stock units. Such grants are made on election to the Board, with the rounded number of shares/units granted based on our common stock's closing price on the grant date. Directors will receive a share of our common stock for each stock unit they hold on the earlier of a change in control or leaving the Board. Directors receive cash dividends on their common stock holdings, and cash dividend equivalent payments on their stock units. Stock units have no voting rights. If a director has not satisfied his or her stock ownership requirement by the applicable time (as described under "Stock Ownership Requirements"), the director can only receive stock units for the equity grant and cannot dispose of any shares of our common stock until the director satisfies the ownership requirement or leaves the Board.

MEETING FEES

These fees are payable to directors who attend any non-regularly scheduled Board or committee meeting and have also attended each of the Board's or the applicable committee's prior meetings in a specified 12-month period. No such fees were paid in 2018.

INDEMNIFICATION AGREEMENTS

We have agreements with our directors that provide them with indemnification and advancement of expenses to supplement what our Certificate of Incorporation and insurance policies provide, subject to certain limitations.

DIRECTORS' LEGACY PROGRAM

We established a Directors' Legacy Program in 1995 to recognize our and our directors' interests in supporting educational institutions and other charitable organizations. The Board closed the program to new participants in 2007, and Messrs. Finchem and Jastrow and Ms. Lora are the only current directors who are participants. All program participants have fully vested in their donation amount; however, neither they nor their families receive any proceeds, compensation or tax savings associated with the program. Under the program, after a participant's death, we will make a charitable donation on each participant's behalf of up to \$1 million directly to up to five participant-designated qualifying institutions or organizations in ten equal annual installments. We maintain life insurance policies to help fund these donations, but no premium payments for the policies were required to be made in 2018. The total amount payable under the program at November 30, 2018 was \$14.8 million.

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DIRECTOR COMPENSATION DURING FISCAL YEAR 2018

Name	Fees Earned or Paid in Cash	Stock Awards	All Other Compensation	Total
	(\$) ^(a)	(\$) ^(b)	(\$)	(\$)
Ms. Dominguez	\$ 115,000	\$ 145,000	\$ —	\$ 260,000
Mr. Finchem	—	257,000	—	257,000
Dr. Gabriel	110,000	145,000	—	255,000
Dr. Gilligan	130,000	145,000	—	275,000
Mr. Jastrow	118,000	145,000	—	263,000
Mr. Johnson	100,000	167,000	—	267,000
Ms. Lora	157,000	145,000	—	302,000
Mr. Weaver	17,000	245,000	—	262,000
Mr. Wood	100,000	160,000	—	260,000

(a)

Fees Earned or Paid in Cash. These amounts generally represent the cash retainers paid to directors per their elections. The amount for Ms. Lora includes her Lead Independent Director retainer.

(b)

Stock Awards. These amounts represent the aggregate grant date fair value of the shares of our common stock or stock units granted to our directors in 2018. The grant date fair value of each such award is equal to the closing price of our common stock on the date of grant. All grants were made on April 12, 2018. The table below shows the respective grants to our directors in 2018. The aggregate number of outstanding stock awards and option awards held by our non-employee directors at the end of our 2018 fiscal year are shown under “Ownership of KB Home Securities,” exclusive of 2,043 shares of our common stock Ms. Lora directly owns.

Name	2018 Common Stock Grants (#)	2018 Stock Unit Grants (#)
Ms. Dominguez	5,082	—
Mr. Finchem	—	9,007
Dr. Gabriel	5,082	—
Dr. Gilligan	5,082	—
Mr. Jastrow	—	5,082
Mr. Johnson	5,852	—
Ms. Lora	—	5,082
Mr. Weaver	—	8,587
Mr. Wood	—	5,607

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ELECTION OF DIRECTORS

The Board will present as nominees at the Annual Meeting, and recommends our stockholders elect to the Board, each of the individuals named below for a one-year term ending at the election of directors at our 2020 annual meeting. Each nominee has consented to being nominated, is standing for re-election and has agreed to serve as a director if elected. Should any of the nominees become unable to serve as a director prior to the Annual Meeting, the named proxies, unless otherwise directed, may vote for the election of another person as the Board may recommend. If the Board's nominees are elected at the Annual Meeting, the Board will have ten directors. While there are no term limits for directors, a director must retire from the Board as of the first annual meeting following their 75th birthday.

VOTING STANDARD

To be elected, each nominee must receive a majority of votes cast in favor (i.e., the votes cast for a nominee's election must exceed the votes cast against their election).

BOARD RECOMMENDATION: FOR APPROVAL OF EACH DIRECTOR NOMINEE

DIRECTOR RESIGNATION POLICY

Our Corporate Governance Principles provide that a director nominee who fails to win election to the Board in an uncontested election is expected to tender his or her resignation from the Board (or to have previously submitted a conditional tender). An "uncontested election" is one in which there is no director nominee that has been nominated by a stockholder in accordance with our By-Laws. This election is an uncontested election. If an incumbent director fails to receive the required vote for election in an uncontested election, the Nominating Committee will act promptly to determine whether to accept the director's resignation and will submit its recommendation for the Board's consideration. The Board expects the director whose resignation is under consideration to abstain from participating in any decision on that resignation. The Nominating Committee and the Board may consider any relevant factors in deciding whether to accept a director's resignation.

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DORENE C. DOMINGUEZ

Age: 56

Director Since: **2017**

Dorene C. Dominguez has served since 2004 as Chairwoman and Chief Executive Officer of the Vanir Group of Companies, Inc. and its subsidiaries Vanir Construction Management, Inc. and Vanir Development Company, Inc., which provide a wide range of program, project and construction management services for clients in the healthcare, education, justice, water/wastewater, public buildings, transportation and energy markets throughout the United States. Ms. Dominguez also serves as Chair of The Dominguez Dream, a nonprofit organization that provides academic enrichment programs in math, science, language arts and engineering to elementary schools in underserved communities. Ms. Dominguez has extensive experience in executive management, finance, and civic engagement, as well as significant expertise in project and asset management and real estate development. She also has a substantial presence and is well-regarded in California, an important market for us.

SKILLS AND QUALIFICATIONS:

Chairwoman and Chief Executive Officer, Vanir Group of Companies, Inc.

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

CIT Group Inc.

OTHER PROFESSIONAL EXPERIENCE:

Board Member, California Chamber of Commerce
(2017-Present)

TIMOTHY W. FINCHEM

Age: 71

Director Since: **2005**

Mr. Finchem has been Board Chair of The First Tee, a nonprofit youth development organization providing educational programs through the game of golf, since it was founded in 1997. He previously served as Commissioner of the PGA TOUR, a membership organization for professional golfers, from 1994 until his retirement in December 2016. He joined the PGA TOUR in 1987, and was promoted to Deputy Commissioner and Chief Operating Officer in 1989. Mr. Finchem has demonstrated success in broadening the popularity of professional golf among the demographic groups that make up our core homebuyers and has experience in residential community development. He also has a substantial presence in Florida, one of our key markets.

SKILLS AND QUALIFICATIONS:

Board Chair, The First Tee

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

OTHER PROFESSIONAL EXPERIENCE:

Commissioner, PGA TOUR (1994-2016)

Deputy Advisor to the President, White House Office of Economic Affairs (1978-1979)

Co-founder, National Marketing and Strategies Group
(1980-1986)

Board Member, Pride Industries, nonprofit employer of
individuals with disabilities (2009-Present)

Board of Trustees Member, University of Notre Dame
(2018-Present)

Latino Studies Advisory Board Member, University of Notre
Dame (2007-Present)

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DR. STUART A. GABRIEL

Age: 65

Director Since: **2016**

Dr. Gabriel has been since 2007 the director of the Richard S. Ziman Center for Real Estate at UCLA, and Professor of Finance and Arden Realty Chair at the UCLA Anderson School of Management. With Dr. Gabriel's significant professional experience in and distinguished study of macroeconomics and real estate, mortgage and finance markets, he has considerable knowledge and insight with respect to the economic, regulatory and financial drivers that affect housing and homebuilding at local, regional and national levels. In addition, with more than two decades of service in leadership roles at two of the most preeminent academic institutions in the country—UCLA and USC—he has substantial management and administrative expertise and is highly respected for his perspective on housing and land use matters in California, an important market for us, and nationally.

SKILLS AND QUALIFICATIONS:

Director, Richard S. Ziman Center for Real Estate at UCLA; and Professor of Finance and Arden Realty Chair, UCLA Anderson School of Management

PUBLIC COMPANY DIRECTORSHIPS:

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KBS Real Estate Investment Trust, Inc.

KBS Real Estate Investment Trust II, Inc.

KBS Real Estate Investment Trust III, Inc.

OTHER PROFESSIONAL EXPERIENCE:

DR. THOMAS W. GILLIGAN

Age: 64

Director Since: **2012**

Dr. Gilligan has been the Tad and Dianne Taube Director of The Hoover Institution on War, Revolution and Peace at Stanford University since September 2015. The Hoover Institution is a public policy research center devoted to the advanced study of economics, politics, history and political economy, as well as international affairs. Dr. Gilligan has deep knowledge of and significant academic credentials in the fields of finance, economics and business administration, and brings extensive leadership skills and experience from his many years of service as a dean at two of the premier post-graduate business schools in the country and his current position as the head of a prominent public policy institution. In addition, he is well-known and highly regarded, professionally and personally, in both Texas and California, which are key markets for us.

SKILLS AND QUALIFICATIONS:

Director, The Hoover Institution on War, Revolution and Peace

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

Southwest Airlines Co.

OTHER PROFESSIONAL EXPERIENCE:

Dean, McCombs School of Business (2008-2015)

Interim Dean, USC Marshall School of Business (2006-2007)

Director and Lusk Chair, USC Lusk Center for Real Estate Staff Economist, White House Council of Economic
(1997-2007) Advisors (1983-1984)

Associate Professor/Professor, Finance and Business
Economics, USC Marshall School of Business (1990-1997)

Economics Staff Member, Federal Reserve Board
(1986-1990)

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KENNETH M. JASTROW, II
Age: 71

Director Since: **2001**

Kenneth M. Jastrow, II, a corporate director and private investor, has extensive experience and leadership in the paper, building products, forestry, real estate and mortgage lending industries, enabling him to provide critical perspective on businesses that impact the homebuilding industry, and on sustainability practices. He also brings significant corporate governance expertise from his service on several public company boards, and has a substantial presence in Texas, a key market for us.

ROBERT L. JOHNSON
Age: 72

Director Since: **2008**

Robert L. Johnson is founder and chairman of The RLJ Companies, an innovative business network that provides strategic investments in a diverse portfolio of companies in the consumer financial services, private equity, asset management, real estate, hospitality, gaming and automobile dealership industries. Prior to forming The RLJ Companies in 2004, Mr. Johnson was founder and chief executive officer of BET, the nation's first and leading television network providing quality entertainment, music, news, sports and public affairs programming for the African American audience. He continued to serve as chief executive officer of Black Entertainment Television (BET) until 2006. Mr. Johnson has significant experience in real estate, finance, mortgage banking and brand-building enterprises and a unique and diverse background in a number of industry sectors.

SKILLS AND QUALIFICATIONS:

Former Chairman and CEO, Temple-Inland Inc. **SKILLS AND QUALIFICATIONS:**

PUBLIC COMPANY DIRECTORSHIPS:

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MGIC Investment Corporation

Genesis Energy, LLC

Forestar Group Inc. (2007-2015)

OTHER PROFESSIONAL EXPERIENCE:

Non-Executive Chairman, Forestar Group Inc., a real estate and natural resources company (2007-2015)

Founder and Chairman, The RLJ Companies

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

Elevate Credit, Inc.

RLJ Lodging Trust

Lowe's Companies, Inc. (2005-2018)

RLJ Entertainment, Inc. (2012-2018)

Strayer Education, Inc. (2003-2016)

Chairman and Chief Executive Officer,
Temple-Inland Inc., a paper, forest products and
financial services company (2000-2007)

OTHER PROFESSIONAL EXPERIENCE:

Founder and Chief Executive Officer of BET, a television and
entertainment network (1979-2006)

Museum Council Member, Smithsonian Institution's National
Museum of African American History and Culture (2004-Present)

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MELISSA LORA

Age: 56

Director Since: **2004**

Lead Independent Director Since: **2016**

Melissa Lora served in several senior executive roles over her 31-year career at Taco Bell Corp., a division of Yum! Brands, Inc., one of the world's largest restaurant companies, including as president of its international businesses at her retirement. In that position, she spearheaded Taco Bell International's growth, driving a record number of new restaurant openings in 2017, and was widely recognized as an influential female leader in the industry. Ms. Lora is very knowledgeable of and has substantial experience and expertise in financial matters as well as in managing real estate assets. She has made significant contributions to the work of the Audit Committee since joining the Board and provided strong leadership as its chair from 2008 to 2018. In November 2016, the Board elected Ms. Lora as Lead Independent Director and reelected her in April 2017 and April 2018.

JEFFREY T. MEZGER

Age: 63

Director Since: **2006**

Chairman Since: **2016**

Jeffrey T. Mezger has been our President and Chief Executive Officer since November 2006, and was elected Chairman of the Board in 2016. Prior to becoming President and Chief Executive Officer, Mr. Mezger served as our Executive Vice President and Chief Operating Officer, a position he assumed in 1999. From 1995 until 1999, Mr. Mezger held a number of executive posts in our southwest region, including Division President, Arizona Division, and Senior Vice President and Regional General Manager over Arizona and Nevada. Mr. Mezger joined us in 1993 as president of the Antelope Valley Division in Southern California. In 2012, Mr. Mezger was inducted into the California Homebuilding Foundation Hall of Fame. As our CEO, Mr. Mezger has demonstrated consistently strong operational leadership, and ownership of our business strategy and its results. He has also established himself as a leading voice in the industry through his over 40 years of experience in the public homebuilding sector.

SKILLS AND QUALIFICATIONS:

Former President, Taco Bell International

PUBLIC COMPANY DIRECTORSHIPS:

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Conagra Brands, Inc.

MGIC Investment Corporation

OTHER PROFESSIONAL EXPERIENCE:

President, Taco Bell International (2013-2018)

SKILLS AND QUALIFICATIONS:

Chairman, President and Chief Executive Officer, KB Home

PUBLIC COMPANY DIRECTORSHIPS:

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OTHER PROFESSIONAL EXPERIENCE:

Executive Board Member, USC Lusk Center for Real Estate (2000-2018)

Global Chief Financial and Development Officer, Taco Bell Corp. (2012-2013)	Policy Advisory Board Member, Fisher Center for Real Estate and Urban Economics at UC Berkeley Haas School of Business (2010-present)
Chief Financial and Development Officer, Taco Bell Corp. (2006-2012)	Policy Advisory Board Member, Harvard Joint Center for Housing Studies (2004 to 2018; Board Chair 2015-2016)
Chief Financial Officer, Taco Bell Corp. (2001-2006)	Founding Chairman, Leading Builders of America (2009-2013; Executive Committee member until 2016)

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JAMES C. WEAVER

Age: 43

Director Since: **2017**

James C. Weaver has been since 2006 the Chief Executive Officer of McCombs Partners, the investment management division of McCombs Enterprises, overseeing the implementation of the firm's investment strategies, including management of its direct investments in private operating businesses. He began his career at McCombs as an investment analyst in 2000. Mr. Weaver also serves as a director of several private companies, including Circuit of the Americas, Cox Enterprises, Inc. and Southern Towing Company. Mr. Weaver has considerable experience in executive leadership, business strategy and execution, financial planning and analysis, and asset/investment management across a broad range of industries and brings critical insight on governance and economic and regulatory policymaking. In addition, with his professional achievements and significant community involvement, he has a substantial presence and is well-regarded in Texas, a core market for us.

SKILLS AND QUALIFICATIONS:

Chief Executive Officer, McCombs Partners

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

OTHER PROFESSIONAL EXPERIENCE:

Board Member and Current Chair Pro Tem, San Antonio Branch, Federal Reserve Bank of Dallas (Member 2014-Present; Chair 2016-Present)

Member, The University of Texas System Board of Regents (2017-Present)

MICHAEL M. WOOD

Age: 71

Director Since: **2014**

Michael M. Wood is founder and chairman of Redwood Investments LLC, a Washington, D.C.-based investment company established in 2005 and concentrating in media, real estate and alternative energy. In 2009, Mr. Wood received from the King of Sweden the insignia of Commander Grand Cross, Order of the Polar Star medal given by Sweden's Royal Family to people of foreign birth who make significant contributions to Sweden. Prior to becoming the U.S. Ambassador to Sweden, Mr. Wood was co-founder and CEO of Hanley Wood LLC, the leading media company in the construction industry and one of the ten largest business-to-business media companies in the U.S. Mr. Wood has extensive knowledge of the homebuilding industry and significant experience in real estate and alternative energy investing, providing substantial insight and expertise with respect to our business operations and our longstanding commitment to sustainability. He also has a distinguished policymaking background.

SKILLS AND QUALIFICATIONS:

Founder and Chairman, Redwood Investments LLC

PUBLIC COMPANY DIRECTORSHIPS:

KB Home

OTHER PROFESSIONAL EXPERIENCE:

Chairman, Winsight, LLC, a business-to-business publishing company (2012-2017)

U.S. Ambassador to Sweden (2006-2009)

Member, The McCombs School of Business Advisory
Council (2014-Present)

Co-Founder and Chief Executive Officer, Hanley Wood
LLC, a business-to-business publishing company
(1976-2005)

San Antonio Chamber of Commerce Board of Directors
(Member 2014-2017; Chairman 2016-2017)

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OWNERSHIP OF KB HOME SECURITIES

The table below shows the amount and nature of our non-employee directors' and NEOs' respective beneficial ownership of our common stock as of February 15, 2019. Except as otherwise indicated below, the beneficial ownership is direct and each owner has sole voting and investment power with respect to the reported securities holdings.

Non-Employee Directors	Total Ownership ^(a)	Stock Options ^(b)	Restricted Stock ^(b)
Dorene C. Dominguez	8,133	—	—
Timothy W. Finchem	189,149	55,350	—
Dr. Stuart A. Gabriel	22,333	—	—
Dr. Thomas W. Gilligan	70,571	26,889	—
Kenneth M. Jastrow, II	158,100	55,350	—
Robert L. Johnson	162,534	93,343	—
Melissa Lora	230,874	66,570	—
James C. Weaver	10,000	—	—
Michael M. Wood	49,921	11,378	—
Named Executive Officers			
Jeffrey T. Mezger	3,949,134	3,075,859	—
Jeff J. Kaminski	458,359	328,387	8,637
Matthew W. Mandino	87,520	67,247	7,701
Albert Z. Praw	346,955	233,176	5,938
Brian J. Woram	623,655	481,885	5,578
All directors and executive officers as a group (14 people)	6,367,238	4,495,434	27,854

(a)
No non-employee director or NEO owns more than 1% of our outstanding common stock, except for Mr. Mezger, who owns 4.0%. All non-employee directors and executive officers as a group own 6.4% of our outstanding common stock. The total ownership amount reported for each non-employee director includes all equity-based compensation awarded to them for their service on the Board, encompassing shares of common stock, stock units and stock options. Dr. Gabriel, Ms. Lora, Mr. Wood and Mr. Kaminski each hold their respective vested shares of our common stock in family trusts over which they have shared voting and investment control with their respective spouses, excluding Ms. Lora's direct ownership of 2,043 shares

(b)
The reported stock option amounts are the shares of our common stock that can be acquired within 60 days of February 15, 2019. Non-employee director stock options were last granted in April 2014, as they ceased being a component of director compensation after that date. Some non-employee director stock options held by Mr. Johnson (37,993) and Ms. Lora (11,220) have 15-year terms. The remainder have ten-year terms. For non-employee directors who leave the Board due to retirement or disability (in each case as determined by the Compensation Committee), or death, their stock options will be exercisable for the options' respective remaining terms. Otherwise, non-employee director stock options must be exercised by the earlier of their respective terms or the first anniversary of a director's leaving the Board (for 15-year stock options), or the third anniversary of leaving the Board (for ten-year stock options). Based on the non-employee directors' respective elections, each non-employee director stock option represents a right to receive shares of our common stock equal in value to the positive difference between the option's stated exercise price and the fair market value of our common stock on an exercise date, and are therefore settled in a manner similar to stock appreciation rights. None held by current directors have been so settled. The total ownership

amount reported for each NEO includes their reported stock option and restricted common stock amounts.

The following table shows the beneficial ownership of each stockholder known to us to beneficially own more than five percent of our common stock. Except for the GSOT, the below information (including footnotes) is based solely on the stockholders' respective Schedule 13G or Schedule 13G/A filings with the SEC and reflect their respective determinations of their and/or their respective affiliates' and subsidiaries' ownership as of December 31, 2018. Some percentage ownership figures below have been rounded.

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Stockholder ^(a)	Total Ownership	Percent of Class
BlackRock, Inc. 55 East 52 nd Street, New York, NY 10055	10,436,619	11.8%
The Vanguard Group, Inc. 100 Vanguard Blvd., Malvern, PA 19355	8,345,583	9.4%
KB Home Grantor Stock Ownership Trust ^(b) Wells Fargo Retirement and Trust Executive Benefits, One West Fourth Street, Winston-Salem, NC 27101	8,157,235	8.6%
AQR Capital Management, LLC Two Greenwich Plaza, Greenwich, CT 06830	4,723,783	5.3%

(a)

The stockholders' respective voting and dispositive power with respect to their reported ownership is presented below, excluding the GSOT.

	Blackrock, Inc. ⁽ⁱ⁾	The Vanguard Group, Inc. ⁽ⁱⁱ⁾	AQR Capital Management, LLC ⁽ⁱⁱⁱ⁾
Sole voting power	10,238,927	104,018	—
Shared voting power	—	11,562	4,723,783
Sole dispositive power	10,436,619	8,238,376	—
Shared dispositive power	—	107,207	4,723,783

(i)

Blackrock, Inc. is a parent holding company. A BlackRock, Inc. subsidiary, BlackRock Fund Advisors, beneficially owned five percent or more of our outstanding shares.

(ii)

The Vanguard Group, Inc. is an investment adviser to various investment companies. Its subsidiaries, Vanguard Fiduciary Trust Company and Vanguard Investments Australia, Ltd., beneficially owned 95,645 and 19,935 shares, respectively.

(iii)

AQR Capital Management, LLC is an investment advisor to various investment companies. It shares the voting and dispositive power with respect to the reported shares with AQR Capital Management Holdings, LLC, a parent holding company at the same address.

(b)

The GSOT's percent of class figure is relative to the total number of shares of our common stock entitled to vote at the Annual Meeting, as described under "Annual Meeting Voting Matters and Other Information." The GSOT holds these shares pursuant to a trust agreement with Wells Fargo Bank, N.A. as trustee. Both the GSOT and the trustee disclaim beneficial ownership of the shares. Under the trust agreement, our employees who hold unexercised common stock options under our employee equity compensation plans determine the voting of the GSOT shares. Employees who are also directors cannot vote GSOT shares; therefore, Mr. Mezger cannot direct the vote of any GSOT shares. If all eligible employees submit voting instructions, our other NEOs can direct the vote of the following amounts of GSOT shares: Mr. Kaminski 841,439; Mr. Mandino 177,281; Mr. Praw 596,010; Mr. Woram

1,181,342; and all current executive officers as a group (excluding Mr. Mezger) 2,796,072.

STOCK OWNERSHIP REQUIREMENTS

Our non-employee directors and senior executives are subject to stock ownership requirements to better align their interests with those of our stockholders. Our Corporate Governance Principles require each of our non-employee directors to own at least five times the Board retainer (currently \$500,000) in value of our common stock or common stock equivalents by the fifth anniversary of joining the Board (the non-employee directors serving on the Board on October 9, 2014 must meet the ownership threshold by the fifth anniversary of that date). The executive stock ownership policy requires designated senior executives, including our NEOs, to own a certain number of shares within a specified period. The policy is discussed under “Equity Stock Ownership Policy.” Each of our non-employee directors and NEOs is in compliance with their respective policy requirements.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely on written representations furnished to us from reporting persons and our review of Forms 3, 4 and 5 and any amendments thereto furnished to us, we believe all such Forms required to be filed during 2018 under Section 16(a) of the Securities Exchange Act, as amended, were filed on a timely basis by our reporting persons.

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COMPENSATION DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND COMPENSATION HIGHLIGHTS

In our 2018 fiscal year, we produced strong financial and operational results, extending our considerable growth over the last three years.

RETURNS-FOCUSED GROWTH PLAN FINANCIAL RESULTS

Since 2016, we have implemented a Returns-Focused Growth Plan that is designed to generate higher revenues and improvement in our homebuilding operating income margin, return on invested capital, return on equity and leverage ratio, and to achieve certain financial targets for these metrics in 2019. Since first implementing the plan, we have made significant progress toward achieving our aggressive 2019 financial targets, as shown in the following table:

For the Year-Ended November 30,	2019 Targets	2018	2017	2016
Housing revenues	>\$5.0 billion	\$4.5 billion	\$4.3 billion	\$3.6 billion
Homebuilding operating income margin, excluding inventory-related charges	8.0% to 9.0%	8.3%	7.1%	5.7%
Return on invested capital*	>10.0%	10.4%	7.4%	5.2%
Return on equity*	10.0% to 15.0%	14.4%	10.0%	6.3%
Net debt to capital ratio**	35.0% to 45.0%	41.6%	45.4%	54.3%

*

The 2018 ratios exclude the impact of the above-described TCJA-related charge.

**

In the 2018 fourth quarter, we lowered our net debt to capital ratio target to a range of 35.0% to 45.0% from an original 2019 target range of 40.0% to 50.0%.

TOTAL STOCKHOLDER RETURN

Our annualized total stockholder return ("TSR"), including reinvestment of dividends, over the last three years, as set forth below, ranks at the top of our peer group:

	Annualized	2018	2017	2016
TSR	15.0%	-32.4%	98.9%	13.3%

We believe our significant progress towards achieving our Returns-Focused Growth Plan targets is reflected in our three-year TSR ranking at the top of our peer group. As with all of our peer group members, during a volatile year for our industry, our 2018 one-year TSR was negative. However, in the context of our business and its typical cycles, we generally consider longer-term measurement periods of TSR as more indicative of performance. Our five-year TSR performance exceeded the peer group median, and, as stated above, our three-year TSR performance placed us first in our peer group.

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PAY FOR PERFORMANCE – 2018 FISCAL YEAR CEO COMPENSATION

90% of our CEO’s 2018 compensation was performance-based and his base salary did not increase.

Our CEO’s annual incentive award of \$6.44 million was performance-driven, determined pursuant to a formula-based plan typical of several of our peers, and reflected our profitability growth and improved asset efficiency in 2018.

100% of our CEO’s long-term incentives were performance-based restricted stock units (“PSUs”).

Our CEO earned his three-year 2015 PSU award at 167% of target (as discussed under “2015 PSU Awards”), based on our achieving maximum results for two of the three performance measures (both as adjusted for the above-described TCJA-related charge).

LISTENING TO OUR STOCKHOLDERS

In 2018, we continued our longstanding practice of reaching out to our stockholders, including all of our 25 largest stockholders, and we directly engaged with holders representing over 50% of our outstanding shares ahead of our 2018 annual meeting.

In evaluating our executive compensation programs during 2018, the Compensation Committee considered the strong support stockholders have expressed through our annual NEO compensation advisory votes over the past few years for our approach to executive compensation, including a 91.5% level of approval at our 2018 annual meeting. As a result, for 2018, the Compensation Committee decided to retain the core components of our executive compensation programs and to apply the same general principles and philosophy as in the prior fiscal year in its executive compensation decisions. In our discussions, stockholders reacted favorably not only to our compensation programs, but also to the changes our Compensation Committee approved in 2017 regarding change in control provisions in our equity award agreements and its adoption in 2018 of an executive officer incentive compensation claw-back policy.

COMPENSATION GOVERNANCE

What We Do
Engage with and consider stockholder input in designing our executive pay programs.
Link annual NEO incentive pay to objective, pre-established financial performance goals, which are three-year goals for long-term incentives.
Grant all of our NEOs’ long-term incentives in performance-based restricted stock units.
Beginning with 2017 awards, employee equity award agreements require double-trigger vesting in a change in

What We Don't Do
No re-pricing or cash-out of underwater stock options without stockholder approval.
Prohibit our NEOs (and our other employees and non-employee directors) from hedging or pledging their holdings of our securities.
No new excise tax “gross-ups” for any officer or employee.
Restrict, without stockholder approval, new severance arrangements with executive officers, as described under

control.

Subject our executive officers to an incentive compensation claw-back policy.

Perform, under Compensation Committee oversight, annual risk assessments to determine that our employee compensation policies and programs are not likely to have a material adverse effect on us.

Engage, at the sole direction of the Compensation Committee, an independent compensation consultant.

Maintain robust stock ownership requirements for all NEOs.

Maintain a relevant industry peer group.

“Severance Arrangements.”

No payments of dividends or dividend equivalents on performance-based equity awards before they vest.

Avoid excessive perquisites.

Perquisites are generally limited to market-competitive medical benefits and the opportunity to participate in a deferred compensation plan.

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PAY PROGRAM OVERVIEW

The components of, and rationale for, each element of our executive compensation program are described in the table below.

Compensation Type	Description	Rationale
Base Salary	Fixed compensation delivered in cash on a semi-monthly basis.	A market-aligned component of the overall pay package to provide a baseline level of pay; key to attracting and retaining highly qualified executives.
Annual Incentive Program	Our NEOs' 2018 annual incentives were performance-based and formula-driven, focused on pretax income and asset efficiency measures.	Motivates achievement of core strategic short-term financial results.
Long-Term Incentive Program	PSUs constituted 100% of the total grant date fair value of the long-term incentives for our NEOs, similar to our 2017 grants.	Focuses executives on achievement of long-term results and encourages retention.
	2018 grants have three separate three-year performance measures: cumulative adjusted earnings per share, average adjusted return on invested capital, and revenue growth versus our peer group.	Establishes strong alignment with long-term stockholder interests through performance-based payouts in shares of our common stock.
	A 401(k) plan in which all eligible employees may participate.	Programs are aligned with market practices.
Retirement Programs and Perquisites	Legacy executive retirement and death benefit plans have been closed to new participants for over a decade.	Focuses executives on earning rewards through performance pay elements, not through entitlements.
	Market-competitive medical, dental and vision benefits and the opportunity to participate in a deferred compensation plan.	

As outlined above, we place a significant emphasis on at-risk, performance-based pay. As shown below, in 2018, our CEO received 90% of his total direct compensation (*i.e.*, value of base salary and annual and long-term incentives) in performance-based and/or at-risk vehicles. For our other NEOs, such vehicles made up, on average, over 80% of their total direct compensation.

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NEO COMPENSATION COMPONENTS

BASE SALARIES

The Compensation Committee annually reviews and approves the base salaries of our CEO and our other NEOs. The Compensation Committee approves NEO base salaries after considering several factors, including an NEO's experience, specific responsibilities, capabilities, individual performance and expected future contributions; our current and expected financial and operational results; and market pay levels and trends to ensure competitiveness. In July 2018, based on an evaluation of these factors, our growth trajectory and our CEO's recommendations, the Compensation Committee approved base salary increases for each NEO other than Mr. Mandino, who was promoted in June, and our CEO, who last received an increase in 2017, his first in 10 years.

2018 ANNUAL INCENTIVES

Our CEO's annual incentive award of \$6.44 million was performance-driven, determined pursuant to a formula-based plan typical of several of our peers, and reflected our profitability growth and improved asset efficiency in 2018.

Our annual incentive program is structured to drive performance within a single fiscal year period. As with our 2015 – 2017 programs, if we generated total adjusted pretax income ("API") of at least \$100 million, the 2018 program's formula-driven funding would be determined based on two components: (a) API performance relative to threshold and target goals set relative to then-expected market and business conditions in 2018; and (b) API performance relative to an asset efficiency measure. API is our total pretax income excluding certain compensation expense and certain inventory impairment and land option contract abandonment charges.

We view API as a comprehensive short-term measure of our senior officers' performance, as it reflects their ability to generate profits by growing revenues, managing expenses and controlling fixed costs. The combination of the API and asset efficiency measures was designed to motivate our senior officers to generate profitable growth in alignment with the goals of our Returns-Focused Growth Plan.

The 2018 target payout opportunities were set at 150% of base salary for our CEO, 120% for our COO and 100% for the remainder of our NEOs. As outlined in the Grants of Plan-Based Awards During Fiscal Year 2018 table, maximum payouts were limited to a multiple of target. The target and maximum annual incentive opportunities were designed to generate payout levels that, if achieved, would appropriately reward strong performance for 2018, and together with base salary and long-term incentives, provide competitive total direct compensation.

2018 ANNUAL INCENTIVE PROGRAM COMPONENT DETERMINATIONS

Because our 2018 API exceeded \$100 million, our NEOs became eligible to receive annual incentive payouts based on our performance under the 2018 program.

API Performance Relative to Goals Component

The Compensation Committee set a challenging API performance target of \$365.0 million, an increase over our actual 2017 API performance. Under the 2018 program, the Compensation Committee limited potential payouts under this component to no more than the NEOs' individual target amounts, even if our actual API exceeded the target performance level. This was done to ensure that our NEOs focused on advancing both program components — pretax income and asset efficiency — to be able to earn more than their target annual incentive amount under the program as a

whole.

We achieved API of \$449.9 million in 2018, which was a significant 26% year-over-year increase in API. As explained above and shown in the table below, this performance led to strictly formula-based payouts of 100% of target to our NEOs under the API performance component.

2018 API PERFORMANCE LEVELS AND PAYOUT SUMMARY

	Threshold	Target	Actual Result
API Performance Levels	\$273.8 million	\$365.0 million	\$449.9 million
API Performance Levels Relative to Target	75%	100%	123%
Payout Level Ratios	50%	100%	100%

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Our NEOs could earn annual incentive payouts above their respective individual target payout levels (but limited to each such officer's respective maximum payout level) only if and to the extent our API performance exceeded a minimum asset efficiency objective, as described below.

API Performance Relative to Asset Efficiency Component

Under this component, two percent of each dollar of API over our minimum asset efficiency objective, and three percent of each dollar of API above the level of 110% of that target, funded an additional annual incentive pool to be allocated among the participating officers. The Compensation Committee set the 2018 minimum asset efficiency objective at a one percent return on inventory for 2018, which was approximately \$34.2 million. With the difference between our API and the minimum asset efficiency objective equal to about \$415.7 million, the asset efficiency performance pool was funded at a total level of approximately \$8.8 million.

The Compensation Committee determined the allocation of the asset efficiency performance pool based on pre-established potential payout ranges (0% — 60% for our CEO; 0% — 12% for our other NEOs) that took into consideration each officer's 2018 annual incentive payout opportunities at threshold, target and maximum levels; historical relative annual incentive payouts by functional role; and competitive market pay information. In determining allocations of the pool to our NEOs, the Compensation Committee also considered each NEOs' individual performance contributions, which, other than for our CEO, were informed by our CEO's assessment of their performance, and established a corresponding individual performance factor ("IPF") within the above-described ranges. The Compensation Committee determined our CEO's award by also considering the CEO's leadership of our strategy and his significant contribution to the considerable growth of our business in 2018. The table below summarizes our NEOs' individual performance contributions.

NEO	2018 NEO Individual Performance Contributions	IPF
Mr. Mezger	Mr. Mezger provided outstanding leadership in driving performance against our Returns-Focused Growth Plan objectives in 2018. We grew pretax income by 27% and net income by 57%*, both compared to our 2017 results. Our debt to capital ratio of 49.7% was down 500 basis points from the prior year, and our return on equity increased 440 basis points to 14.4%*. Mr. Mezger also played a critical role in our rebranding and promoting KB Home as a leader in customer satisfaction, sustainability and innovation.	53.6%
Mr. Kaminski	Mr. Kaminski effectively managed our capital structure and strengthened our balance sheet with the 2018 retirement of \$300 million in aggregate principal amount of senior notes using internally generated cash, while funding \$35 million in stock repurchases and generating over \$220 million of net operating cash. He also drove progress on our Returns-Focused Growth Plan, as we achieved several 2019 targets in 2018.	10.3%
Mr. Mandino	As regional president, Mr. Mandino led a team that generated exceptional financial results in 2018. As COO, he directed our efforts to improve customer satisfaction, resulting in a 170 basis point year-over-year improvement in our overall customer satisfaction index score. In addition, he co-led our rebranding initiative, particularly focusing on operational enhancements and delivering a superior customer experience, and guided our Seattle division's opening, including land	12.0%

Mr. Praw	acquisitions for four communities during calendar year 2018.	8.0%
	Mr. Praw provided excellent leadership over our land investment and asset management functions, driving ~7,300 year-over-year increase in lots owned and controlled. He strategically managed ~\$1.9 billion of company-wide land-related investments in 2018, including the acquisition of the assets of a regional homebuilder in Jacksonville, Florida.	
Mr. Woram	Mr. Woram successfully managed litigation, claims and insurance matters, favorably resolving numerous issues and achieving insurance policy recoveries. He also ensured responsive and skillful support of land transactions for our divisions in furtherance of their growth objectives.	6.9%

*

These items exclude the impact of the \$112.5 million TCJA-related non-cash charge discussed above.

2018 ANNUAL INCENTIVE PROGRAM PAYOUT LEVELS AND ACTUAL PAYOUTS^(a)

NEO	API		Asset	Total
	Performance		Efficiency	
	Component Payout	Component Payout	Payout	
Mr. Mezger	\$ 1,725,000	\$ 4,718,082	\$ 6,443,082	
Mr. Kaminski	725,000	909,658	1,634,658	
Mr. Mandino	900,000	1,054,376	1,954,376	
Mr. Praw	605,000	705,557	1,310,557	
Mr. Woram	605,000	604,958	1,209,958	

(a)

Annex 2 to this Proxy Statement contains a reconciliation of our pretax income calculated in accordance with U.S. generally accepted accounting principles ("GAAP") to the non-GAAP financial measure of API.

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2019 ANNUAL INCENTIVE PROGRAM

The 2019 annual incentive program will be similar to our 2018 program, including a formula-driven funding structure determined by API and asset efficiency performance measures. The pre-established 2019 threshold and target performance levels are programatically in line with the prior year's levels based on expected market and business conditions for the year.

LONG-TERM INCENTIVES

In October 2018, the Compensation Committee approved long-term incentive awards to our NEOs consisting solely of PSUs to reinforce the alignment of pay with our performance and stockholder value creation. Prior to 2017, long-term incentive awards to our NEOs included stock options and, except for our CEO, shares of restricted common stock. Regardless of the mix of vehicles awarded, the overall grant date fair value of long-term incentive awards to our NEOs, other than Mr. Mandino, who is a new NEO, has been essentially flat over the past four years.

NEO LONG-TERM INCENTIVES GRANTED IN 2018

	PSUs #		PSUs \$
Mr. Mezger	173,536	\$	4,000,005
Mr. Kaminski	52,061		1,200,006
Mr. Mandino	75,922		1,750,002
Mr. Praw	35,792		825,006
Mr. Woram	33,623		775,010

PERFORMANCE-BASED RESTRICTED STOCK UNITS

We have granted PSUs to our executive officers each year since 2012. As with prior PSU grants, the PSUs granted in 2018 are designed to focus our executive officers on achieving important long-term financial objectives over a three-year period. The 2018 PSU measures described below are a combination of absolute and relative metrics that should generate positive outcomes for our business, are aligned with our Returns-Focused Growth Plan objectives, and, if achieved, are expected to be strong drivers of stockholder value creation.

PSU Measures	Weight	Purpose
Cumulative Adjusted Earnings Per Share ("AEPS")	40%	Measures profitability trajectory over the period
Average Adjusted Return on Invested Capital ("AROIC")	35%	Measures profitability relative to capital deployed
Revenue Growth Rank Versus Peers	25%	Measures top-line growth relative to peers

For our 2018 grants, we increased the weight of the AROIC measure from 20% to 35% to reflect our strategic emphasis on increasing our returns and to better align with stockholder interests.

The 2018 PSU amounts shown in the table above reflect a target award of shares of our common stock and their grant date fair value. Each 2018 PSU entitles a recipient to a grant of 0% to 200% of his target award depending on our performance relative to the above-noted performance measures over the three-year period of December 1, 2018 to November 30, 2021. The AEPS and AROIC measures' performance will be determined on a tax-effected basis that excludes only pre-specified categories of compensation expense; certain inventory impairment and land option contract abandonment charges; and other extraordinary items approved by the Compensation Committee. As with prior PSU grants, upon vesting, each 2018 PSU recipient is entitled to receive a proportionate amount of credited cash dividends that are paid in respect of one share of our common stock with a record date between the grant date and the date the Compensation Committee determines the applicable performance achievements, if any. Except for death, disability or certain retirement circumstances, a recipient will forfeit any rights to a 2018 PSU payout if the recipient terminates service before the date the Compensation Committee determines the applicable performance achievements.

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The following tables present our goals with respect to the 2016-2018 PSU performance measures. As shown below, the goals for both the AEPS and AROIC measures have increased year-over-year at each performance level, with more significant increases in 2018, reflecting our performance over recent years.

Performance Measure	PSU Grant Year	Threshold Goal	Target Goal	Maximum Goal
AEPS	2016	\$3.00	\$3.64	\$4.77
	2017	\$4.13	\$5.16	\$6.19
	2018	\$6.60	\$8.25	\$9.90
AROIC	2016	3.1%	3.6%	4.4%
	2017	3.3%	3.8%	4.6%
	2018	3.8%	4.8%	5.8%

The expanded relative revenue growth performance ranking scale shown below for the PSUs granted in 2016 and 2017 reflects an increase in the size of our peer group in 2016.

Performance Measure	2015 PSU Awards		2016 and 2017 PSU Awards	
	Performance (Rank)	Target Award Multiplier	Performance (Rank)	Target Award Multiplier
Relative Revenue Growth (Adjustments to ranking levels and multipliers will be made if there are changes in the peer group composition over time, per the terms of the PSUs)	1	200%	1 or 2	200%
	2	178%	3	178%
	3	156%	4	156%
	4	134%	5	134%
	5	113%	6	113%
	6	90%	7	90%
	7	67%	8	67%
	8	44%	9	44%
	9	21%	10	21%
	10 or 11	0%	11 or 12	0%

*

The rankings shown in the above tables reflect subsequent peer group merger activity.

For our 2018 grants, we adopted a percentile rank approach to determine the target award multiplier for the relative revenue growth measure as outlined in the table below.

	Performance (Rank)	Target Award Multiplier
Relative Revenue Growth	75 th Percentile or above	200%
	Between 50 th and 75 th Percentile	Interpolate between 100% — 200%
	50 th Percentile (Median)	100%
	Between 25 th and 50 th Percentile	Interpolate between 25% — 100%
	25 th Percentile	25%
	Below 25 th Percentile	0%

As with our annual incentive program, the Compensation Committee established the threshold performance levels outlined above to be reasonably achievable, yet uncertain to be met under expected market and business conditions at the time of grant. Target performance levels are designed to require significant management effort to achieve, and maximum performance levels are designed to be measurably more difficult to achieve than target performance levels. Each of these performance levels directly scale to threshold, target and maximum payout opportunities.

As vesting for the PSUs granted in 2016–2018 will not be determined until after their respective performance periods end, we cannot predict the extent to which any shares under these awards will ultimately vest.

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2015 PSU AWARDS

The PSUs granted to our executive officers in 2015 entitled recipients to a grant of 0% to 200% of a target award of shares of our common stock based on our AEPS performance, AROIC performance, and relative revenue growth performance (with the respective rankings and multipliers as shown in the above table) over the three-year period of December 1, 2015 to November 30, 2018. The applicable AEPS and AROIC performance measures and goals are set forth below.

2015 PSU Performance Measure	2015 PSU Performance Goals	2015 PSU Target Award Multiplier
	\$4.36 and above	200%
	\$3.31	100%
AEPS	\$2.73	25%
	Below \$2.73	0%
	4.3% and above	200%
	3.5%	100%
AROIC	3.0%	25%
	Below 3.0%	0%

2015 PSU AWARD DETERMINATIONS

Performance Measure	Average Annual Performance	Aggregate Total Performance	Target Award Multiplier
AEPS (50% weight)	N/A	\$6.46*	200%
AROIC (20% weight)	5.0%*	N/A	200%
Relative Revenue Growth (30% weight)	N/A	Sixth in the peer group	90%
	Weighted Cumulative Multiplier		167%

*

Annex 2 to this Proxy Statement contains a reconciliation of our net income and diluted earnings per share calculated in accordance with GAAP to the non-GAAP financial measures of adjusted net income and adjusted earnings per share used in computing AEPS and AROIC.

The cumulative AEPS performance result for the 2015 PSUs exceeded the challenging \$4.36 maximum goal level and reflected our emphasis on and success at growing our diluted earnings per share by 232% over a three-year period amid an improving housing market. Strong, consistent profitability and cumulative net income of more than \$456 million over this period contributed to a significant increase in our adjusted return on invested capital over the same three-year span, exceeding our maximum goal for this measure. The relative revenue growth performance for the 2015 PSUs reflected our 50% revenue growth over the applicable period, a result that placed us sixth within the peer group. During the performance period, two of the peer companies that were part of the original peer group for this performance measure ceased to exist due to multiple mergers. Our ranking in the table above reflects our position at the end of the performance period among the post-mergers peer group, consistent with the terms of the 2015 PSUs,

and based on the relative revenue growth performance rank-to-target award multiplier table above. All of these outcomes were uncertain at the time the 2015 PSUs were granted, and the Compensation Committee determined that they required significant management effort to achieve and sustain through the entirety of the performance period.

On February 14, 2019, the Compensation Committee certified the performance we achieved for the period ending November 30, 2018 and approved share grants with respect to the 2015 PSUs as set forth in the table below. Mr. Mandino was not a participant in the 2015 PSU program.

2015 PSU AWARDS

NEO	Target Award(#)	Actual Award(#)
Mr. Mezger	133,000	222,110
Mr. Kaminski	14,000	23,380
Mr. Praw	10,000	16,700
Mr. Woram	10,000	16,700

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EXECUTIVE COMPENSATION DECISION-MAKING PROCESS AND POLICIES

The Compensation Committee oversees the decision-making process for our executive compensation and benefits policies and programs. In making executive compensation decisions, the Compensation Committee considers a variety of factors and data, most importantly our performance and individual executives' performance, and the totality of compensation that may be paid. Among the data the Compensation Committee considers are financial and operational performance metrics for us, including comparisons to prior years' performance and our current business plans and to our peer group; surveys and forecasts of comparative general industry and peer group compensation and benefits practices; and, at least annually, management-prepared tally sheets for senior executives with up to six years of compensation data.

ROLE OF OUR MANAGEMENT AND COMPENSATION CONSULTANTS

Our CEO and senior human resources and legal department executives and FWC provide information and recommendations to assist the Compensation Committee's decision-making, and also advise on compliance and disclosure requirements. FWC, which the Compensation Committee directly retains, attends Compensation Committee meetings as needed. To maintain its independence and avoid any conflicts of interest, FWC may not work directly for our management unless the Compensation Committee pre-approves the work, including fees. During 2018, FWC did not provide any services that would have required such pre-approval. Based on its consideration of factors under New York Stock Exchange ("NYSE") listing standards, the Compensation Committee determined that FWC's work did not raise any conflicts of interest, and therefore considered FWC to be independent.

PEER GROUP

Our peer group is composed solely of public companies that, like us, are engaged in high production homebuilding as their primary business. We compete with all of these companies for both homebuyers and management talent. The competition with these companies for human resources reflects our, and their, need to attract and retain high caliber management and other personnel with strong high production homebuilding expertise and experience to execute business activities nationally as well as in specific local markets. Therefore, a principal focus in designing our compensation and benefits programs is to meet this critical competitive need.

The Compensation Committee, in consultation with FWC and our management, periodically reviews and considers changes to our peer group. The Compensation Committee principally considers the competitive factors described above, as well as relative total revenues and market capitalization among the peer group companies. The Compensation Committee last adjusted our peer group during 2016, the members of which are shown below (exclusive of peers since acquired by other peers). As of their most recently filed proxy statements before the date of this Proxy Statement, each member of our peer group included us in its own peer group.

OUR PEER GROUP

Beazer Homes USA, Inc.

D.R. Horton, Inc.

Hovnanian Enterprises, Inc.

Lennar Corporation

M.D.C. Holdings, Inc.

Meritage Homes Corporation

NVR, Inc.

PulteGroup, Inc.

Taylor Morrison Home Corporation

Toll Brothers, Inc.

TRI Pointe Group, Inc.

As of December 31, 2018, the reported total revenues (on a trailing 12-month basis) of the companies in our peer group were within a range of approximately 0.4 to 4.5 times our total revenues, and our total revenues approximated the median of the peer group. Also, as of December 31, 2018, the market capitalization of our peer group was within a range of approximately 0.1 to 6.8 times our market capitalization, and our market capitalization approximated the median of the peer group.

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EQUITY STOCK OWNERSHIP POLICY

Our longstanding executive stock ownership policy is intended to encourage, and has encouraged, our executives to increase their ownership of our common stock over time and to align their interests with our stockholders' interests. Under the policy, designated senior executives are expected to achieve specific levels of common stock ownership within five years of joining us or being promoted to a position with a higher ownership guideline and, once achieved, maintain such ownership throughout their employment with us. The targeted common stock ownership levels for our NEOs are as follows:

Executive	Ownership Guideline
Mr. Mezger	6.0 times base salary
Mr. Mandino	3.0 times base salary
Messrs. Kaminski, Praw and Woram	2.0 times base salary

Common stock ownership includes shares directly owned by the NEO, and shares are valued at the greater of the most recent closing price on a valuation date and the closing price on the date shares are acquired. Designated executives are required to hold all vested net (after-tax) shares of time-vesting and performance-vesting restricted stock and up to 100% of net shares acquired through stock option exercises until their applicable stock ownership guideline is met, absent a hardship or other qualified exception. Each of our NEOs is in compliance with the requirements of the policy.

PROHIBITION ON HEDGING/PLEDGING OF OUR SECURITIES

To further align their interests with those of our stockholders, our employees and non-employee directors cannot engage in short sales of our securities and cannot buy or sell puts, calls or any other financial instruments that are designed to hedge or offset decreases or increases in the value of our securities (including derivatives, prepaid variable forward contracts, equity swaps, collars and exchange funds). They also cannot hold our securities in a margin account or otherwise pledge our securities as collateral for any loan.

EQUITY-BASED AWARD GRANT POLICY

Our equity-based award grant policy governs the timing and establishes certain internal controls over the grant of equity-based awards, including stock options, restricted stock and PSUs. The policy requires that the Compensation Committee (or the Board) approve all grants of equity-based awards and their terms, and does not permit delegation of this authority to our management. Per the policy, the exercise or grant price of any relevant equity-based award cannot be less than the closing price of our common stock on the grant date.

CLAW-BACK POLICY

The Board adopted a policy in January 2018 to recoup compensation if our financial statements must be restated due to an executive officer's intentional misconduct or grossly negligent conduct. Under the policy, the Board (or a designated committee) can, to the extent permitted by applicable law (including California law), require an officer to reimburse or forfeit to us the excess bonus or incentive compensation (whether cash- or equity-based) such officer received during the three fiscal years preceding the year the restatement is determined to be required relative to an applicable restated performance measure or target. In addition, our CEO must repay certain bonus and incentive- or equity-based compensation he receives if we are required to restate our financial statements as a result of his misconduct consistent with Section 304 of the Sarbanes-Oxley Act of 2002. We will also recoup incentive-based compensation from our NEOs to the extent required under the Dodd-Frank Act and any rules issued under that Act.

TAX IMPLICATIONS OF OUR EXECUTIVE COMPENSATION PROGRAM

In past years, including for our 2018 fiscal year, we have generally designed our incentive compensation plans in order to maintain federal tax deductibility for executive compensation under Section 162(m) of the Internal Revenue Code (“Code”), and the Compensation Committee considered the potential Section 162(m) impact when

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approving the compensation paid to our NEOs. Prior to the TCJA, Section 162(m) generally disallowed a tax deduction for compensation over \$1.0 million paid to certain executive officers unless it qualified as performance-based compensation. The TCJA effectively repealed the exemption for performance-based compensation with respect to tax years beginning after December 31, 2017, other than for arrangements in place on November 2, 2017 that are not later modified in any material respect. As such, with respect to our 2019 fiscal year, we will not be able to deduct compensation above \$1.0 million awarded to certain of our executive officers. While we intend for our 2018 annual incentives and PSU grants made prior to November 2, 2017 to qualify for deductibility under Section 162(m), we cannot guarantee that any compensation intended to be deductible under Section 162(m) will qualify as such. In addition, the Compensation Committee will approve compensation that may not be deductible under Section 162(m) where it believes it is in our and our stockholders' best interests to do so.

INDEMNIFICATION AGREEMENTS

We have entered into agreements with each NEO and certain other senior executives that provide them with indemnification and advancement of expenses to supplement what our Certificate of Incorporation and insurance policies provide, subject to certain limitations.

SEVERANCE, CHANGE IN CONTROL AND POST-TERMINATION ARRANGEMENTS

SEVERANCE ARRANGEMENTS

Mr. Mezger's Employment Agreement and our Executive Severance Plan, in which all of our NEOs participate, provide certain severance benefits, as discussed under "Potential Payments Upon Termination of Employment or Change in Control." In considering our stockholders' approval of an advisory proposal, in 2008 we adopted a policy under which we will obtain stockholder approval before paying severance benefits to an executive officer under a future severance arrangement in excess of 2.99 times the sum of the executive officer's then-current base salary and target bonus. Future severance arrangements do not include arrangements existing when we adopted the policy or that we assume or acquire unless, in each case, any such arrangement is changed in a manner that materially increases its severance benefits.

CHANGE IN CONTROL ARRANGEMENTS

Since 2001, we have maintained but have not modified the terms of a Change in Control Severance Plan ("CIC Plan") that provides participants with certain benefits and accelerated equity award vesting, as discussed under "Potential Payments Upon Termination of Employment or Change in Control." The CIC Plan is intended to enable and encourage our management to focus its attention on obtaining the best possible result for our stockholders in a change in control, to promote management continuity, and to provide income protection if there is an involuntary loss of employment. Beginning with 2017 awards, employee equity award agreements require double-trigger vesting in a change in control.

DEATH BENEFITS

Our Death Benefit Only Plan, in which Messrs. Mezger and Praw participate, provides a \$1.0 million death benefit to a participant's designated beneficiary (plus an additional tax restoration amount sufficient to pay taxes on the benefit and the additional amount). We closed the plan to new participants beginning in 2006. Only term life insurance, with a \$750,000 benefit level, has been made available to incoming eligible executives, including Messrs. Kaminski, Mandino and Woram. We also maintain a \$400,000 life insurance death benefit for designated beneficiaries of Mr. Mezger.

OTHER BENEFITS

The majority of our health and welfare benefits are made available to all full-time employees, including our NEOs. During 2018, as in prior years, our NEOs were eligible to participate in a supplemental plan that reimburses them for qualified out-of-pocket expenses that exceed amounts payable under our standard medical, dental and vision plans. Certain of our NEOs, and other employees, also participate in our unfunded nonqualified Deferred Compensation Plan (“DCP”). These market-competitive benefits are offered to attract and retain key executive talent.

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RETIREMENT PROGRAMS

The 401(k) Plan, a qualified defined contribution plan, is the only post-employment benefit program we offer to all full-time employees. We provide a dollar-for-dollar match of 401(k) Plan and DCP contributions on up to an aggregate of 6% of a participant's base salary. Matching contributions generally vest after five years of service.

The DCP allows participants to make pretax contributions of up to 75% of their base salary and 75% of their annual incentive compensation, and to select from one or more investment options in which their deferred compensation is deemed to be invested. As we do not provide a guaranteed rate of return under the DCP, a participant's credited earnings depend on their investment elections. Deferred amounts together with any credited investment returns under the DCP are paid out to participants in a lump sum or in installments, commencing either at a participant-specified date during employment or upon termination of employment, subject to certain limitations. NEO deferrals under the DCP are shown in the Non-Qualified Deferred Compensation During Fiscal Year 2018 table.

We also maintain a supplemental non-qualified, unfunded retirement plan ("Retirement Plan") for certain executives, including Mr. Mezger, whose participation is shown in the Pension Benefits During Fiscal Year 2018 table. The Retirement Plan, closed to new participants since 2004 with no additional benefit accruals to participants (other than cost-of-living adjustments at the same level applied to federal social security benefits), provides each participant with specific annual payments for 20 years that begin upon the later of reaching age 55, the tenth anniversary of a participation commencement date or the termination of employment with us. Mr. Mezger's original annual benefit amount under the Retirement Plan was \$450,000.

MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE REPORT

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

Management Development and Compensation Committee

Kenneth M. Jastrow, II, Chair
Timothy W. Finchem
Robert L. Johnson
Melissa Lora
James C. Weaver

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EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary (\$) ^(a)	Bonus (\$)	Stock Awards (\$) ^(b)	Option Awards (\$) ^(b)	Non-Equity Incentive Plan Compensation (\$) ^(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ^(d)	All Other Compensation (\$) ^(e)	Total (\$)
Jeffrey T. Mezger	2018	\$ 1,150,000	\$ —	\$ 4,000,005	\$ —	\$ 6,443,082	\$ —	\$ 79,810	\$ 11,672,897
	2017	1,062,500	—	3,999,994	—	4,378,425	428,586	75,008	9,944,513
Chairman, President and Chief Executive Officer	2016	1,000,000	—	2,400,004	1,600,001	3,771,237	115,539	70,078	8,956,859
Jeff J. Kaminski	2018	710,417	—	1,200,006	—	1,634,658	—	58,242	3,603,323
	2017	688,333	—	1,200,003	—	1,473,366	—	56,048	3,417,750
Executive Vice President and Chief Financial Officer Mathew W. Mandino	2016	671,250	—	719,999	480,003	1,100,285	—	52,893	3,024,430
Executive Vice President and Chief Operating Officer	2018	580,000	—	1,750,002	—	2,216,001	—	491,976	5,037,979
Albert Z. Praw	2018	593,333	—	825,006	—	1,310,557	—	50,644	2,779,540
	2017	573,333	—	824,993	—	1,169,946	—	48,740	2,617,012
Executive Vice President, Real Estate	2016	556,250	—	495,005	330,001	951,323	—	45,585	2,378,164

and Business
Development

Brian J.	2018	593,333	—	775,010	—	1,209,958	—	51,567	2,629,868
Woram	2017	576,250	—	774,995	—	1,169,946	—	49,518	2,570,709

Executive
Vice President
and General
Counsel

2016	564,167	—	464,984	310,000	913,869	—	46,468	2,299,488
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(a)

Salary. As discussed under “Base Salaries,” except for Mr. Mezger and Mr. Mandino, NEO annual base salary levels were increased in July 2018 to the following amounts: Mr. Kaminski \$725,000; Mr. Praw \$605,000; and Mr. Woram \$605,000. Mr. Mandino was appointed to his position on June 1, 2018 with a base salary of \$750,000. Mr. Mezger’s salary was increased to \$1,150,000 on July 1, 2017.

(b)

Stock Awards and Option Awards. These amounts represent the aggregate grant date fair value of stock awards (consisting of only PSUs in 2018 and 2017, and both restricted stock and PSUs in 2016) and common stock options (for those granted in 2016) computed as described in Note 19 — Employee Benefit and Stock Plans in the Notes to the Consolidated Financial Statements in our Annual Report, except that estimates of forfeitures related to service-based vesting conditions have been disregarded. They do not represent realized compensation. The 2018 stock awards represent the grant date fair value of the probable award of shares of our common stock underlying the PSUs granted. The grant date fair value of the PSUs if maximum performance is achieved is as follows: Mr. Mezger \$8,000,010; Mr. Kaminski \$2,400,012; Mr. Mandino \$3,500,004; Mr. Praw \$1,650,012; and Mr. Woram \$1,550,020.

(c)

Non-Equity Incentive Plan Compensation. For Mr. Mandino, the amount reflects the sum of his \$1,954,376 annual incentive for 2018 and his \$261,625 payout of the performance cash award granted to him in 2015, prior to his promotion to COO. For all other NEOs, the amounts reflect only their annual incentive payouts.

(d)

Change in Pension Value and Nonqualified Deferred Compensation Earnings. These amounts (as applicable) reflect the increase in the actuarial present value of accumulated benefits under our Retirement Plan. These changes are tied to interest rate fluctuations and do not reflect any cash or other compensation received by Mr. Mezger. The amounts attributed to the change in actuarial present value in 2018, 2017 and 2016 were \$(516,726), \$428,586 and \$115,539, respectively.

(e)

All Other Compensation. The amounts shown consist of minimal incremental costs associated with spousal travel expenses in connection with a business-related event for each NEO and the following items:

401(k) Plan and DCP Matching Contributions. The respective aggregate 2018, 2017 and 2016 401(k) Plan and DCP matching contributions we made to our NEOs were as follows: Mr. Mezger \$62,500, \$58,700 and \$55,900; Mr. Kaminski \$42,625, \$41,300 and \$40,275; Mr. Mandino \$15,883; Mr. Praw \$35,600, \$34,400 and \$33,375; and Mr. Woram \$35,600, \$34,575 and \$33,850.

Premium Payments. The respective aggregate premiums we paid for our NEOs in 2018, 2017 and 2016 for a supplemental medical expense reimbursement plan and life insurance policies, as described under “Other Benefits,” were as follows: Mr. Mezger \$14,651, \$14,742 and \$14,178; Mr. Kaminski \$13,101, \$13,182 and \$12,618; Mr. Mandino \$13,091; Mr. Praw \$12,683, \$12,774 and \$12,210; and Mr. Woram \$13,091, \$13,182 and \$12,618.

Relocation Assistance. In our 2018 fiscal year, Mr. Mandino received \$460,441 in relocation-related payments or reimbursements to cover various moving expenses, temporary housing and any personal tax liability associated therewith in connection with his promotion to COO and move from Colorado to California.

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GRANTS OF PLAN-BASED AWARDS DURING FISCAL YEAR 2018

Name	Grant Date ^(a)	Type of Award	Estimated Possible Payouts Under Non-Equity			Estimated Possible Payouts Under Equity Incentive Plan Awards ^(c)			Grant Date
			Incentive Plan Awards ^(b)						Fair
			Threshold	Target	Maximum	Threshold	Target	Maximum	Value of Stock
			(\$)	(\$)	(\$)	(#)	(#)	(#)	and Option Awards (\$) ^(d)

Mr. Mezger	2/15/2018	Annual Incentive	\$ 862,500	\$ 1,725,000	\$ 6,900,000				
	10/4/2018	PSUs				75,922	173,536	347,072	\$ 4,000,005
Mr. Kaminski	2/15/2018	Annual Incentive	362,500	725,000	2,175,000				
	10/4/2018	PSUs				22,777	52,061	104,122	1,200,006
Mr. Mandino	5/21/2018	Annual Incentive	450,000	900,000	2,700,000				
	10/4/2018	PSUs				33,216	75,922	151,844	1,750,002
Mr. Praw	2/15/2018	Annual Incentive	302,500	605,000	1,815,000				
	10/4/2018	PSUs				15,659	35,792	71,584	825,006
Mr. Woram	2/15/2018	Annual Incentive	302,500	605,000	1,210,000				
	10/4/2018	PSUs				14,710	33,623	67,246	775,010

(a)

Grant Date. The date the Compensation Committee approved each award.

(b)

Estimated Possible Payouts Under Non-Equity Incentive Plan Awards. The 2018 target payouts were set at 150% of base salary for our CEO and at 100% — 120% of base salary for each of our other NEOs. Maximum payouts were limited to a multiple of target, with our CEO at four times, our CFO, COO and EVP, Real Estate and Business Development at three times and our EVP and General Counsel at two times. “Threshold” represents the lowest possible payout if threshold performance is achieved for each performance measure. The performance measures are described under “2018 Annual Incentives.”

(c)

Estimated Possible Payouts Under Equity Incentive Plan Awards. If there is a payout of the PSUs, “Threshold” represents the lowest possible payout if threshold performance is achieved for each performance measure, and “Maximum” reflects the highest possible payout (200% of the target award of shares granted). The performance measures are described under “Performance-Based Restricted Stock Units.” If threshold performance is not achieved on all three measures, the NEOs will not receive any payout of the PSUs.

(d)

Grant Date Fair Value of Stock and Option Awards. The grant date fair value for each award is computed as described in footnote (b) to the Summary Compensation Table. The 2018 stock awards represent the grant date fair value of the probable award of shares of our common stock underlying the PSUs granted as of the grant date.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2018

Name	Grant Date	Option Awards					Stock Awards		
		Equity							
		Incentive							
		Plan Awards:							
		Number of	Number of				Number of	Market	Incentiv
		Securities	Securities				Shares or	Value	A
		Underlying	Underlying	Number of	Option		Units of	of Shares or	Num
		Unexercised	Unexercised	Securities	Exercise	Option	Stock That	Units of	Un
		Options	Options	Underlying	Price	Expiration	Have Not	Stock	Shares, U
		Exercisable	Unexercisable	Unexercised	(\$)	Date	Vested	That Have	Other
		(#)	(#)(a)	Unearned			(#)(b)	Not	That Hav
				Options				Vested	v
				(#)				(\$)(c)	
Mr. Mezger	10/22/2004	80,750			\$ 40.90	10/22/2019			
	10/22/2004	119,250			40.90	10/22/2019			
	10/1/2009	489,258			15.44	10/1/2019			
	10/7/2010	240,000			11.06	10/7/2020			
	10/7/2010	260,000			11.06	10/7/2020			
	10/6/2011	335,000			6.32	10/6/2021			
	10/6/2011	365,000			6.32	10/6/2021			
	10/10/2013	150,000			16.63	10/10/2023			
	10/9/2014	520,300			14.62	10/9/2024			
	10/8/2015	333,000			14.92	10/8/2025			
	10/8/2015						222,110	\$ 4,688,742	
	10/6/2016	183,301	91,651		16.21	10/6/2026			
	10/6/2016								14
	10/5/2017								15
	10/4/2018								17
Mr. Kaminski	10/10/2013	50,000			16.63	10/10/2023			
	10/9/2014	108,396			14.62	10/9/2024			
	10/8/2015	115,000			14.92	10/8/2025			
	10/8/2015						23,380	493,552	

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	10/6/2016	54,991	27,495	16.21	10/6/2026		
	10/6/2016					8,637	182,327
	10/5/2017						
	10/4/2018						
	1/26/2012	15,000		9.70	1/26/2022		
	10/10/2013	8,000		16.63	10/10/2023		
Mr.	10/9/2014	14,781		14.62	10/9/2024		
Mandino	10/8/2015	14,000		14.92	10/8/2025		
	10/6/2016	15,466	7,733	16.21	10/6/2026	1,851	39,075
	10/5/2017					5,850	123,494
	10/4/2018						
	10/10/2013	39,000		16.63	10/10/2023		
	10/9/2014	76,370		14.62	10/9/2024		
	10/8/2015	80,000		14.92	10/8/2025		
Mr. Praw	10/8/2015					16,700	352,537
	10/6/2016	37,806	18,903	16.21	10/6/2026		
	10/6/2016					5,938	125,351
	10/5/2017						
	10/4/2018						

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Option Awards							Stock Awards		
Name	Grant Date	Equity					Equity		
		Incentive Plan Awards:					Incentive Awards		
		Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#) ^(a)	Number of Securities Underlying Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) ^(b)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ^(c)	Incentive Award Number Other Restricted Stock That Have Not Vested
Mr. Woram	7/15/2010	30,000			\$ 11.26	7/15/2020			
	10/7/2010	111,000			11.06	10/7/2020			
	10/6/2011	110,000			6.32	10/6/2021			
	10/10/2013	39,000			16.63	10/10/2023			
	10/9/2014	76,370			14.62	10/9/2024			
	10/8/2015	80,000			14.92	10/8/2025			
	10/8/2015						16,700	\$ 352,537	
	10/6/2016	35,515	17,757		16.21	10/6/2026			
	10/6/2016						5,578	117,752	11
	10/5/2017								30
	10/4/2018								33

(a)

Number of Securities Underlying Unexercised Options-Unexercisable. Stock option awards generally vest in equal installments (pro rata) over a three-year period.

(b)

Number of Shares or Units of Stock That Have Not Vested. Includes restricted stock grants and the shares of our common stock granted by the Compensation Committee approved for grant on February 14, 2019 pursuant to the 2015 PSUs based on our performance through the performance period, as described under “2015 PSU Awards.” Upon the shares being approved for grant to the recipients, the restricted stock awards became fully vested, with no restrictions on transferability or otherwise. The restricted stock awards vest in annual installments, subject to the recipients being employed through each vesting date.

(c)

Market Value of Shares That Have Not Vested. The market value shown is based on the closing price of our common stock on November 30, 2018, which was \$21.11.

(d)

Equity Incentive Plan Awards: Number and Market Value of Unearned Units. The awards shown are the PSUs granted to our employees in 2017 and 2018, reflecting target award amounts as of November 30, 2018 and the closing price of our common stock on November 30, 2018, which was \$21.11. These PSUs will vest based on our achievement of certain performance measures over an applicable three-year performance period and subject to the recipients being employed through the date that the Compensation Committee determines the number of shares that were earned pursuant to the PSUs.

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OPTION EXERCISES AND STOCK VESTED DURING FISCAL YEAR 2018

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized	Number of Shares	Value Realized
	Acquired on Exercise	on Exercise	Acquired on Vesting	on Vesting
	(#)	(\$) ^(a)	Vesting (#) ^(b)	(\$) ^(c)
Mr. Mezger	397,818	\$ 1,479,083	222,110	\$ 5,112,972
Mr. Kaminski	125,000	3,275,838	40,016	867,434
Mr. Mandino	—	—	5,775	114,288
Mr. Praw	—	—	28,637	620,667
Mr. Woram	—	—	28,277	613,543

(a)

The value realized on exercise is the difference between the closing price of our common stock at exercise and the exercise price of each award.

(b)

The shares reported are the total number of shares each NEO acquired upon the following vesting events with respect to 2018:

Name	2015 PSUs		Restricted Stock		Restricted Stock		Restricted Stock		Total
	Granted on	Vested on	Granted on	Vested on	Granted on	Vested on	Granted on	Vested on	
	October 8, 2015	February 14, 2019	October 8, 2015	October 25, 2018	October 6, 2016	October 25, 2018	October 5, 2017	October 25, 2018	
Mr. Mezger	133,000	222,110	—	—	—	—	—	—	222,110
Mr. Kaminski	14,000	23,380	24,000	8,000	25,910	8,636	—	—	40,016
Mr. Mandino	—	—	3,000	1,000	5,552	1,850	8,775	2,925	5,775
Mr. Praw	10,000	16,700	18,000	6,000	17,813	5,937	—	—	28,637
Mr. Woram	10,000	16,700	18,000	6,000	16,733	5,577	—	—	28,277

(c)

The amount shown is the total gross dollar value realized upon the vesting of the restricted stock and PSUs, based on the closing price of our common stock on the vesting dates, and the applicable Dividend Equivalents paid on the earned PSUs.

PENSION BENEFITS DURING FISCAL YEAR 2018

Name*	Plan Name	Number of Years	Present Value of	Payments During
-------	-----------	-----------------	------------------	-----------------

		Credited Service	Accumulated Benefit	Last Fiscal Year
		(#) ^(a)	(\$) ^(b)	(\$)
Mr. Mezger	Retirement Plan	25	\$ 10,074,133	\$ —

(a)

Number of Years of Credited Service. This is as of the valuation date. As of November 30, 2018, Mr. Mezger is fully vested in his Retirement Plan benefit.

(b)

Present Value of Accumulated Benefit. This amount represents the actuarial present value of the total retirement benefit that would be payable to Mr. Mezger under the Retirement Plan as of November 30, 2018. The payment of Retirement Plan benefits is described under “Retirement Programs.” The following key actuarial assumptions and methodologies were used to calculate this present value: the base benefit is assumed to begin as of the earliest possible date (generally the later of age 55 or the tenth anniversary of the commencement of participation); the base benefit is adjusted by past and future cost of living adjustments including a 2.8% increase for fiscal year ending November 30, 2019 and an assumed 2.5% increase thereafter, until the last benefits are paid. The discount rate used to calculate the present value of the accumulated benefit shown in table was 4.11%. Mr. Mezger is entitled to receive a lump sum payment of the actuarial value (as specified under the Retirement Plan) of his plan benefits in the event of a change in control or death. If any such event occurred on November 30, 2018, the payment to Mr. Mezger would be \$10,938,551, using a 3.22% Applicable Federal Rate discount rate, as specified under the Retirement Plan.

*

Messrs. Kaminski, Mandino, Praw and Woram are not participants in the Retirement Plan, as the plan was open for a limited period and closed to new participants in 2004.

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NON-QUALIFIED DEFERRED COMPENSATION DURING FISCAL YEAR 2018

Name	Executive Contributions	Registrant Contributions	Aggregate Earnings	Aggregate Withdrawals/ Distributions	Aggregate Balance at
	in Last Fiscal Year	in Last Fiscal Year	Last Fiscal Year		Last Fiscal Year End
	(\$) ^(a)	(\$) ^(b)	(\$) ^(c)	(\$)	(\$) ^(d)
Mr. Mezger	\$ 46,000	\$ 46,000	\$ 98,253	\$ —	2,305,347
Mr. Kaminski	42,625	26,125	2,658	—	475,622
Mr. Mandino	—	—	—	—	—
Mr. Praw	35,600	19,100	10,313	—	341,030
Mr. Woram	35,600	19,100	10,229	—	521,025

(a)

Executive Contributions in Last Fiscal Year. These amounts reflect compensation the NEOs earned in 2018 that they have voluntarily deferred. The amounts are included in the Summary Compensation Table.

(b)

Registrant Contributions in Last Fiscal Year. These amounts are matching contributions we made to the NEOs' voluntary contributions to our DCP and are included in the Summary Compensation Table. The DCP is discussed under "Retirement Programs."

(c)

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

(d)

Aggregate Balance at Last Fiscal Year End. These amounts reflect compensation the NEOs earned in 2018 or in prior years, but which they voluntarily elected to defer receipt, adjusted for changes in the value of their investments and distributions, if any. All the NEOs are fully vested in their respective balances. A portion of these amounts was previously reported as deferred compensation in the Summary Compensation Tables in our proxy statements for our 2016 and 2017 annual meetings.

CEO PAY RATIO

As required by applicable law, we are providing the following disclosure about the relationship of Mr. Mezger's annual total compensation in 2018 to that of our median employee. This information is being provided for compliance purposes only and is not used in making compensation decisions.

The annual total compensation of our median employee (excluding Mr. Mezger for the purpose of determining our median employee) was \$86,443.

Mr. Mezger's annual total compensation, as reported in the Total column of the 2018 Summary Compensation Table, was \$11,672,897.

Based on this information, the ratio of Mr. Mezger's annual total compensation to that of our identified median employee is 135 to 1.

Identification of our Median Employee. We selected November 30, 2018 as the determination date on which we identified our median employee. As of that date, we had approximately 2,016 full-time and part-time employees. To identify the median employee, we used W-2 compensation for all employees other than Mr. Mezger paid in the 12-month period ended November 30, 2018. We excluded from the calculation two employees on extended leaves of absence who did not work during the period. We then determined the median employee's total compensation as required under SEC rules, which is the same calculation used to determine our NEOs' total compensation as reflected in the Summary Compensation Table.

Because the SEC's rules governing the identification of the median compensated employee and the pay ratio calculation based on that compensation allow companies to use a variety of methodologies, to apply certain exclusions and to make estimates and assumptions for their particular circumstances, the pay ratio reported by other companies — including those in our peer group — may not be comparable to the foregoing pay ratio. For instance, other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

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POTENTIAL PAYMENTS UPON TERMINATION OF EMPLOYMENT OR CHANGE IN CONTROL

Based on the terms of certain of our employee benefit plans — primarily our Executive Severance Plan and our CIC Plan — our NEOs are entitled to certain payments and other benefits if their employment is terminated under certain circumstances and/or if we experience a change in control. Mr. Mezger is also entitled to certain payments and other benefits in such circumstances under the terms of his Employment Agreement. Per Section 409A of the Code, certain payments to our NEOs would not commence for six months following a termination of employment.

TERMINATION OF EMPLOYMENT

If we terminate Mr. Mezger without cause or he resigns for good reason (each as defined in his Employment Agreement), or if we terminate any of the other NEOs without cause (as defined in the Executive Severance Plan), each is entitled to receive a cash severance payment equal to a multiple of base salary and average bonus. For Mr. Mezger, the severance amount is 2.0 times the sum of his annual salary plus average annual bonus earned for the prior three years, with the total payment capped at \$6.0 million. Under certain circumstances, Mr. Mezger would also receive a prorated bonus for the year in which his employment terminates. For Messrs. Kaminski, Mandino, Praw and Woram, the severance amount is 2.0 times the sum of their respective annual base salary in effect at the time of termination and average bonus. The applicable average bonus is the lesser of (a) the average of the annual cash bonuses, if any, paid to them for the three most recent completed fiscal years prior to termination; or (b) 3.0 times their annual base salary. In addition to a severance payment, each NEO is entitled to a continuation of health coverage for up to two years. In each case, the foregoing benefits are subject to an affected NEO's executing a release and post-termination non-solicitation (for two years), non-disparagement and confidentiality obligations.

For equity awards granted to Mr. Mezger on and after the effective date of his Employment Agreement, he is entitled to (a) two years of additional service credited to compute equity vesting plus full vesting for any equity issued to him in lieu of cash bonuses; (b) the earlier of 36 months and the original term duration of each equity grant to exercise any such outstanding equity; and (c) performance shares paid as if the performance period closed on the termination date if the performance period would otherwise close in the next 24 months. Outstanding equity awards granted to Mr. Mezger before the effective date of the Employment Agreement are governed by their respective terms and conditions with respect to his termination of employment.

CHANGE IN CONTROL

If Mr. Mezger's employment is terminated without cause or he resigns for good reason in connection with a change in control (generally, per his Employment Agreement, during the period starting three months before and ending twelve months after a change in control), he is entitled to (a) a severance payment as described above, except the applicable multiple is 3.0 times rather than 2.0 times and the total payment is capped at \$12.0 million; and under certain circumstances, a prorated bonus for the year in which his employment terminates; (b) a continuation of health coverage for up to two years; (c) full vesting of unvested equity granted to him on or after the effective date of his Employment Agreement and prior to 2018, with earlier equity awards governed by their respective terms and conditions; (d) performance shares granted before 2018 paid as earned with the applicable performance period closing as of the date of the change in control; (e) full vesting and lump sum cash payment of deferred compensation, retirement or other employee benefits per the relevant arrangements, provided that lump sum payments subject to Section 409A of the Code are permitted only as provided by the specific terms of those arrangements; and (f) an additional amount to compensate for any excise taxes under Section 280G of the Code ("Section 280G"). Mr. Mezger's change in control benefits are subject to the same conditions described under "Termination of Employment".

If a change of control occurs, each of our other NEOs is entitled to receive, subject to executing a release (a) if in the 18-month period following a change in control his employment is terminated other than for cause or disability, or he

terminates his employment for good reason (in each case, as defined in the CIC Plan), a severance benefit of 2.0 times the sum of his average base salary and average actual annual cash bonus for the three fiscal years prior to the year in which the change in control occurs; and (b) accelerated vesting of any options and the lapse of any restricted period applicable to any restricted stock or other equity awards awarded to him before 2018. While Mr. Mezger is a participant in the CIC Plan, he is entitled only to CIC Plan benefits that do not duplicate his Employment Agreement benefits in a change in control, and his total severance benefit under the CIC Plan is capped at \$12.0 million.

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Per the terms of each recipient's award agreement, the vesting of the equity awards granted to our NEOs in 2017 and 2018 will not accelerate upon a change in control unless the recipient is terminated without cause or resigns for good reason within 18 months of the change in control event. Generally, if such a termination occurs (a) within one year of the award's performance period, the recipient will get a target payout of the award; (b) after the first year of the award's performance period, the recipient will get a payout of the award determined using prorated calculations of the applicable performance measures; and (c) before the award's performance period begins, the recipient will get no payout of the award.

In addition, under the CIC Plan, only Mr. Mezger and five other senior executives can potentially receive an additional tax restoration amount to compensate for any excise taxes imposed on them under Section 280G and for any taxes on the additional amount. Pursuant to a Board policy, since April 7, 2011, we have not extended this tax restoration benefit to any other officer or employee, including all the other NEOs, even though they are CIC Plan participants.

OTHER CHANGE IN CONTROL AND EMPLOYMENT TERMINATION PROVISIONS

The individual award agreements governing outstanding unvested common stock options provide for accelerated vesting upon the recipient's retirement, death or disability, as defined under the agreements. The individual award agreements governing outstanding restricted stock awards provide for accelerated vesting upon the recipient's death or disability, as defined under the agreements. The individual award agreements governing outstanding PSU awards provide for pro-rata vesting if the recipient retires under certain circumstances, and for accelerated vesting upon the recipient's death or disability, as defined under the agreements; provided in each case that payout, if any, is delayed until the performance period is completed. In addition, different provisions govern the length of time a recipient has to exercise a common stock option after termination of employment, depending on the reason for termination. For example, the exercise period may be limited to five days in the case of a termination for cause; while for retirement, death or disability, the exercise period may be the end of the common stock option's original term.

Our DCP provides for full vesting of benefits if there is a change in control or disability, as those terms are defined under the plan, or death. Our Retirement Plan provides that a participant will immediately receive a lump sum payment of the actuarial value (as specified under the Retirement Plan) of the participant's plan benefits if there is a change in control or death. Our Death Benefit Only Plan provides for (a) distribution of an insurance contract to a participant sufficient to pay the death benefit (if the participant dies anytime before age 100); and (b) an additional tax restoration amount sufficient to pay specified taxes caused by the distribution of the insurance contract and the additional amount, if there is a change in control as defined in the plan. We also maintain term life insurance policies that pay benefits to the designated beneficiaries of certain of our NEOs upon their deaths as described under "Death Benefits."

The tables below show payments our NEOs may receive assuming various employment termination and change in control scenarios occurred on November 30, 2018; accordingly, equity awards are valued using the closing price of our common stock on that date, which was \$21.11. The amounts shown do not include the value of vested and unexercised stock options reported in the Outstanding Equity Awards at Fiscal Year-End 2018 table, accrued Retirement Plan and DCP amounts reported in the Pension Benefits During Fiscal Year 2018 table and the Non-Qualified Deferred Compensation During Fiscal Year 2018 table (and associated footnotes), respectively, term life insurance benefits, or generally available employee benefits.

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POTENTIAL PAYMENTS UPON TERMINATION OF EMPLOYMENT OR CHANGE IN CONTROL

POST-EMPLOYMENT PAYMENTS — MR. MEZGER

Executive Payments and Benefits upon Termination or Change in Control	Involuntary		Involuntary		Change in Control		Death	Disability
	Voluntary Termination	Involuntary Termination for Cause	Without Cause/ Termination for Good Reason	Termination Without Cause	Change in Control Without Cause	With Termination for Good Reason or Without Cause		
Severance	\$	\$	\$ 9,545,986	\$	\$ 15,545,986	\$	\$	—
Long-term Incentives ^(a)								
Stock Options	449,090	—	449,090	449,090	449,090	449,090	449,090	449,090
PSUs	8,000,646	—	11,232,511	7,919,724	11,232,511	15,015,755	15,015,755	
Death Benefit Only Plan ^(b)	—	—	—	1,203,269	1,203,269	2,012,072		—
Health Benefits ^(c)	—	—	73,342	—	73,342	—	—	—
Credited Vacation ^(d)	88,462	88,462	88,462	—	88,462	88,462	88,462	
Excise Tax Restoration ^(e)	—	—	—	—	8,792,647	—	—	—
TOTAL	\$ 8,538,198	\$ 88,462	\$ 21,389,391	\$ 9,572,083	\$ 37,385,307	\$ 17,565,379	\$ 15,553,307	

(a)

Assumes for the applicable scenarios that Mr. Mezger's 2015 PSUs pay out at 167% of the target value and that all other outstanding PSU grants pay out at 100% of the target or prorated target values. Except for the death and disability scenarios, assumes that (i) Mr. Mezger's 2018 PSUs would have no value as the performance period would not have started by November 30, 2018; and (ii) Mr. Mezger's termination would be considered a retirement under the applicable award agreements. Therefore, his stock options would become immediately exercisable, and in the voluntary termination scenario Mr. Mezger would receive full payout of his 2015 PSUs (at 167% of target), a prorated portion (two-thirds) of his 2016 PSUs and (one-third) of his 2017 PSUs based on his months of service through November 30, 2018 and our actual performance through the end of the respective performance periods.

(b)

Mr. Mezger's designated beneficiaries would be entitled to receive an estimated death benefit of \$2,012,072 (\$1,000,000 benefit plus an income tax restoration payment of \$1,012,072) upon his death. The present value of the benefit as of November 30, 2018 is approximately \$762,181 based on a 4.45% discount factor and the RP-2014 Top Quartile Employee and Healthy Annuitant Table (M/F), with the MP-2018 generational projection scales for life expectancy (consistent with mortality tables and rates used for Accounting Standards Codification Topic No. 715, "Compensation — Retirement Benefits" ("ASC 715") valuations). For the change in control scenarios, the amounts shown are estimated based on the cash surrender value of the underlying life insurance policy as of November 30, 2018 of \$569,748, and an estimated income- and payroll-related tax restoration payment of \$633,521.

(c)
Assumes we make 24 months of contributions for health benefits using current COBRA rates of approximately \$3,056 per month.

(d)
Assumes payout of 160 hours of vacation benefits as Mr. Mezger is credited with this number of vacation hours during his employment with us, regardless of actual vacation time taken.

(e)
Based on Mr. Mezger's five-year historical average compensation, Mr. Mezger is assumed under this scenario to be entitled to a hypothetical excise tax restoration payment under his Employment Agreement. Whether or not Mr. Mezger will be assumed to be entitled to such a payment will depend on his then-five-year average compensation, his future compensation and other factors. Under his Employment Agreement, we will provide Mr. Mezger with such a tax restoration payment to compensate him for any excise taxes under Section 280G on payments due in connection with a change in control. For purposes of calculating the amounts shown, the following major assumptions are used: (i) stock options paid out based on a value of \$21.11 less applicable exercise prices, and other equity awards valued with a fair market value of \$21.11; (ii) accelerated payment of Retirement Plan and Death Benefit Only Plan benefits, a bonus specified in his Employment Agreement that is payable in lieu of a 2018 fiscal year annual incentive, and his 2015 PSUs, in each case valued using Treas. Reg. Section 1.280G-1 Q&A 24(b); and (iii) prorated portions (two-thirds) of his 2016 PSUs and (one-third) of his 2017 PSUs considered reasonable compensation for services performed prior to the change in control.

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POST-EMPLOYMENT PAYMENTS — MR. KAMINSKI

Executive Payments and Benefits upon Termination or Change in Control	Involuntary			Change in Control			Death	Disability
	Voluntary Termination	Termination		Change in	With			
		Without Cause/		Control	Termination			
		for			for			
		Termination	Termination	Without	Good Reason			
	Cause	for	Termination	or				
		Good Reason		Without Cause				
Severance	\$	—	\$ 3,792,561	\$	—	\$ 3,686,450	\$	—
Long-term Incentives ^(a)								
Stock Options	134,726	—	134,726	134,726	134,726	134,726	134,726	134,726
Restricted Stock	—	—	—	182,327	182,327	182,327	182,327	182,327
PSUs	1,101,299	—	1,101,299	895,997	1,889,838	3,020,495	3,020,495	
Health Benefits ^(b)	—	—	55,733	—	—	—	—	—
TOTAL	\$ 1,236,025	\$ —	\$ 5,084,319	\$ 1,213,050	\$ 5,893,341	\$ 3,337,548	\$ 3,337,548	

(a)

Assumes for the applicable scenarios that Mr. Kaminski's 2015 PSUs pay out at 167% of the target value and that all other outstanding PSU grants pay out at 100% of the target or prorated target values. Except for the death and disability scenarios, assumes that (i) Mr. Kaminski's 2018 PSUs would have no value as the performance period would not have started by November 30, 2018; and (ii) Mr. Kaminski's termination would be considered a retirement under the applicable award agreements. Therefore, his stock options would become immediately exercisable, and in the voluntary termination scenario Mr. Kaminski would receive full payout of his 2015 PSUs (at 167% of target), a prorated portion (two-thirds) of his 2016 PSUs and (one-third) of his 2017 PSUs based on his months of service through November 30, 2018 and our actual performance through the end of the respective performance periods.

(b)

Assumes we make 24 months of contributions for health benefits of approximately \$2,322 per month.

POST-EMPLOYMENT PAYMENTS — MR. MANDINO

Executive Payments and Benefits upon Termination or Change in Control	Involuntary		Involuntary		Change in		Change in		Death	Disability
	Voluntary Termination	Without Cause/ for Termination	Termination for Cause	Good Reason for Termination	Control Without Termination	With Termination for Good Reason or Without Cause				
Severance	\$	—	\$	2,741,333	\$	—	\$	1,880,639	\$	—

Long-term Incentives^(a)

Stock Options	—	—	—	37,892	37,892	37,892	37,892
Restricted Stock	—	—	—	162,568	162,568	162,568	162,568
PSUs	—	—	—	—	—	1,629,286	1,629,286
Performance Cash	—	—	—	—	—	919,127	919,127
Health Benefits ^(b)	—	—	67,361	—	—	—	—
TOTAL	\$	—	\$2,808,694	\$ 200,460	\$ 2,081,099	\$2,748,873	\$2,748,873

(a)

Except for the death and disability scenarios, assumes that Mr. Mandino's 2018 PSUs would have no value as the performance period would not have started by November 30, 2018. Upon disability or death, Mr. Mandino or his beneficiaries would be entitled to receive performance cash payments as if he had remained employed through the determination date; awards are assumed paid at the following levels: 2015 grant — 174%, 2016 grant — 158%, and 2017 grant — 134%.

(b)

Assumes we make 24 months of contributions for health benefits of approximately \$2,807 per month.

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POST-EMPLOYMENT PAYMENTS — MR. PRAW

Executive Payments and Benefits upon Termination or Change in Control	Voluntary Termination	Involuntary Termination for Cause	Involuntary Termination Without Cause/ Termination for	Change in Control Without Termination	Change in Control Good Reason or	Death	Disability
Severance	\$ —	\$ —	\$ 3,156,872	\$ —	\$ 3,060,761	\$ —	\$ —
Long-term Incentives ^(a)							
Stock Options	92,625	—	92,625	92,625	92,625	92,625	92,625
Restricted Stock	—	—	—	125,351	125,351	125,351	125,351
PSUs	770,586	—	770,586	629,431	1,312,688	2,090,032	2,090,032
Death Benefit Only Plan ^(b)	—	—	—	1,423,754	1,423,754	2,012,072	—
Health Benefits ^(c)	—	—	55,733	—	—	—	—
TOTAL	\$863,211	\$ —	\$4,075,816	\$2,271,161	\$ 6,015,179	\$4,320,080	\$2,308,008

(a)

Assumes for the applicable scenarios that Mr. Praw's 2015 PSUs pay out at 167% of the target value and that all other outstanding PSU grants pay out at 100% of the target or prorated target values. Except for the death and disability scenarios, assumes that (i) Mr. Praw's 2018 PSUs would have no value as the performance period would not have started by November 30, 2018; and (ii) Mr. Praw's termination would be considered a retirement under the applicable award agreements. Therefore, his stock options would become immediately exercisable, and in the voluntary termination scenario Mr. Praw would receive full payout of his 2015 PSUs (at 167% of target), a prorated portion (two-thirds) of his 2016 PSUs and (one-third) of his 2017 PSUs based on his months of service through November 30, 2018 and our actual performance through the end of the respective performance periods.

(b)

Mr. Praw's designated beneficiaries would be entitled to receive an estimated death benefit of \$2,012,072 (\$1,000,000 benefit plus an income tax restoration payment of \$1,012,072) upon his death. The present value of the benefit as of November 30, 2018 is approximately \$983,653 based on a 4.45% discount factor and the RP-2014 Top Quartile Employee and Healthy Annuitant Table (M/F), with the MP-2018 generational projection scale tables for life expectancy (consistent with mortality tables and rates used for ASC 715 valuations). For the change in control scenarios, the amounts shown are estimated based on the cash surrender value of the underlying life insurance policy as of November 30, 2018 of \$674,147 and an estimated income and payroll-related tax restoration payment of \$749,606 associated with the distribution of the policies, valued using Treas. Reg. Section 1.280G-1 Q&A 24(b).

(c)

Assumes we make 24 months of contributions for health benefits of approximately \$2,322 per month.

POST-EMPLOYMENT PAYMENTS — MR. WORAM

Executive Payments and Benefits upon Termination or	Voluntary Termination	Involuntary Termination	Change in Control	Change in Control	Death	Disability

Change in Control

	Without Cause/ Cause		Without Termination for		With Termination for Good Reason or		Without Cause
Severance	\$	—	\$	—	\$	—	\$
Long-term Incentives ^(a)							
Stock Options		87,009		87,009		87,009	87,009
Restricted Stock		—		—		117,752	117,752
PSUs		745,592		745,592		612,960	1,254,810
Health Benefits ^(b)		—		67,361		—	—
TOTAL	\$	832,601	\$	4,023,945	\$	817,721	4,503,277
							\$2,189,832
							\$2,189,832

(a)

Assumes for the applicable scenarios that Mr. Woram's 2015 PSUs pay out at 167% of the target value and that all other outstanding PSU grants pay out at 100% of the target or prorated target values. Except for the death and disability scenarios, assumes that (i) Mr. Woram's 2018 PSUs would have no value as the performance period would not have started by November 30, 2018; and (ii) Mr. Woram's termination would be considered a retirement under the applicable award agreements. Therefore, his stock options would become immediately exercisable, and in the voluntary termination scenario Mr. Woram would receive full payout of his 2015 PSUs (at 167% of target), a prorated portion (two-thirds) of his 2016 PSUs and (one-third) of his 2017 PSUs based on his months of service through November 30, 2018 and our actual performance through the end of the respective performance periods.

(b)

Assumes we make 24 months of contributions for health benefits of approximately \$2,807 per month.

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ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

Pursuant to Section 14A of the Securities Exchange Act of 1934, we are seeking an advisory vote from our stockholders on the following resolution to approve our NEOs' 2018 fiscal year compensation:

RESOLVED, that the stockholders of KB Home approve, on an advisory basis, the compensation paid to its named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and the related narrative discussion set forth in this Proxy Statement.

We believe that our CEO's and our other NEOs' 2018 fiscal year compensation was well-aligned with our performance and stockholders' interests, as detailed under "Compensation Discussion and Analysis," and as shown below. We also believe that the design and implementation of our executive compensation programs reflect our longstanding significant outreach to our stockholders. In turn, our stockholders have generally expressed strong support through our annual NEO compensation advisory votes, including a 91.5% level of approval in 2018 for our approach to linking executive compensation to our strategic and operational goals as well as to stockholder value creation.

We intend to offer this non-binding "Say-on-Pay" vote at each of our annual meetings. Although it is not binding, we and the Board welcome our stockholders' views on our NEOs' compensation and, as in past years, will carefully consider the outcome of this advisory vote consistent with the best interests of all stockholders. As an advisory vote, it is not intended to have any use, application or effect for or on behalf of KB Home or its stockholders outside of this Annual Meeting except as permitted by the Board.

VOTING STANDARD

This non-binding advisory resolution will be considered approved based upon the affirmative vote of a majority of the shares of our common stock present or represented, and entitled to vote thereon, at the Annual Meeting.

BOARD RECOMMENDATION: FOR APPROVAL OF NEO COMPENSATION

PAY FOR PERFORMANCE — 2018 FISCAL YEAR CEO COMPENSATION

90% of our CEO's 2018 compensation was performance-based and his base salary did not increase.

Our CEO's annual incentive award of \$6.44 million was performance-driven, determined pursuant to a formula-based plan typical of several of our peers, and reflected our profitability growth and improved asset efficiency in 2018.

100% of our CEO's long-term incentives were PSUs.

Our CEO earned his three-year 2015 PSU award at 167% of target (as discussed under "2015 PSU Awards"), based on our achieving maximum results for AEPS and AROIC (as adjusted for the TCJA-related charge).

[Back to Contents](#)**RATIFY ERNST & YOUNG LLP'S APPOINTMENT AS INDEPENDENT AUDITOR**

In 2018, with management's assistance, the Audit Committee performed an overall review of Ernst & Young LLP as our Independent Auditor, which review is done on at least a quinquennial basis. Among other things, this review assessed whether we should undertake a request-for-proposal process with other firms. Based on the review, the committee determined it would retain Ernst & Young LLP and not undertake such a bid process based on the committee's consideration of the firm's qualifications and performance, quality and candor of communications, independence, integrity, objectivity and professional skepticism.

In a confirmatory review conducted in January 2019, the Audit Committee, after considering Ernst & Young LLP's proposed fees (on an absolute basis and relative to the fees incurred by our homebuilder peers) and the audit efficiencies that reflect its 28 years of service as our Independent Auditor, the Audit Committee appointed Ernst & Young LLP as our independent registered public accounting firm to audit our consolidated financial statements for our fiscal year ending November 30, 2019. The Audit Committee believes this appointment is in our and our stockholders' best interests.

We are seeking stockholder ratification of this appointment.

VOTING STANDARD

The Audit Committee's appointment of Ernst & Young LLP will be considered ratified based upon the affirmative vote of a majority of the shares of our common stock present or represented, and entitled to vote thereon, at the Annual Meeting.

BOARD RECOMMENDATION: FOR RATIFYING ERNST & YOUNG LLP'S APPOINTMENT

Representatives of Ernst & Young LLP are expected to attend the Annual Meeting, be available to respond to appropriate questions and, if they desire, make a statement. If Ernst & Young LLP's appointment is not ratified, the Audit Committee will consider whether to retain Ernst & Young LLP, but still may retain the firm. Even if the appointment is ratified, the Audit Committee, in its discretion, may change the appointment of our independent registered public accounting firm at any time during the year if it determines it would be in our and our stockholders' best interests to do so.

INDEPENDENT AUDITOR FEES AND SERVICES

Services provided by Ernst & Young LLP and related fees in each of our last two fiscal years were as follows:

	Fiscal Year Ended (\$000s)	
	2018	2017
Audit Fees	\$ 1,282	\$ 1,102
Audit-Related Fees	44	44
Tax Fees	—	—
All Other Fees	—	—
TOTAL FEES	\$ 1,326	\$ 1,146

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AUDIT COMMITTEE REPORT

The Audit Committee acts under a written charter. Under its charter, the Audit Committee assists the Board in fulfilling the Board's oversight responsibilities relating to, among other things, KB Home's corporate accounting and reporting practices, including the quality and integrity of its financial statements and reports, and its internal control over financial reporting and disclosure controls and procedures. All Audit Committee members are independent and determined to be "audit committee financial experts" under SEC rules.

In carrying out its role, the Audit Committee, among other activities:

conducts at each regular meeting separate executive sessions with KB Home's chief financial officer; chief accounting officer; chief legal officer; internal audit department head; and Independent Auditor, Ernst & Young LLP, to discuss matters relevant to their respective duties and roles.

annually reviews and approves the internal audit department's audit plan and receives quarterly updates on its performance and results.

oversees management's performance of an annual enterprise risk management assessment and discusses with management identified significant risks in KB Home's business and operations, including cybersecurity risks, along with corresponding mitigating factors.

reviews and discusses with management KB Home's quarterly and annual periodic reports before they are filed with the SEC.

receives and discusses quarterly management reports on the structure and testing of KB Home's system of internal control over financial reporting, and management's assessment of the system's effectiveness.

receives and discusses regular reports from the chief legal officer and senior compliance executives on material legal, compliance and ethics matters, and from Ernst & Young LLP on the results of its audit and internal control evaluation activities.

Management is primarily responsible for KB Home's financial statements, the financial reporting process and assurance for the adequacy of internal control over financial reporting. Ernst & Young LLP, as Independent Auditor, is responsible for performing an independent audit of KB Home's financial statements and internal control over financial reporting. Ernst & Young LLP is also responsible for expressing an opinion on the conformity of KB Home's audited financial statements to generally accepted accounting principles used in the United States and the adequacy of KB Home's internal control over financial reporting.

The Audit Committee is responsible for the appointment (with consideration given to ratification by our stockholders), compensation, engagement terms (including fees), retention (or termination, if appropriate) and oversight of the work of the Independent Auditor, which reports directly to the Audit Committee. The Audit Committee also:

evaluates the Independent Auditor's qualifications, independence and effectiveness, and presents its evaluation to the Board, which it did with its quinquennial review discussed under "Ratify Appointment of Independent Auditor." Based on this review, and a confirmatory evaluation in January 2019, the Audit Committee appointed Ernst & Young LLP as KB Home's independent registered public accounting firm for the fiscal year ending November 30, 2019.

reviews and discusses with the Independent Auditor the scope and plan of its independent audit of KB Home's financial statements and internal control over financial reporting.

receives direct reports from the Independent Auditor describing, among other things, the applicable critical accounting policies and practices in the firm's audit.

approved in 2015 the appointment of the Independent Auditor's current lead audit partner.

In this context, the Audit Committee has reviewed and discussed with management and Ernst & Young LLP KB Home's audited financial statements. The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed in accordance with the Public Company Accounting Oversight Board's standards.

In addition, the Audit Committee has received the written disclosures and letter from Ernst & Young LLP required by the Public Company Accounting Oversight Board concerning its independence and has discussed with Ernst & Young LLP its independence from KB Home and KB Home's management.

In reliance on the reviews, reports, activities and discussions referred to above, the Audit Committee recommended to the Board, and the Board approved, that the audited financial statements be included in KB Home's Annual Report on Form 10-K for the fiscal year ended November 30, 2018, for filing with the SEC.

This report is respectfully submitted by the Audit Committee:

Dr. Thomas W. Gilligan, Chair
Dorene C. Dominguez
Dr. Stuart A. Gabriel
Melissa Lora
James C. Weaver
Michael M. Wood

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ANNUAL MEETING VOTING MATTERS AND OTHER INFORMATION

Holders of record of the 86,955,192 shares of our common stock that were outstanding and entitled to vote as of the close of business on the record date of February 8, 2019 are entitled to one vote for each share held. The GSOT trustee will vote the 8,157,235 shares of our common stock that the GSOT held on the record date based on the instructions received from eligible employees who hold unexercised common stock options under our employee equity compensation plans, as discussed under “Ownership of KB Home Securities.” Accordingly, a total of 95,112,427 shares are entitled to vote at the Annual Meeting.

For stockholders to take action at the Annual Meeting, the holders of a majority of the shares of our common stock outstanding on the record date must be present or represented at the meeting. Abstentions and “broker non-votes” are counted for this purpose. A “broker non-vote” occurs when a broker or financial institution does not receive instructions from a beneficial holder and does not have the discretionary authority to vote on an item of business, which will apply for all Annual Meeting matters other than ratifying the appointment of our Independent Auditor. Therefore, if you are a beneficial owner, you must instruct your broker or financial institution on how you want your shares to be voted on the other items of business in order for your shares to be counted for those items.

VOTING YOUR SHARES

Stockholders can vote via the Internet, telephone or mail or in person at the Annual Meeting, as described under “Voting Procedures.” There are no dissenters’ rights or rights of appraisal as to any item to be acted upon at the Annual Meeting. There is no right to cumulative voting.

The named proxies for the Annual Meeting — Jeffrey T. Mezger and Brian J. Woram (or their duly authorized designees) — will follow submitted proxy voting instructions. They will vote as the Board recommends as to any such submitted instructions that do not direct how to vote on any item and will vote on any other matters properly presented at the Annual Meeting in their discretion, including upon any motion to adjourn or postpone all or any portion of the Annual Meeting. We have engaged our transfer agent to count the votes and to act as an independent inspector of election. William A. (Tony) Richelieu, our Corporate Secretary, will also act as an inspector of election.

VOTING STANDARDS

You will find the voting standard for each item of business at the Annual Meeting on the first page on which it is discussed in this Proxy Statement. Approval of any other matter properly presented at the Annual Meeting requires the affirmative vote of a majority of the shares of our common stock present or represented and entitled to vote thereon. Shares that are not present or represented at the Annual Meeting and broker non-votes will not affect the outcome for any items of business at the Annual Meeting. Abstentions will not affect the outcome of the election of directors but will have the effect of an against vote for any other items of business.

PROXY SOLICITATION COSTS

We will pay the cost to solicit proxies for the Annual Meeting. In addition to this Proxy Statement, our officers, directors and other employees may solicit proxies personally, in writing or by telephone, facsimile, email or other means for no additional compensation. We will, if requested, reimburse banks, brokers and other custodians, nominees and certain fiduciaries for their reasonable expenses in providing proxy materials to their principals. We have hired Georgeson LLC, a professional soliciting organization, to assist us in soliciting proxies and distributing proxy materials for a fee of \$9,000, plus reimbursement of out-of-pocket expenses.

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INTERNET AVAILABILITY OF PROXY MATERIALS

The proxy materials for the Annual Meeting are being made available primarily via the Internet at <http://www.kbhome.com/investor/proxy> in order to speed their delivery to our stockholders, to contain costs and to reduce the impact on the environment. In addition, beginning March 1, 2019, we mailed the Notice of Internet Availability to stockholders, which provides instructions on how to access and view the proxy materials, and to vote via the Internet or telephone. To request a printed copy of our proxy materials, follow the instructions on the notice. Stockholders who previously elected to receive proxy materials electronically will continue to receive them and a notice by e-mail, unless we are told otherwise. Please note that you cannot vote your shares by marking and returning a notice.

ADMISSION TO THE ANNUAL MEETING

Only stockholders on February 8, 2019, authorized proxy holders of such stockholders and invited guests of the Board may attend the Annual Meeting in person. Picture identification (such as a valid driver's license or passport) and an admission ticket will be required to attend. A professional business dress code will be observed, and attendees may be subject to a security check. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted unless we approve any such items in advance. Additional rules of conduct will apply at the meeting.

To obtain an admission ticket to the meeting, please send your written request to William A. (Tony) Richelieu, Corporate Secretary, KB Home, 10990 Wilshire Boulevard, Los Angeles, California 90024, or to investorrelations@kbhome.com. We must receive written admission ticket requests by Friday, March 29, 2019. In your request, please include the address where your admission ticket should be mailed, any special assistance needs, and the information below depending on how you hold your shares.

Holders of Record	A copy of a proxy/voting instruction form or Notice of Internet Availability showing your name and address. If you are appointing an authorized proxy representative, also include the representative's name, mailing address and contact telephone number and a copy of the signed legal proxy.
Beneficial Holders	A copy of a voting instruction form from a broker/other holder of record showing your name and address, or a broker letter verifying record date ownership and a copy of a brokerage account statement showing your KB Home stock ownership on the record date.

STOCKHOLDER PROPOSALS FOR OUR 2020 ANNUAL MEETING OF STOCKHOLDERS

To be included in the proxy statement and form of proxy for our 2020 annual meeting, we must receive any proposal of a stockholder intended to be presented at that meeting no later than November 2, 2019. Further, per our By-Laws, the Board-designated proxies for that meeting will use their discretionary voting authority with respect to any proposal presented at the meeting by a stockholder who does not provide us with written notice of the proposal between December 13, 2019 and January 12, 2020.

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ANNEX 1: CORPORATE GOVERNANCE PROCESSES AND PROCEDURES

This Annex provides additional information about KB Home's corporate governance.

DIRECTOR INDEPENDENCE DETERMINATIONS

We believe that a substantial majority of our directors should be independent. To be independent, the Board must affirmatively determine that a director does not have any direct or indirect material commercial or charitable relationship with us based on all relevant facts and circumstances. The Board makes independence determinations from information supplied by directors, director nominees and other sources, the Nominating Committee's prior review and recommendation, and certain categorical standards contained in our Corporate Governance Principles that are consistent with NYSE listing standards.

The Board determined that all directors who served in 2018 and all director nominees are independent, other than Mr. Mezger. In making its independence determinations, the Board found that Ms. Dominguez's independence was not impaired by, and she did not have a direct or indirect material interest in, one of our division office's leasing a small number of copiers from CIT Group (where she serves as a non-employee director), nor by our making a \$10,000 donation to The Dominguez Dream Foundation for which Ms. Dominguez serves as Chair.

The Board also determined that each Compensation Committee member is a "non-employee director" under SEC rules and an "outside director" under Section 162(m) of the Code.

RELATED PARTY TRANSACTIONS

The Nominating Committee reviews any transactions, arrangements or relationships in which we participate and in which a director, director nominee, executive officer or beneficial owner of five percent or more of our common stock (or, in each case, an immediate family member) had or will have a direct or indirect material interest (a "Related Party Transaction"). Covered individuals and stockholders are expected to inform our Corporate Secretary of Related Party Transactions, and we collect information from our directors, director nominees and executive officers so that we can review our records for any such transactions.

The Nominating Committee will approve or ratify a Related Party Transaction if, based on a review of all material facts and feasible alternatives, it deems the transaction to be in our and our stockholders' best interests. In addition, specified categories of transactions set forth in the Nominating Committee's Charter are deemed pre-approved/ratified, including those in which the total amount involved is less than or equal to \$120,000; and those that would not (a) need to be reported under federal securities laws, (b) be deemed to impair a director's independence or (c) be deemed to be a conflict of interest.

DIRECTOR QUALIFICATIONS AND NOMINATIONS

The Nominating Committee evaluates and recommends individuals for election to the Board at regular or special meetings and at any point during the year, taking into consideration, among other factors, the attributes listed in our Corporate Governance Principles and diversity as described under "Board Experience and Skills." There is no formal policy as to how diversity is applied, and an individual's background and experience, while important, do not necessarily outweigh any other factors.

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Individuals may be nominated by current directors, and the Nominating Committee has retained professional search firms from time to time to assist with director recruitment. Security holders may propose director nominees by following the procedures set forth in our By-Laws, which require, among other things, timely advance written notice to our Corporate Secretary of any potential nominee that contains specified information about the nominee and the nominating security holder. Director nominees proposed by security holders are considered in the same manner as any other potential nominees.

AUDIT FEE PRE-APPROVAL POLICY; AUDIT COMMITTEE DESIGNATION

The Audit Committee has established a policy that requires it to pre-approve all services our Independent Auditor provides to us, including audit, audit-related, tax and other permitted non-audit services. In certain circumstances under the policy, our chief accounting officer (or a functional equivalent) can authorize the firm to perform services, and the Audit Committee Chair can pre-approve services up to a specific per-engagement fee limit. The Chair must report to the Audit Committee any such pre-approvals granted. The Audit Committee approved all services Ernst & Young LLP provided in 2018 and 2017 and the corresponding fees (as shown in the table under “Ratify Ernst & Young LLP’s Appointment as Independent Auditor”) in accordance with this policy.

The Audit Committee is a separately designated standing audit committee as defined in Section 3(a)(58)(A) of the Securities and Exchange Act of 1934.

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ANNEX 2: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

This Proxy Statement contains information regarding Adjusted Diluted Earnings Per Share, Adjusted Pretax Income, Adjusted Net Income and Adjusted Earnings Per Share, all of which are financial measures that are not calculated in accordance with GAAP. We believe these non-GAAP financial measures are relevant and useful for purposes of this Proxy Statement to understand our 2018 fiscal year performance generally and in relation to the annual incentive payouts the Compensation Committee approved for our NEOs, as described under “2018 Annual Incentives,” and how the 2015 PSU performance measures of AEPS and AROIC were determined, as described under “Long-Term Incentives.” However, because Adjusted Diluted Earnings Per Share, Adjusted Pretax Income, Adjusted Net Income and Adjusted Earnings Per Share are not calculated in accordance with GAAP, these financial measures may not be completely comparable to other companies in the homebuilding industry and, thus, should not be considered in isolation or as an alternative to measures prescribed by GAAP. Rather, Adjusted Diluted Earnings Per Share, Adjusted Pretax Income, Adjusted Net Income and Adjusted Earnings Per Share should be used to supplement the most directly comparable GAAP financial measures in order to provide a greater understanding of our performance and the 2018 fiscal year annual incentive and 2015 PSU payouts to our NEOs.

The table below reconciles our diluted earnings per share calculated in accordance with GAAP to the non-GAAP measure of adjusted diluted earnings per share used in the computation of the 3-Year Diluted EPS growth figure presented in this Proxy Statement (in thousands, except per share amounts):

	For the Fiscal Years Ended November 30,					
	2018		2017		2016	
	As Reported	TCJA Adjustment	As Adjusted	As Reported	As Reported	As Reported
Total pretax income	\$ 367,965	\$ —	\$ 367,965	\$ 289,995	\$ 149,315	\$ 127,043
Income tax expense	(197,600)	112,500	(85,100)	(109,400)	(43,700)	(42,400)
NET INCOME	\$ 170,365	\$ 112,500	\$ 282,865	\$ 180,595	\$ 105,615	\$ 84,643
DILUTED EARNINGS PER SHARE	\$ 1.71		\$ 2.82	\$ 1.85	\$ 1.12	\$ 0.85

Our adjusted diluted earnings per share is a non-GAAP financial measure, which is calculated by excluding a non-cash charge of \$112.5 million recorded in 2018 from our reported diluted earnings per share. This charge was primary due to our accounting re-measurement of our deferred tax assets based on the reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018, under the TCJA. The most directly comparable GAAP measure is diluted earnings per share. We believe this non-GAAP measure is meaningful as it allows for an evaluation of our operating results without the impact of the TCJA-related charge.

The table below reconciles our total pretax income calculated in accordance with GAAP to the non-GAAP measure of Adjusted Pretax Income used in the computation of the 2018 fiscal year annual incentives (in thousands):

For the
Fiscal Year

	Ended November
	30, 2018
Total pretax income	\$ 367,965
Add: Incentive compensation expense	55,044
Add: Inventory impairment and land option contract abandonment charges related to land purchased or optioned prior to January 1, 2008	26,894
ADJUSTED PRETAX INCOME	\$ 449,903

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Adjusted Pretax Income is a non-GAAP financial measure, which is calculated as our total pretax income excluding incentive and variable compensation expense and inventory impairment and land option contract abandonment charges related to land purchased or optioned prior to January 1, 2008. For Adjusted Pretax Income, the most directly comparable GAAP financial measure is pretax income.

The tables below reconcile our net income and diluted earnings per share calculated in accordance with GAAP to the non-GAAP measures of Adjusted Net Income and Adjusted Earnings Per Share used in the computation of the AEPS and AROIC performance measures for the 2015 PSUs (in thousands, except per share amounts):

	For the Fiscal Years Ended November 30,		
	2018	2017	2016
Total pretax income	\$ 367,965	\$ 289,995	\$ 149,315
Income tax expense	(197,600)	(109,400)	(43,700)
NET INCOME	\$ 170,365	\$ 180,595	\$ 105,615
DILUTED EARNINGS PER SHARE	\$ 1.71	\$ 1.85	\$ 1.12
Total pretax income	\$ 367,965	\$ 289,995	\$ 149,315
Add: inventory impairment and land option contract abandonment charges related to land purchased or optioned prior to January 1, 2008	26,894	19,082	46,726
Add: variable compensation expense	—	84	36
Adjusted total pretax income	394,859	309,161	196,077
Adjusted income tax expense*	(91,300)	(116,600)	(57,400)
ADJUSTED NET INCOME	\$ 303,559	\$ 192,561	\$ 138,677
ADJUSTED EARNINGS PER SHARE (AEPS)	\$ 3.03	\$ 1.97	\$ 1.46

*

Adjusted income tax expense for 2018 excludes the impact from the TCJA-related charge taken during that year.

	For the Fiscal Years Ended November 30,		
	2018	2017	2016
ADJUSTED NET INCOME	\$ 303,559	\$ 192,561	\$ 138,677
Average notes payable	\$ 2,192,554	\$ 2,482,497	\$ 2,620,951
Average stockholders' equity	2,006,906	1,824,728	1,706,990
AVERAGE INVESTED CAPITAL	\$ 4,199,460	\$ 4,307,225	\$ 4,327,941
ADJUSTED RETURN ON INVESTED CAPITAL (AROIC)	7.2%	4.5%	3.2%

Adjusted Net Income is a non-GAAP financial measure, which is calculated as our total pretax income excluding inventory impairment and land option contract abandonment charges related to land purchased or optioned prior to January 1, 2008, and variable compensation expense. Adjusted Net Income also excludes the impact of the TCJA-related charge for the re-measurement of our deferred tax assets. AEPS and AROIC are calculated based on Adjusted Net Income. For Adjusted Net Income and AEPS, the most directly comparable GAAP financial measures are net income and diluted earnings per share, respectively.

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