KB HOME
Form 424B5
January 22, 2003

As filed pursuant to Rule 424(b)(5)
under the Securities Act of 1933
Registration No. 333-41549
and Registration No. 333-71630

PROSPECTUS SUPPLEMENT
(To Prospectus dated January 28, 2002)

$250,000,000

7 3/4% Senior Subordinated Notes due 2010

KB HOME

We are one of the largest builders of single-family homes in the United States based on the number of homes delivered. We have domestic operations in six western states, Florida and, through a majority-owned subsidiary, international operations in France.

USE OF PROCEEDS

We expect to use $129.0 million of the net proceeds from this offering to redeem, on or about February 16, 2003, all of our outstanding 9 5/8% Senior Subordinated Notes due 2006, and to use the remaining net proceeds for general corporate purposes.

SENIOR SUBORDINATED NOTES

We are offering $250,000,000 aggregate principal amount of our 7 3/4% Senior Subordinated Notes due February 1, 2010.

We will pay interest on the notes semi-annually in cash in arrears on February 1 and August 1 of each year, starting on August 1, 2003.

The notes will be general unsecured senior subordinated obligations of KB Home and will be junior in right of payment to all of our existing and future Senior Indebtedness. In addition, the notes will be effectively subordinated to all existing and future indebtedness, trade payables, guarantees and other liabilities of our subsidiaries.

We may redeem some or all of the notes on and after February 1, 2007 at the redemption prices described in this prospectus supplement. In addition, before February 1, 2006, we may redeem up to 35% of the aggregate principal amount of the notes with the net proceeds of one or more public or private equity offerings at the redemption price described in this prospectus supplement.

Before buying any notes, you should read the discussion of risks beginning on page S-11 of this prospectus supplement.

The underwriters have agreed to purchase the notes from KB Home at 98.444% of their principal amount for total proceeds to KB Home of approximately $246.1 million, before deducting expenses. The underwriters propose to offer the notes from time to time for sale in one or more negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale.

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

The notes will be ready for delivery in book-entry-only form to The Depository Trust Company on or about January 27, 2003.

UBS Warburg

Banc One Capital Markets, Inc. **Credit Lyonnais Securities**

The date of this prospectus supplement is January 17, 2003.

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We have not authorized anyone to provide you with any information other than the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not making any offer of these securities in any state where the offer is not permitted. You should not assume the information provided by this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement or the prospectus is accurate as of any date other than the date on the front of this prospectus supplement, the date on the front of the accompanying prospectus or the date of the applicable incorporated document, as the case may be.

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Prospectus Supplement

Prospectus

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

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

PROSPECTUS SUPPLEMENT SUMMARY

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

KB Home

KB Home is one of the largest builders of single-family homes in the United States based on the number of homes delivered. We have domestic operations in six western states, Florida and, through a majority-owned subsidiary, international operations in France. Founded in 1957, KB Home builds innovatively designed homes which cater primarily to first-time and first move-up homebuyers, generally in medium-sized developments close to major metropolitan areas. Kaufman & Broad S.A., KB Home s majority-owned subsidiary, is one of the largest homebuilders in France based on the number of homes delivered. KB Home provides mortgage banking services to domestic homebuyers through its wholly owned subsidiary, KB Home Mortgage Company.

Recent Developments

On January 16, 2003, KB Home announced its financial results for its fourth fiscal quarter and fiscal year ended November 30, 2002.

Total revenues for the fiscal year ended November 30, 2002 exceeded $5 billion, reflecting an increase of 10% from revenues of $4.57 billion for the fiscal year ended November 30, 2001. For the fourth quarter ended November 30, 2002, total revenues were $1.68 billion, up 16% from the $1.45 billion generated in the corresponding quarter of 2001.

Total operating income increased 32% to $510.4 million in the fiscal year ended November 30, 2002 from $386.1 million in the fiscal year ended November 30, 2001. As a percent of total revenues, the operating margin rose 170 basis points to 10.1% in the fiscal year ended November 30, 2002 from 8.4% in the fiscal year ended November 30, 2001. We define operating income as the sum of construction operating income and mortgage banking pretax income, and we define operating margin as operating income divided by total revenues.

Net income for the fiscal year ended November 30, 2002 increased 47% to $314.4 million from $214.2 million for the fiscal year ended November 30, 2001. For the quarter ended November 30, 2002, net income rose 40% to $123.7 million from $88.5 million for the corresponding quarter of 2001.

Diluted earnings per share rose 30% to $7.15 in the fiscal year ended November 30, 2002 from $5.50 in the fiscal year ended November 30, 2001. For the fourth quarter ended November 30, 2002, diluted earnings per share increased 44% to $2.92 from $2.03 in fourth quarter ended November 30, 2001. On a year-over-year basis, diluted average shares outstanding increased 13% for the fiscal year ended November 30, 2002 and decreased 3% for the three months ended November 30, 2002. In addition, KB Home repurchased a total of 4.0 million shares, or approximately 9% (based on the number of shares outstanding as of November 30, 2001 excluding shares held by KB Home s Grantor Stock Ownership Trust and shares held in treasury), of its common stock in the fiscal year ended November 30, 2002 for an aggregate price of $190.8 million.

KB Home s ratio of debt to total capital improved to 47.8% at November 30, 2002 from 49.9% at November 30, 2001 and KB Home s interest coverage ratio for fiscal year 2002 improved by 37% over the ratio for the prior fiscal year to 5.9 times its annual cost of debt. At November 30, 2002, KB Home had cash of approximately $330 million and no amounts outstanding under its $644 million revolving credit facility. For purposes of these ratios, we define total capital as construction debt and stockholders equity and interest coverage ratio as operating income before deducting interest amortized and depreciation expense divided by gross interest incurred.

Unit deliveries for the fourth quarter ended November 30, 2002 totaled 7,932 units versus 7,883 units in the same quarter of 2001. For the fiscal year ended November 30, 2002, unit deliveries totaled 25,565 units compared to 24,868 units for the fiscal year ended November 30, 2001. Housing revenues for the fourth quarter ended November 30, 2002 rose 15% to $1.60 billion from $1.40 billion in the corresponding quarter of 2001 primarily due to KB Home s average selling price increasing 13% to $202,000 in the fourth quarter of fiscal year 2002 from $178,800 in the fourth quarter of fiscal year 2001. Selling prices were higher in all of the Company s geographic regions, with the strongest increase occurring in the West Coast region, where the average selling price increased 18% for the fourth quarter of fiscal 2002 compared to the corresponding quarter of 2001.

Construction pretax income for the fourth quarter ended November 30, 2002 increased nearly 40% to $166.8 million from $119.5 million in the year-earlier quarter as a result of a significant improvement in operating margin, which increased 160 basis points to 11.1% in the quarter ended November 30, 2002 from 9.5% in the quarter ended November 30, 2001. Contributing to the increase in operating margin was KB Home s housing gross margin, which rose 180 basis points to 22.6% for the three months ended November 30, 2002 from 20.8% for the same period of 2001. The increase reflects operating efficiencies as well as price increases in select markets. We define housing gross margin as the total of housing revenues less housing cost of sales divided by housing revenues.

KB Home s mortgage banking operations generated pretax income of $17.9 million in the fourth quarter ended November 30, 2002, up 23% from $14.5 million in the corresponding quarter of 2001. An increase in average loan size and a more favorable interest rate spread drove the quarter over quarter improvement.

KB Home released the following summary unaudited consolidated financial data for the fiscal quarters and years ended November 30, 2002 and 2001:

KB HOME

CONSOLIDATED STATEMENTS OF INCOME
For the Years and Quarters Ended November 30, 2002 and 2001
(unaudited)
(in thousands, except per share amounts)

	Year		Quarter	
	2002	**2001**	**2002**	**2001**
Total Revenues	$ 5,030,816	$ 4,574,184	$ 1,682,528	$ 1,450,861
Construction:				
Revenues	4,938,894	4,501,715	1,656,312	1,426,419
Costs and expenses	(4,485,977)	(4,149,399)	(1,472,581)	(1,291,341)
Operating income	452,917	352,316	183,731	135,078
Interest income	4,173	3,559	762	913
Interest expense, net of amounts capitalized	(32,730)	(41,072)	(10,045)	(10,349)
Minority interests	(16,994)	(27,932)	(8,405)	(7,658)
Equity in pretax income of unconsolidated joint ventures	4,378	3,875	772	1,494
Construction pretax income	411,744	290,746	166,815	119,478
Mortgage banking:				
Revenues:				
Interest income	22,578	21,935	5,439	6,073
Other	69,344	50,534	20,777	18,369
	91,922	72,469	26,216	24,442
Expenses:				
Interest	(11,467)	(18,436)	(2,955)	(3,984)
General and administrative	(22,949)	(20,262)	(5,344)	(5,928)
Mortgage banking pretax income	57,506	33,771	17,917	14,530
Total pretax income	469,250	324,517	184,732	134,008
Income taxes	(154,900)	(110,300)	(61,000)	(45,500)
Net income	$ 314,350	$ 214,217	$ 123,732	$ 88,508
Basic earnings per share	$ 7.57	$ 5.72	$ 3.09	$ 2.10
Diluted earnings per share	$ 7.15	$ 5.50	$ 2.92	$ 2.03
Basic average shares outstanding	41,511	37,465	40,008	42,188
Diluted average shares outstanding	43,954	38,919	42,306	43,500

KB HOME

CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands)

	November 30, 2002	August 31, 2002	November 30, 2001
ASSETS			
Construction:			
Cash and cash equivalents	$ 309,434	$ 96,639	$ 266,195
Receivables	403,957	367,707	437,043
Inventories	2,173,497	2,199,884	1,884,761
Investments in unconsolidated joint ventures	21,023	8,935	8,844
Deferred income taxes	178,022	119,667	118,584
Goodwill	194,614	194,163	190,785
Other assets	110,887	102,764	77,310
	3,391,434	3,089,759	2,983,522
Mortgage banking:			
Cash and cash equivalents	20,551	24,240	15,138
Receivables	599,569	483,257	686,403
Other assets	13,986	15,450	7,803
	634,106	522,947	709,344
Total assets	$4,025,540	$3,612,706	$3,692,866
LIABILITIES AND STOCKHOLDERS EQUITY			
Construction:			
Accounts payable	$ 487,237	$ 427,565	$ 446,279
Accrued expenses and other liabilities	466,876	354,646	351,144
Mortgages and notes payable	1,167,053	1,174,968	1,088,615
	2,121,166	1,957,179	1,886,038
Mortgage banking:			
Accounts payable and accrued expenses	34,104	48,945	33,289
Notes payable	507,574	396,281	595,035
Collateralized mortgage obligations secured by mortgage-backed securities	14,079	16,523	22,359
	555,757	461,749	650,683
Minority interests	74,266	65,612	63,664
Stockholders equity	1,274,351	1,128,166	1,092,481
Total liabilities and stockholders equity	$4,025,540	$3,612,706	$3,692,866

KB HOME

SUPPLEMENTAL INFORMATION
For the Years and Quarters Ended November 30, 2002 and 2001
(unaudited)
(in thousands, except average sales prices and unit deliveries)

	Year		Quarter	
	2002	2001	2002	2001
Construction Revenues:				
Housing	$4,855,854	$4,367,001	$1,601,954	$1,397,061
Commercial	43,802	69,888	17,974	16,298
Land	39,238	64,826	36,384	13,060
Total	$4,938,894	$4,501,715	$1,656,312	$1,426,419

	Year		Quarter	
	2002	2001	2002	2001
Costs and Expenses:				
Construction and land costs	$3,890,243	$3,612,936	$1,286,735	$1,132,447
Selling, general and administrative expenses	595,734	536,463	185,846	158,894
Total	$4,485,977	$4,149,399	$1,472,581	$1,291,341

	Year		Quarter	
	2002	2001	2002	2001
Average Sales Prices:				
West Coast	$318,300	$283,100	$337,100	$286,300
Southwest	169,400	157,600	165,800	161,000
Central	148,100	140,700	152,600	146,100
France	161,000	146,300	172,200	146,500
Total Average Sales Price	190,800	178,000	202,000	178,800

	Year		Quarter	
	2002	2001	2002	2001
Unit Deliveries:				
West Coast	5,344	5,550	1,860	1,628
Southwest	6,037	6,238	1,805	1,797
Central	10,284	9,368	3,026	3,069
France	3,787	3,382	1,241	1,320

Total	25,452	24,538	7,932	7,814
Unconsolidated Joint Ventures	113	330		69

The Offering

Issuer	KB Home, a Delaware corporation.
The Notes	$250 million aggregate principal amount of 7 3/4% Senior Subordinated Notes due 2010.
Maturity	The notes will mature on February 1, 2010.
Payment of Interest	Interest on the notes, at the rate of 7 3/4% per annum, will accrue from January 27, 2003 and will be payable in cash semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2003.
Optional Redemption	On and after February 1, 2007, KB Home may, upon at least 30 days but not more than 60 days notice, redeem the notes, in whole or from time to time in part, at the redemption prices described in this prospectus supplement, together with accrued and unpaid interest. At any time prior to February 1, 2006, KB Home may, at its option and on one or more occasions, redeem up to 35% of the aggregate original principal amount of all notes, including any Additional Notes (as defined under Description of the Notes Certain Definitions), with the net proceeds of one or more public or private equity offerings at a redemption price of 107.75% of their principal amount, together with accrued and unpaid interest. KB Home may make this redemption only if at least $162.5 million aggregate principal amount of the notes (including any Additional Notes) remains outstanding after the redemption and only if notice of redemption is given within 60 days after the closing date of the related equity offering.
Subordination	The notes will be unsecured obligations of KB Home and will be subordinate in right of payment to all existing and future Senior Indebtedness (as defined below) of KB Home and will rank equally in right of payment with all existing senior subordinated indebtedness of KB Home. At August 31, 2002, on a pro forma basis after giving effect to the issuance of the notes and the application of $129.0 million of the estimated net proceeds to redeem all of KB Home s outstanding 9 5/8% Senior Subordinated Notes due 2006, KB Home would have had approximately $600 million of Senior Indebtedness outstanding and approximately $700 million of senior subordinated indebtedness outstanding. In addition, the notes will be effectively subordinated to all existing and future indebtedness, trade payables, guarantees and other liabilities of KB Home s subsidiaries. At August 31, 2002, KB Home s subsidiaries had approximately $1.227 billion of liabilities, excluding collateralized mortgage obligations of $16.5 million and intercompany liabilities. In addition, some of these subsidiaries have guaranteed KB Home s principal domestic revolving credit facility and related term loan. Although the indenture that will govern the notes contains limitations on the incurrence of additional indebtedness, KB Home and its subsidiaries could currently incur significant additional indebtedness, including Senior

	Indebtedness, and other liabilities and obligations. As used in this prospectus supplement, the term Senior Indebtedness means senior indebtedness as defined in the accompanying prospectus under Description of Debt Securities Senior Subordinated Debt .
Change of Control	Upon the occurrence of a Change of Control (as defined under Description of the Notes Certain Covenants Change of Control) with respect to KB Home, each holder of notes will have the right to require KB Home to repurchase that holder s notes at a price equal to 101% of their principal amount plus accrued and unpaid interest. In addition, the lenders under KB Home s Existing Credit Facilities (as defined under Description of the Notes Certain Definitions) and the holders of approximately $750 million aggregate principal amount of KB Home s other senior and senior subordinated notes outstanding at August 31, 2002, (including the $125.0 million aggregate principal amount of our 9 5/8% Senior Subordinated Notes due 2006 that we intend to redeem with a portion of the net proceeds from this offering), also have the right to require KB Home to repay borrowings under those facilities and to repurchase those notes upon the occurrence of a Change of Control or events similar to a Change of Control. KB Home may not have sufficient funds available to make any required repayment or repurchase of debt, including repurchases of the notes offered by this prospectus supplement, in the event of a Change of Control or events similar to a Change of Control.
Certain Covenants	The indenture under which the notes will be issued will contain covenants that, among other things, limit the ability of KB Home and some of its subsidiaries to incur additional indebtedness and pay dividends or make other distributions and certain investments. These limitations are subject to a number of important qualifications and exceptions.
Use of Proceeds	We estimate that the net proceeds from this offering will be approximately $245.8 million, after deducting estimated expenses. We expect to use $129.0 million of the net proceeds from this offering to redeem, on or about February 16, 2003, all of our outstanding 9 5/8% Senior Subordinated Notes due 2006, and to use the remaining net proceeds for general corporate purposes.
Book-Entry Notes	The notes will be issued in book-entry form and represented by one or more global notes deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company.

Principal Executive Offices

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

RISK FACTORS

We want you to be aware that the following important factors could adversely impact our homebuilding and mortgage lending operations. These factors could cause our actual results to differ materially from the forward-looking and other statements that we make in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus. You are also cautioned that some of the statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus are forward-looking statements and are subject to risks, uncertainties and assumptions. See Forward-Looking Statements.

Risk Factors Relating to KB Home

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

Our business is substantially affected by changes in national and general economic factors outside of our control, such as:

- short and long term interest rates;
- the availability of financing for homebuyers;
- consumer confidence;
- federal mortgage financing programs; and
- federal income tax provisions.

The cyclicality of our business is also highly sensitive to changes in economic conditions that can occur on a local or regional basis, such as changes in:

- housing demand;
- population growth;
- employment levels and job growth; and
- property taxes.

Weather conditions and natural disasters such as earthquakes, hurricanes, tornadoes, floods, droughts, fires and other casualties can harm our homebuilding business on a local or regional basis.

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

The difficulties described above can cause demand and prices for our homes to diminish or cause us to take longer and incur more costs to build our homes. We may not be able to recover these increased costs by raising prices because the price of each home is usually set several months before the home is delivered, as our customers typically sign their home purchase contracts before construction has even begun on their homes. In addition, some of the difficulties described above could cause some homebuyers to cancel their home purchase contracts altogether.

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

The availability of finished and partially developed lots and undeveloped land for purchase that meet our internal criteria depends on a number of factors outside our control, including land availability in general, competition with other homebuilders and land buyers for desirable property, inflation in land prices, and zoning, allowable housing density and other regulatory requirements. Should suitable lots or land become less available, the number of homes we may be able to build and sell could be reduced, and the cost of land could be increased, perhaps substantially, which could adversely impact our results of operations.

Home prices and sales activity in particular regions of the Western, Southwestern and Central United States impact our results of operations because our business is concentrated in these markets.

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

Interest rate increases or changes in federal lending programs could lower demand for our homes and adversely impact our mortgage lending operations.

Nearly all of our customers finance the purchase of their homes, and a significant majority of these customers arrange their financing through our mortgage lending subsidiary. Increases in interest rates or decreases in availability of mortgage financing would increase monthly mortgage costs for our potential homebuyers and could therefore reduce demand for our homes and mortgages. Increased interest rates can also hinder our ability to realize our backlog because our sales contracts provide our customers with a financing contingency. Financing contingencies allow customers to cancel their home purchase contracts in the event they cannot arrange for financing at interest rates that were prevailing when they signed their contracts.

Because the availability of FNMA, FHLMC, FHA and VA mortgage financing is an important factor in marketing many of our homes, any limitations or restrictions on the availability of those types of financing could reduce our home sales and the lending volume at our mortgage subsidiary.

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

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

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

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

Because of our French business, we are also subject to regulations and restrictions imposed by the government of France concerning investments by non-French companies, such as us, in businesses in France, as well as to French laws and regulations similar to those discussed above.

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

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

We build homes in highly competitive markets, which could hurt our future operating results.

We compete in each of our markets with a number of homebuilding companies for homebuyers, land, financing, raw materials and skilled management and labor resources. Our competitors include other large national homebuilders, as well as smaller regional and local builders that can have an advantage in local markets because of long-standing relationships they may have with local labor or land sellers. We also compete with other housing alternatives, such as existing homes and rental housing.

These competitive conditions can:

- make it difficult for us to acquire desirable land which meets our land buying criteria;
- cause us to offer or to increase our sales incentives or price discounts; and
- result in reduced sales.

Any of these competitive conditions can adversely impact our revenues, increase our costs and/or impede the growth of our local or regional homebuilding businesses.

Our mortgage lending operation competes with other mortgage lenders, including national, regional and local mortgage bankers, savings and loan associations and other financial institutions. Mortgage lenders with greater access to capital markets or those with less rigorous lending criteria can sometimes offer lower interest rates than we can, which can diminish our ability to compete and adversely impact the results of operations from our mortgage lending business.

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

We have experienced seasonal fluctuations in quarterly operating results. We typically do not commence significant construction on a home before a sales contract has been signed with a homebuyer. A significant percentage of our sales contracts are made during the spring and summer months. Construction of our homes typically requires approximately three months and weather delays that often occur during late winter and early spring may extend this period. As a result of these combined factors, we historically have experienced uneven quarterly results, with lower revenues and operating income generally during the first and second quarters of our fiscal year.

Our leverage may place burdens on our ability to comply with the terms of our indebtedness, may restrict our ability to operate and may prevent us from fulfilling our obligations.

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

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;
- impact our flexibility in planning for, or reacting to, changes in our business;
- place us at a competitive disadvantage because we have more debt than some of our competitors; and

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

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses could also be affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds through the sale of debt and/or equity securities, the refinancing of debt or the sale of assets. Changes in prevailing interest rates may also affect our ability to meet our debt service obligations, because borrowings under our bank credit facilities bear interest at floating rates. A higher interest rate on our debt could adversely affect our operating results.

Our business may not generate sufficient cash flow from operations and borrowings may not be available to us under our bank credit facilities in an amount sufficient to enable us to pay our debt service obligations or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

Under the terms of our bank credit facilities, our debt service payment obligations are defined as consolidated interest expense. As defined, consolidated interest expense for the years ended November 30, 2002 and 2001 was $101.1 million and $113.8 million, respectively. On a pro forma basis, after giving effect to the issuance of the notes offered by this prospectus supplement and the redemption of our $125 million 9 5/8% Senior Subordinated Notes due 2006, our debt service payment obligations for the years ended November 30, 2002 and 2001 would have been $108.4 million and $121.9 million, respectively.

The indenture governing the notes offered by this prospectus supplement and our other outstanding debt instruments and bank credit facilities include various financial covenants and restrictions, including restrictions on debt incurrence, sales of assets and cash distributions by us. Should we not comply with any of those restrictions or covenants, the trustees or the banks, as appropriate, could cause our debt to become due and payable prior to maturity.

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

Our homebuilding operations require significant amounts of cash and/or available credit. It is not possible to predict the future terms or availability of additional capital. Moreover, our outstanding domestic public debt, as well as our domestic bank credit facilities and the credit facilities of our French subsidiary, contain provisions that may restrict the amount and nature of debt we may incur in the future. Our bank credit facilities limit our ability to borrow additional funds by placing a maximum cap on our leverage ratio. Under the most restrictive of these provisions, as of August 31, 2002, we would have been permitted to incur up to $2.19 billion of Total Consolidated Indebtedness, as defined in the bank credit facilities. This maximum amount exceeded our actual Total Consolidated Indebtedness at August 31, 2002 by $1.03 billion. There can be no assurance that we can actually borrow up to this maximum amount at any time, as our ability to borrow additional funds, and to raise additional capital through other means, is also dependent on conditions in the capital markets and our creditworthiness. If conditions in the capital markets change significantly, it could reduce our sales and may hinder our future growth and results of operations.

Our future growth may be limited by contracting economies in the markets in which we currently operate, our inability to find appropriate acquisition candidates, or our consummation of acquisitions that may not be successfully integrated or may not achieve expected benefits.

Our future growth and results of operations could be adversely affected if the markets in which we currently operate do not continue to support the expansion of our existing business or if we are unable to identify suitable acquisition opportunities in new markets. Over the last several years, there has been significant consolidation in the homebuilding industry, which has made it somewhat more difficult for us to identify appropriate acquisition candidates in new markets and has increased competition for acquisition candidates. If we do consummate acquisitions in the future, we may not be successful in integrating the operations of the acquired businesses, including their product lines, dispersed operations and distinct corporate cultures. Our inability to grow in existing markets or find appropriate acquisition opportunities in new markets, or our failure to successfully manage future acquisitions, would limit our ability to grow and would adversely impact our future operating results.

Because we build homes in France, some of our revenues and earnings are subject to foreign currency and economic risks.

A portion of our construction operations are located in France. As a result, our financial results are affected by fluctuations in the value of the U.S. dollar as compared to the euro and changes in the French economy to the extent those changes affect the homebuilding market there. We do not currently use any currency hedging instruments or other strategies to manage currency risks related to fluctuations in the value of the U.S. dollar or the euro.

International instability, and future terrorist acts against or similar adverse developments involving the United States or France, could have a material adverse effect on our operations.

The September 11, 2001 terrorist acts against the United States and the subsequent U.S. military response initially resulted in generalized economic uncertainty. In the weeks immediately following the September 11th attacks, net orders for our homes fell sharply and cancellations increased, although they have subsequently returned to levels that compare more favorably on a year-over-year basis. We do not expect the adverse developments immediately following September 11th to have a material effect on our overall future results of operations. Despite this apparent rebound, considerable instability continues and consumer confidence is at a low level. These generalized conditions or future adverse developments in the war against terrorism, future terrorist acts against the U.S. or France, or increased international instability in general, could result in a material long-term decrease in our net orders and an increase in cancellations, which could materially adversely affect our operating results or result in a decline in the market value of the notes offered by this prospectus supplement.

Risk Factors Relating to the Notes Offered By this Prospectus Supplement

An active trading market may not develop for the notes.

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

The notes will be subordinated in right of payment to our existing and future Senior Indebtedness and will be effectively subordinated to the liabilities of our subsidiaries.

The notes will be unsecured senior subordinated debt of KB Home, will rank equally in right of payment with all of our existing senior subordinated debt, and will be junior in right of payment to all of our existing and future Senior Indebtedness. As used in this prospectus supplement, the term Senior Indebtedness has the same meaning as the term senior indebtedness as defined in the accompanying prospectus under Description of Debt Securities Senior Subordinated Debt and you should review that definition carefully. As of August 31, 2002, on a pro forma basis after giving effect to the issuance of the notes and the application of $129.0 million of the estimated net proceeds to redeem all of KB Home s outstanding 9 5/8% Senior Subordinated Notes due 2006, KB Home would have had approximately

$700 million of senior subordinated indebtedness outstanding and approximately $600 million of Senior Indebtedness outstanding. As a result of this subordination, in the event of any distribution of our assets upon a dissolution, insolvency, bankruptcy or other similar proceeding,

holders of our Senior Indebtedness will be entitled to be paid in full before any payment may be made on our senior subordinated indebtedness, including the notes, and holders of our senior subordinated indebtedness, including holders of the notes, will be required to pay over their share of any distribution to the holders of our Senior Indebtedness until the Senior Indebtedness is paid in full; and

our creditors who hold neither Senior Indebtedness nor our senior subordinated indebtedness may recover more, ratably, than holders of our senior subordinated indebtedness, including holders of the notes, and less, ratably, than holders of our Senior Indebtedness.

KB Home is a holding company, which currently conducts its operations through consolidated and unconsolidated subsidiaries. All of the operating assets of KB Home are owned by its subsidiaries, effectively subordinating the notes to all existing and future indebtedness, trade payables, guarantees and other liabilities, whether or not for borrowed money, of KB Home s subsidiaries, which liabilities totaled approximately $1.227 billion, excluding collateralized mortgage obligations of $16.5 million and intercompany liabilities, at August 31, 2002. In that regard, some of these subsidiaries have guaranteed borrowings under KB Home s principal domestic revolving credit facility and related term loan. Therefore, KB Home s rights and the rights of its creditors, including holders of the notes, to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or recapitalization will be subject to the prior claims of the subsidiary s creditors, except to the extent KB Home may itself be a creditor with recognized claims against the subsidiary, in which case the claims of KB Home would still effectively be subordinate to any security interests in the assets of that subsidiary and would be subordinate to any indebtedness of that subsidiary senior to that held by KB Home. In addition, dividends, loans and advances from some subsidiaries to KB Home may be subject to certain contractual, statutory or regulatory restrictions, are contingent upon the results of operations of those subsidiaries and are subject to various business considerations.

Although the indenture governing the notes will contain limitations on the amount of indebtedness KB Home and certain of its subsidiaries may incur, KB Home and its subsidiaries will retain the ability to incur substantial additional indebtedness, including Senior Indebtedness, and other liabilities and obligations.

Our ability to repurchase the notes following a change of control event may be limited.

Upon the occurrence of specified kinds of change of control events, holders of the notes being offered by this prospectus supplement may, at their option, require us to repurchase all or a portion of their notes at a price of 101% of the principal amount plus accrued interest. Our bank credit facilities and our outstanding 7 3/4% Senior Notes, 9 5/8% Senior Subordinated Notes, 9 1/2% Senior Subordinated Notes and 8 5/8% Senior Subordinated Notes contain similar change of control repayment and repurchase provisions. We cannot assure you that we would have the financial resources or otherwise be able to arrange financing to repay borrowings under these credit facilities or repurchase these debt securities or the notes upon the occurrence of a change of control event.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $245.8 million (after deducting estimated expenses). We expect to use $129.0 million of the net proceeds from this offering to redeem, on or about February 16, 2003, all of our outstanding 9 5/8% Senior Subordinated Notes due 2006, and to use the remaining net proceeds for general corporate purposes. The 9 5/8% Senior Subordinated Notes are currently redeemable at 103.2125% of their principal amount, have an interest rate of 9 5/8% and, if not redeemed, would mature on November 15, 2006.

CAPITALIZATION

The following table sets forth the unaudited cash and cash equivalents and capitalization of KB Home and its consolidated subsidiaries at August 31, 2002, and as adjusted to give effect to the sale of the notes offered hereby and the application of $129.0 million of the estimated net proceeds from the sale of the notes to repay all of our outstanding 9 5/8% Senior Subordinated Notes due 2006 as described in Use of Proceeds.

	At August 31, 2002	
	Actual	**As Adjusted**
	(dollars in millions)	
Cash and cash equivalents	$ 120.9	$ 237.7
Construction debt:		
Revolving and term credit facilities(1)	183.0	183.0
Mortgages and notes payable	242.3	242.3
7 3/4% Senior Notes due 2004	175.0	175.0
9 5/8% Senior Subordinated Notes due 2006(2)	124.7	
8 5/8% Senior Subordinated Notes due 2008	200.0	200.0
9 1/2% Senior Subordinated Notes due 2011	250.0	250.0
7 3/4% Senior Subordinated Notes due 2010 offered hereby		246.1
Mortgage banking debt:		
Notes payable	396.3	396.3
Collateralized mortgage obligations secured by mortgage-backed securities	16.5	16.5
Total debt	1,587.8	1,709.2
Minority interests:		
Consolidated subsidiaries and joint ventures	65.6	65.6
Stockholders equity:		
Preferred Stock $1.00 par value; authorized, 10,000,000 shares; none outstanding		
Common Stock $1.00 par value; authorized, 100,000,000 shares; 53,329,779 shares outstanding(3)	53.3	53.3
Paid-in capital	493.1	493.1
Retained earnings	982.6	982.6
Accumulated other comprehensive income	(.4)	(.4)
Deferred compensation	(9.3)	(9.3)
Grantor stock ownership trust	(172.0)	(172.0)
Treasury stock, at cost	(219.1)	(219.1)
Total stockholders equity	1,128.2	1,128.2
Total debt, minority interests, and stockholders equity	$2,781.6	$2,903.0

(1) As of December 31, 2002, KB Home had no borrowings outstanding under its principal domestic revolving credit facility and borrowings under the related term loan remained at $183.0 million.

(2) We expect to redeem, on or about February 16, 2003, all of our outstanding 9 5/8% Senior Subordinated Notes due 2006.

(3) Does not include 5,103,985 shares of common stock issuable as of August 31, 2002 upon exercise of outstanding stock options issued pursuant to employee stock option plans.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data of KB Home. The data, other than housing, commercial and land revenues, unit deliveries and the ratios of earnings to fixed charges and of earnings to combined fixed charges and preferred stock dividends, for the fiscal years ended November 30, 2001, 2000, 1999, 1998 and 1997 are derived from the financial statements for those years which have been audited by Ernst & Young LLP, independent auditors. Data related to housing, commercial and land revenues, unit deliveries and the ratios of earnings to fixed charges and of earnings to combined fixed charges and preferred stock dividends are derived from unaudited financial statements. The following selected consolidated financial data at August 31, 2002 and 2001 and for each of the nine month periods ended August 31, 2002 and 2001 is unaudited but reflects, in the opinion of KB Home, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations and financial condition as of and for these periods. The results of operations for the nine months ended August 31, 2002 are not necessarily indicative of results to be expected for the full year. The following data should be read in conjunction with the financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Nine Months Ended August 31,		Years Ended November 30,				
	2002	2001	2001	2000	1999	1998	1997
	(unaudited)		(dollars in millions, except per share amounts)				
Statement of Operations Data:							
Revenues:							
Housing	$ 3,253.9	$ 2,969.9	$ 4,367.0	$ 3,769.2	$ 3,733.7	$ 2,379.0	$ 1,827.3
Commercial	25.8	53.6	69.9	.8	.6	1.5	2.7
Land	2.9	51.8	64.8	100.5	37.8	22.5	13.6
Mortgage banking	65.7	48.0	72.5	60.4	64.2	46.4	35.1
Total revenues	$ 3,348.3	$ 3,123.3	$ 4,574.2	$ 3,930.9	$ 3,836.3	$ 2,449.4	$ 1,878.7
Construction:							
Revenues	$ 3,282.6	$ 3,075.3	$ 4,501.7	$ 3,870.5	$ 3,772.1	$ 2,403.0	$ 1,843.6
Costs and expenses	(3,013.4)	(2,858.1)	(4,149.4)	(3,581.9)	(3,513.0)	(2,254.3)	(1,741.8)
Operating income	269.2	217.2	352.3	288.6	259.1	148.7	101.8
Interest income	3.4	2.7	3.5	5.8	7.8	5.7	5.1
Interest expense, net of amounts capitalized	(22.7)	(30.7)	(41.1)	(31.5)	(28.3)	(23.3)	(29.9)
Minority interests	(8.6)	(20.3)	(27.9)	(31.6)	(29.4)	(7.0)	(.4)
Equity in pretax income (loss) of unconsolidated joint ventures	3.6	2.4	3.9	2.9	.2	1.1	(.1)
Gain on issuance of French subsidiary stock				39.6			
Construction pretax income	244.9	171.3	290.7	273.8	209.4	125.2	76.5
Mortgage banking:							
Revenues	65.7	48.0	72.5	60.4	64.2	46.4	35.1
Expenses	(26.1)	(28.8)	(38.7)	(36.5)	(46.7)	(25.0)	(20.6)
Mortgage banking pretax income	39.6	19.2	33.8	23.9	17.5	21.4	14.5
Total pretax income	284.5	190.5	324.5	297.7	226.9	146.6	91.0
Income taxes	(93.9)	(64.8)	(110.3)	(87.7)	(79.4)	(51.3)	(32.8)

Net income	$	190.6	$	125.7	$