KB HOME
Form DEF 14A
March 02, 2018
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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 x Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o 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)
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Dear Fellow Stockholder:

Together with the Board of Directors and the management team of KB Home, I am pleased to invite you to our 2018 Annual Meeting of Stockholders. The meeting will be held at 9:00 a.m., Pacific Time, on Thursday, April 12, 2018, at our Corporate Office, which is located at 10990 Wilshire Boulevard in Los Angeles, California.

2017 in Review

In many ways, 2017 was an exceptional year for our Company. It marked another year of significant growth in our revenues, profitability and returns, driving a total stockholder return of 99% - one of the best in our industry group. We were recognized for our continued work in sustainable homebuilding, focusing on efficient, healthy and technology-enabled homes. And, throughout the year, we celebrated the 60th anniversary of our founding. Our anniversary provided many opportunities to look back at our modest beginnings, progress through the years, and our strong position today to extend our profitable growth into the future.

Entering the year, our initial, high-level expectations were for housing revenues of approximately $4 billion and a homebuilding operating income margin of approximately 6.0%. By year’s end, we had expanded our housing revenues by 21% to $4.3 billion, and produced a 140-basis point increase in our homebuilding operating income margin to 7.1%, excluding inventory-related charges. The combined effect of increasing our scale and improving our profitability drove pretax income of $290 million. Equally as important, we significantly expanded key returns metrics, with our return on invested capital increasing by 220 basis points to 7.4%, and return on equity improving by 370 basis points to 10%.

It was also the first year of our three-year Returns-Focused Growth Plan. The foundation of this Plan is our ability to produce substantial cash flow that we can then deploy in a balanced way to drive our continued profitable growth and reduce our debt. In executing our Plan in 2017, we generated considerable cash that enabled us to invest $1.5 billion in land acquisition and development, lower our debt balance by more than $300 million, and still end the year with over $700 million in cash on our balance sheet and no cash borrowings outstanding on our revolving credit facility.

Housing market conditions remained favorable in 2017, with job and wage growth, and increasing healthy demand from first-time buyers driving sales of new homes. At the same time, supply remained constrained, with existing home inventory nationally falling to a 3.2-month supply in December 2017, and below that in most of the markets in which we build. With these dynamics in place, our focus during the year was on maintaining our strong net order pace per community and increasing prices, where possible.

We were successful with this approach, increasing our year-over-year net order value by 17% to $4.5 billion, on a 6% increase in net orders to 10,900. Our robust net order value growth contributed to our year-end backlog value expanding by 9% to $1.7 billion, our highest year-end backlog in a little over a decade.

In 2017, our joint venture with Stearns Lending, KBHS, became operational and began offering mortgage banking services to homebuyers in our served markets. KBHS contributed to our results through an improving capture rate and growing income stream, by providing a consistent and reliable level of service to our homebuyers, and by supporting our divisions in achieving greater predictability in deliveries. Looking ahead, we expect KBHS to become a more impactful part of our business.

For additional details on our 2017 performance as well as our outlook for 2018 and related business risk factors, please refer to our Annual Report on Form 10-K for the fiscal year ended November 30, 2017.

Sustainability and Innovation

In 2017, we continued our longstanding industry leadership in sustainability, which has become one of our core values and contributes to our goal of making owning a home more affordable for our buyers. Our commitment to sustainability is embedded into every home we build, and enables us to deliver homes that have superior energy and water efficiency, a healthier indoor environment, and enhanced integration of smart-home technologies, as compared to most resale homes.

Our accomplishments in this area were recognized with a number of industry-first awards, including seven consecutive ENERGY STAR® Partner of the Year - Sustained Excellence Awards, three ENERGY STAR Climate Communications awards, and three consecutive WaterSense® Sustained Excellence Awards. In addition, we earned 18 ENERGY STAR Certified Homes Market Leader awards in 2017, reflecting our leadership in building ENERGY STAR certified homes in each of our served markets.

Responding to the interests of our buyers as part of our customer-driven approach to homebuilding, we expanded our smart-home offerings and collaborations with leading technology companies in 2017. Our homes include Wi-Fi connected devices, such as thermostats, that are compatible with Apple®'s HomeKit™ and Amazon's Alexa®. In addition, we are increasingly working on designing homes that respond to and may even anticipate the homeowner's needs. We are excited about the possibilities that technology can enable within the homes we build, and look forward to further developing our expertise.

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In Closing

We are making excellent progress on our Returns-Focused Growth Plan, and are poised to continue to do so in 2018. We believe our business is well positioned geographically in some of the fastest growing housing markets in the country, with products that are designed to appeal to the strongest demand segment-first-time homebuyers-which made up one-half of our deliveries in 2017. 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,

JEFFREY T. MEZGER
Chairman, President and Chief Executive Officer
March 2, 2018

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NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

Time and Date	9:00 a.m., Pacific Time, on Thursday, April 12, 2018.
Location	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) Approve the Amended and Restated Rights Agreement. (4) Ratify Ernst & Young LLP's appointment as KB Home's independent registered public accounting firm for the fiscal year ending November 30, 2018. 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 on February 9, 2018.
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 February 9, 2018, authorized proxy holders of such stockholders and invited guests of the Board of Directors ("Board") may attend the meeting in person. Picture identification and an admission ticket will be required to attend. The accompanying Proxy Statement describes how to request an admission ticket. We must receive written ticket requests by March 30, 2018.
Annual Report	Copies of our Annual Report on Form 10-K for the fiscal year ended November 30, 2017 ("Annual Report"), including audited financial

statements, are being made available to stockholders concurrently with the accompanying Proxy Statement. We anticipate these materials will first be made available on or about March 2, 2018.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on April 12, 2018: Our Proxy Statement and Annual Report are available at www.kbhome.com/investor/proxy.

BY ORDER OF THE BOARD OF DIRECTORS,
WILLIAM A. (TONY) RICHELIEU
Vice President, Corporate Secretary and Associate General Counsel
Los Angeles, California
March 2, 2018

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KB HOME
10990 Wilshire Boulevard
Los Angeles, CA 90024
(NYSE:KBH)

PROXY STATEMENT

Your Board is furnishing this Proxy Statement and a proxy/voting instruction form or a Notice of Internet Availability, as applicable, to you to solicit your proxy for our 2018 Annual Meeting of Stockholders ("Annual Meeting"). We anticipate these proxy materials will first be made available on or about March 2, 2018. Stockholders can vote via the Internet, telephone or mail or in person at the Annual Meeting, as described under "Annual Meeting, Voting and Other Information."

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ANNUAL MEETING OVERVIEW

This overview provides a brief summary of the items of business for the Annual Meeting. Please review the more detailed information in this Proxy Statement and our Annual Report before voting.

Items of Business	Key Meeting Information	
Ø Elect ten directors, each to serve for a one-year term.		
Ø Advisory vote to approve named executive officer (“NEO”) compensation.	Date	Thursday, April 12, 2018.
Ø Approve the Amended and Restated Rights Agreement.	Time	9:00 a.m., Pacific Time.
Ø Ratify Ernst & Young LLP’s appointment as our independent registered public accounting firm (“Independent Auditor”) for the fiscal year ending November 30, 2018.	Location	KB Home Corporate Office Los Angeles, CA 90024.
	To Attend	You must request an admission ticket to attend the Annual Meeting in person. We must receive written ticket requests by March 30, 2018, as described under “Admission to the Annual Meeting.”

Board of Directors Nominees

As discussed under “Election of Directors,” below are the nominees for election to the Board at the Annual Meeting.

Name	Year First Elected	Primary Occupation	Committee Membership
Dorene C. Dominguez	2017	Chairwoman and Chief Executive Officer, Vanir Group of Companies, Inc.	ACC
Timothy W. Finchem	2005	Board Chair, The First Tee; Former PGA TOUR Commissioner	MDCC NCGC (Chair)
Dr. Stuart A. Gabriel	2016	Director, Richard S. Ziman Center for Real Estate at UCLA; and Professor of Finance and Arden Realty Chair, UCLA Anderson School of Management	ACC
Dr. Thomas W. Gilligan	2012	Director, Hoover Institution on War, Revolution and Peace	ACC NCGC
Kenneth M. Jastrow, II	2001	Former Chairman and CEO, Temple-Inland Inc.	MDCC (Chair)
Robert L. Johnson	2008	Founder and Chairman, The RLJ Companies	MDCC NCGC
Melissa Lora	2004	President, Taco Bell International	ACC (Chair) MDCC
Jeffery T. Mezger	2006	Chairman, President and Chief Executive Officer (“CEO”), KB Home	N/A
James C. Weaver	2017	Chief Executive Officer, McCombs Partners	ACC
Michael M. Wood	2014	Founder and Chairman, Redwood Investments LLC	ACC NCGC

Committee Key: “ACC”=Audit and Compliance; “MDCC”=Management Development and Compensation; “NCGC”=Nominating and Corporate Governance

Your Board recommends a vote “FOR” the election of each director nominee

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Advisory Vote to Approve NEO Compensation

As shown below, and as discussed under “Compensation Discussion and Analysis,” we believe we have a strong alignment of our executive compensation with performance that supports advisory approval of 2017 fiscal year NEO compensation.

FY2017 KEY PERFORMANCE METRICS

Stockholder Returns	Total Stockholder Return (“TSR”)	ñ	99%
	Return on Equity		10% (+370 basis points)
Financial Results	Total Revenues	ñ	22%
	Homebuilding Operating Income		86%
	Total Pretax Income		94%
	Net Income		71%
Operating Results	Net Order Value	ñ	17%
	Year-End Backlog Value		9%

Your Board recommends an advisory vote “FOR” approval of NEO compensation

Approve the Amended and Restated Rights Agreement

As discussed under “Approve the Amended and Restated Rights Agreement,” the Board believes it is important to maintain the protections of our Rights Agreement to help preserve the valuable tax benefits of our significant remaining net operating losses for up to three more years.

Your Board recommends a vote “FOR” approving the Amended and Restated Rights Agreement

Independent Auditor Appointment

As discussed under “Audit Matters,” we are seeking stockholder ratification of the Audit and Compliance Committee’s appointment of Ernst & Young LLP as our Independent Auditor for the fiscal year ending November 30, 2018.

Your Board recommends a vote “FOR” ratifying Ernst & Young LLP’s appointment

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CORPORATE GOVERNANCE AND BOARD MATTERS

The Board is elected by our stockholders to oversee the management of our business and to assure that our stockholders' long-term interests are being served. The Board carries out this role subject to Delaware law (our state of incorporation), and in accordance with our Corporate Governance Principles. The Board held five meetings during 2017.

Corporate Governance Highlights

- All directors are independent, except our CEO, and elected annually under a majority voting standard.
- Our three standing Board committees are entirely composed of independent directors.
- Non-employee directors meet in executive sessions at each in-person Board meeting, and any non-employee director can request additional executive sessions.
- All directors, senior executives and employees are prohibited from pledging or hedging their holdings of our securities.
- Beginning with 2017 awards, employee equity award agreements require double-trigger vesting in a change in control.
- Directors and senior executives are subject to strong stock ownership requirements.
- There is Board-level oversight of our political contributions.
- All directors, senior executives and employees must comply with the standards of conduct in our Ethics Policy.
- Each director attended at least 75% of the meetings of the Board and Board committees on which they served during 2017.
- We expect all directors to attend our annual meeting of stockholders. All directors serving at the time attended our 2017 Annual Meeting of Stockholders on April 13, 2017.
- Executive officers are subject to an incentive compensation clawback policy.
- We have one class of voting securities and no supermajority voting requirements (except as provided by Delaware law).

Board Leadership

The Board believes that having an independent director serve as Chairman or Lead Independent Director is the most appropriate Board leadership structure to carry out its role and responsibilities. In August 2016, and again in April 2017, the non-employee directors elected Mr. Mezger, our CEO, 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 his serving as Chairman and CEO would further enhance the execution of our core strategies to achieve our long-term growth goals. Board governance is balanced by a robust Lead Independent Director position with the duties listed below, which are designed to maintain the Board's steady independent oversight of our business. Ms. Lora was elected Lead Independent Director in November 2016 and again in April 2017.

Lead Independent Director Duties

- Preside at all meetings of the Board at which the Chairman is not present, and at all executive sessions of the non-employee directors.
- Serve as liaison between the Chairman and the non-employee directors.

• Consult with the Chairman, Board committee chairs and other non-employee directors (as appropriate) regarding meeting agendas and schedules to assure that there is sufficient time for discussion of all agenda items, and regarding the content and flow of information to the Board.
• Organize and preside at meetings of the non-employee directors at any time and for any purpose.
• Provide Board leadership if there is (or there is perceived to be) a conflict of interest with respect to the role of a Chairman who is also the Chief Executive Officer.
• If requested by major stockholders, being available to them for consultation and communication as appropriate.
• Any such additional

responsibilities, duties and functions as set forth in our Corporate Governance Principles or By-Laws, or as may otherwise be determined by the Board from time to time.

Director Independence

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 and Corporate Governance Committee's prior review and recommendation, and certain categorical standards contained in our Corporate Governance Principles that are consistent with

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New York Stock Exchange ("NYSE") listing standards. The Board has determined that, other than Mr. Mezger, all directors who served in 2017 and all director nominees are independent. 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 from CIT Group (where she serves as a non-employee director) a nominal number of copy machines; and that Mr. Wood's independence was not impaired by, and he did not have a direct or indirect material interest in, our receipt of consulting services and research data in 2017 from a firm in which he owns a <1% passive equity interest.

Board Committee Information

The Board has three standing committees — Audit and Compliance ("Audit Committee"); Management Development and Compensation ("Compensation Committee"); and Nominating and Corporate Governance ("Nominating Committee") — to which it has delegated various duties. The Board appoints the members of and has adopted a charter for each committee. At each regular Board meeting, the committee chairs report to the Board on their particular committee's activities. The Board and each committee conduct an annual evaluation of their respective performance, with each committee reporting on its own assessment to the full Board. Each committee member served during all of 2017, other than Ms. Dominguez and Mr. Weaver, who both joined the Audit Committee upon their election to the Board on July 12, 2017 and October 5, 2017, respectively. Robert L. Patton, Jr. served on the Audit Committee and the Nominating Committee during 2017 until his resignation from the Board effective April 13, 2017.

	Audit Committee	Compensation Committee	Nominating Committee
Members	Lora (Chair) Gilligan Dominguez Weaver Gabriel Wood	Jastrow (Chair) Finchem Lora Johnson	Finchem (Chair) Gilligan Wood Johnson
FY2017 Meetings	6	5	4
Key Duties	– Oversees our corporate accounting and reporting practices and audit process, including our Independent Auditor's qualifications, independence, retention, compensation and performance. – Is authorized to approve our incurring, guaranteeing or redeeming debt, and our entry into certain transactions.	– Evaluates and determines our CEO's compensation. – Determines the compensation of our CEO's direct reports. – Oversees an annual review of leadership development and workforce succession plans at all management levels, including for the CEO. – Evaluates and recommends non-employee director compensation and benefits.	– Oversees our corporate governance policies and practices. – Reviews "related party transactions," as discussed below. – Oversees annual Board and committee performance evaluations. – Identifies, evaluates and recommends qualified director candidates to the Board.
Other Items	– Each member is financially literate, and an "audit committee financial expert," per NYSE listing standards and	– Each member is a "non-employee director" under SEC rules and an "outside director" under Internal Revenue	– Regularly evaluates the skills and characteristics of current and potential directors, and identified for each

Securities and Exchange Commission ("SEC") rules. – It is a separately designated standing audit committee as defined in Section 3(a)(58)(A) of the Securities Exchange Act of 1934. – The Board determined that Dr. Gabriel's simultaneous service on the audit committees of three other public companies does not impair his ability to serve effectively on the Audit Committee.	Code ("Code") Section 162(m). – Is assisted with its duties by our management and an outside consultant, Frederic W. Cook & Co., Inc. ("FWC"). – May delegate its duties to our management, except the authority to grant equity-based awards, or to a Board subcommittee. 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.	individual the Board has nominated for election at the Annual Meeting certain specific skills and qualifications that led to the Board's determination that each such nominee should serve as a director, as described under "Election of Directors."

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Board Role in Risk Oversight

As described below, the Board oversees our management's plans, policies and processes for identifying, assessing and addressing business risks while advancing our strategic goals. The Board has delegated its risk oversight responsibilities to the Audit Committee, except for employee compensation-related risks that are under the Compensation Committee's purview.

Audit Committee Role. The Audit Committee oversees our management's performance of an annual enterprise risk management assessment that identifies significant risks in our business and operations, along with corresponding mitigating factors, and receives periodic updates upon request or as deemed appropriate. The Audit Committee chair reports to the Board on significant risks as deemed appropriate. In addition, at each of its regular meetings, the Audit 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 Role. 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 Compensation Committee also reviews and, as appropriate, approves compensation arrangements developed by our senior human resources personnel. The Compensation Committee chair reports to the Board on significant risks as deemed appropriate. Based on this oversight approach and our most recent annual risk assessment, we do not believe that our present employee compensation policies and programs are likely to have a material adverse effect on us.

Certain Relationships and 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 "Covered Transaction"), except as otherwise determined by the Board. Covered individuals and stockholders are expected to inform our Corporate Secretary of Covered Transactions, and we collect information from our directors, director nominees and executive officers about their and their family members' affiliations so that we can review our records for any such transactions.

Per the policy and procedures set forth in its Charter, the Nominating Committee will approve or ratify a Covered 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 under our Corporate Governance Principles or (c) be deemed to be a conflict of interest under our Ethics Policy. There were no Covered Transactions in 2017.

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 the attributes listed in our Corporate Governance Principles and diversity of background and personal experience, among other factors. Diversity may encompass 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 in relation to the personal characteristics of current directors and other potential director nominees. There is no formal policy as to how diversity is applied, and an individual's background and personal experience, while important, do not necessarily outweigh any other factors.

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. Current directors recommended Ms. Dominguez and Mr. Weaver as candidates prior to their respective elections to the Board in 2017. A professional firm assisted with our outreach to Ms. Dominguez. 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.

Communicating with the Board

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

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DIRECTOR COMPENSATION

Our directors (other than Mr. Mezger, who is not paid for his Board service) are primarily compensated under a plan the Board approved in October 2014, as described below. Director compensation is based on service for a "Director Year," a period that begins on the date of an annual meeting of stockholders and ends on the day before the next annual meeting.

Non-Employee Director Compensation

Board Retainer	$100,000
Equity Grant (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 (for each additional non-regularly scheduled meeting)

* The Board established the Lead Independent Director retainer in August 2016.

Non-Employee Director Compensation Components.

Retainers. Each director may elect to receive their respective retainers in equal quarterly cash installments, as a grant of unrestricted shares of our common stock and/or as a grant of 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 unrestricted shares of our common stock and/or in stock units. Grants are made on the first date of a Director Year, with the rounded number of shares/units granted based on our common stock's closing price on that 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, and cash dividend equivalent payments on their stock units. Stock units have no voting rights. If a director has not satisfied the 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 Board or committee meeting that is not a regularly scheduled meeting and have also attended the Board's or the applicable committee's prior Director Year meetings. No such fees were paid in 2017.

Directors elected to the Board other than at an annual meeting receive prorated compensation, with equity grants made on their election date. We also pay directors' travel-related expenses for Board meetings and Board activities.

Director Compensation During Fiscal Year 2017

Name(a)	Fees Earned or Paid in Cash ($)(b)	Stock Awards ($)(c)	All Other Compensation ($)	Total ($)
Ms. Dominguez	$ 55,000	$72,500	$ —	$127,500
Mr. Finchem	—	267,000	—	267,000
Dr. Gabriel	110,000	145,000	—	255,000
Dr. Gilligan	115,000	145,000	—	260,000
Mr. Jastrow	118,000	145,000	—	263,000
Mr. Johnson	100,000	157,000	—	257,000
Ms. Lora	10,000	317,000	—	327,000
Mr. Weaver	36,250	27,500	—	63,750

Mr. Wood	100,000	160,000	—	260,000

(a) Ms. Dominguez was elected to the Board on July 12, 2017, and Mr. Weaver was elected to the Board on October 5, 2017. Therefore, each received prorated compensation during 2017.

(b) Fees Earned or Paid in Cash. These amounts generally represent the cash retainers paid to directors per their elections. The amount for Ms. Lora reflects her Lead Independent Director retainer paid in the 2017 first quarter for the 2016–2017 Director Year.

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(c) Stock Awards. These amounts represent the aggregate grant date fair value of the unrestricted shares of our common stock or stock units granted to our directors in 2017. 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 such grants were made on April 13, 2017, except that Ms. Dominguez's and Mr. Weaver's grants were made on the respective dates on which they were elected to the Board. The table below shows the respective grants of unrestricted shares of our common stock and/or stock units to our directors in 2017 and each director's total holdings of equity-based compensation awards as of February 16, 2018.

Name	2017 Common Stock Grants (#)	2017 Stock Unit Grants (#)	Total Holdings (#)(i)
Ms. Dominguez	3,051	—	3,051
Mr. Finchem	—	13,288	180,142
Dr. Gabriel	7,217	—	17,251
Dr. Gilligan	7,217	—	65,489
Mr. Jastrow	—	7,217	153,018
Mr. Johnson	7,814	—	156,682
Ms. Lora	—	15,777	223,749
Mr. Weaver	1,413	—	1,413
Mr. Wood	746	7,217	44,314

(i) Total Holdings. These amounts reflect the directors' total respective outstanding holdings of equity-based compensation awards, consisting of grants of unrestricted shares of our common stock, stock units and stock options in the following amounts: Ms. Dominguez 3,051, 0 and 0; Mr. Finchem 0, 124,792 and 55,350; Dr. Gabriel 17,251, 0 and 0; Dr. Gilligan 17,251, 21,349 and 26,889; Mr. Jastrow 10,034, 87,634 and 55,350; Mr. Johnson 28,570, 34,769 and 93,343; Ms. Lora 0, 157,179 and 66,570; Mr. Weaver 1,413, 0 and 0; and Mr. Wood 1,784, 31,152 and 11,378. Director stock options were last granted in April 2014, as they ceased being a component of director compensation after that date; accordingly, no director stock options have been granted to Ms. Dominguez, Dr. Gabriel or Mr. Weaver. Some 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 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, 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 directors' respective elections, each 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 (and are referred to in this Proxy Statement as "Director SARs"). No Director SARs held by current directors have been so settled.

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 the 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. As a result, Messrs. Finchem and Jastrow and Ms. Lora are the only current directors who are participants in the program. 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, we will make a charitable donation on each participant's behalf of up to $1 million to up to five participant-designated, qualifying institutions or organizations. Donations are paid in ten equal annual installments directly to the designated recipient institutions or organizations after a participant's death. We maintain life insurance policies to help fund these donations, but no premium payments for the policies were required to be made in 2017. Premium payments, where required, vary depending on participants' respective ages and other factors. The total amount payable under the program at November 30, 2017 was $14.9 million.

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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 2019 Annual Meeting of Stockholders. Each nominee has consented to being nominated and has agreed to serve as a director if elected. Each nominee is standing for re-election, except for Ms. Dominguez and Mr. Weaver, who were each elected to the Board in 2017. Should any of the nominees become unable to serve as a director prior to the Annual Meeting, the individuals named as proxies for the meeting will, unless otherwise directed, vote for the election of another person as the Board may recommend. On the date of the Annual Meeting, if the Board's nominees are elected, the Board will have ten directors. There are no term limits for directors.

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).

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 their 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.

BOARD RECOMMENDATION: FOR THE ELECTION OF EACH DIRECTOR NOMINEE

Provided below is information on each director nominee's skills and qualifications, and current and former professional experience, including current and any former (within the past five years) public company directorships.

Dorene C. Dominguez Chairwoman and Chief Executive Officer, Vanir Group of Companies, Inc.	Age: 55 Elected in 2017 Public Company Directorships: –KB Home –CIT Group Inc.	Other Professional Experience: –Board Member, California Chamber of Commerce (2017-Present) –Board Member, Pride Industries, nonprofit employer of individuals with disabilities (2009-Present) –Latino Studies Advisory Board Member, University of Notre Dame (2007-Present)

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.

Timothy W. Finchem Board Chair, The First Tee; Former PGA TOUR Commissioner	Age: 70 Director Since: 2005 Public Company Directorships:	Other Professional Experience: –PGA TOUR Commissioner (1994-2016) –Deputy Advisor to the President, White House Office of Economic Affairs (1978-1979)

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

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.

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Dr. Stuart A. Gabriel Director, Richard S. Ziman Center for Real Estate at UCLA; and Professor of Finance and Arden Realty Chair, UCLA Anderson School of Management	Age: 64 Director Since: 2016 Public Company Directorships: –KB Home –KBS Real Estate Investment Trust, Inc. –KBS Real Estate Investment Trust II, Inc. –KBS Real Estate Investment Trust III, Inc.	Other Professional Experience: –Director and Lusk Chair, USC Lusk Center for Real Estate (1997-2007) –Associate Professor/Professor, Finance and Business Economics, USC Marshall School of Business (1990-1997) –Economics Staff Member, Federal Reserve Board (1986-1990)

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 his 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.

Dr. Thomas W. Gilligan Director, The Hoover Institution on War, Revolution and Peace	Age: 63 Director Since: 2012 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) –Staff Economist, White House Council of Economic Advisors (1983-1984)

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.

Kenneth M. Jastrow, II Former Chairman and CEO, Temple-Inland Inc.	Age: 70 Director Since: 2001 Public Company Directorships: –KB Home –MGIC Investment Corporation –Genesis Energy, LLC	Other Professional Experience: –Non-Executive Chairman, Forestar Group Inc., a real estate and natural resources company (2007-2015) –Chairman and Chief Executive Officer, Temple-Inland Inc., a paper, forest products and financial services company (2000-2007)

–Forestar Group Inc.
(2007-2015)

Kenneth M. Jastrow, II 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.

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Robert L. Johnson Founder and Chairman, The RLJ Companies	Age: 71 Director Since: 2008 Public Company Directorships: –KB Home –Lowe's Companies, Inc. –RLJ Entertainment, Inc. –RLJ Lodging Trust –Strayer Education, Inc. (2003-2016)	Other Professional Experience: –Founder and Chief Executive Officer, Black Entertainment Television (BET), a television and entertainment network (1979-2006) –Museum Council Member, Smithsonian Institution's National Museum of African American History and Culture (2004-Present)

Robert L. Johnson is founder and chairman of The RLJ Companies, an innovative business network that owns or holds interests in a diverse portfolio of companies in the consumer financial services, private equity, investment banking, real estate, hospitality, professional sports, film production, gaming and automobile dealership industries. Prior to forming The RLJ Companies in 2004, Mr. Johnson was founder and chief executive officer of BET, which was acquired by Viacom Inc. in 2001. He continued to serve as chief executive officer of 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.

Melissa Lora President, Taco Bell International	Age: 55 Director Since: 2004 Lead Independent Director Since: 2016 Public Company Directorships: –KB Home –MGIC Investment Corporation	Other Professional Experience: –Global Chief Financial and Development Officer, Taco Bell Corp. (2012-2014) –Chief Financial Officer, Taco Bell Corp. (2001-2012) –Regional Vice President and General Manager, Taco Bell Corp. (1998-2000)

Melissa Lora has been since 2013 the President of Taco Bell International, a segment of Taco Bell Corp., which is a division of Yum! Brands, Inc., one of the world's largest restaurant companies. Taco Bell Corp. recently announced that Ms. Lora will retire from her position in summer 2018. 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 has provided strong leadership as its chair since 2008. In November 2016, the Board elected Ms. Lora as Lead Independent Director.

Jeffrey T. Mezger Chairman, President and Chief Executive Officer, KB Home	Age: 62 Director Since: 2006 Chairman Since: 2016 Public Company Directorships: –KB Home	Other Professional Experience: –Executive Board Member, USC Lusk Center for Real Estate (2000-2017) –Policy Advisory Board Member, Fisher Center for Real Estate and Urban Economics at UC Berkeley Haas School of Business (2010-present) –Policy Advisory Board Member, Harvard Joint Center for Housing Studies (2004 -2017; Board Chair 2015-2016) –Founding Chairman, Leading Builders of America (2009-2013; Executive Committee member until 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 nearly 40 years of experience in the public homebuilding sector.

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James C. Weaver Chief Executive Officer, McCombs Partners	Age: 42 Elected in 2017 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) –Member, The McCombs School of Business Advisory Board (2014-Present) –San Antonio Chamber of Commerce Board of Directors (Member 2014-2017; Chairman 2016-2017)

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.

Michael M. Wood Founder and Chairman, Redwood Investments LLC	Age: 70 Director Since: 2014 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) –Co-Founder and Chief Executive Officer, Hanley Wood LLC, a business-to-business publishing company (1976-2005)

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.

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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 16, 2018. 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	3,051	—	—
Timothy W. Finchem	180,142	55,350	—
Dr. Stuart A. Gabriel	17,251	—	—
Dr. Thomas W. Gilligan	65,489	26,889	—
Kenneth M. Jastrow, II	153,018	55,350	—
Robert L. Johnson	156,682	93,343	—
Melissa Lora	225,792	66,570	—
James C. Weaver	1,413	—	—
Michael M. Wood	44,314	11,378	—
Named Executive Officers			
Jeffrey T. Mezger	4,256,314	3,495,027	—
Jeff J. Kaminski	388,991	262,559	25,273
Albert Z. Praw	298,883	187,606	17,875
Brian J. Woram	576,551	437,461	17,155
William R. Hollinger	584,747	429,772	10,170
All directors and executive officers as a group (15 people)	7,201,141	5,308,769	78,898

(a) No non-employee director or NEO owns more than 1% of our outstanding common stock, except for Mr. Mezger, who owns 4.3%. All non-employee directors and executive officers as a group own 8.6% of our outstanding common stock. The total ownership amounts reported for each non-employee director includes their respective aggregate equity-based compensation awards, as described under "Director Compensation." Dr. Gabriel, Ms. Lora, Mr. Wood and Mr. Kaminski each hold their respective reported total ownership amounts in family trusts over which they have shared voting and investment control with their respective spouses. The amounts reported in this column for directors include 2,043 shares of our common stock that Ms. Lora directly owns.

(b) The reported stock option amounts are the shares of our common stock that can be acquired within 60 days of February 16, 2018 through the exercise of Director SARs (as described under "Director Compensation"), or common stock option awards (for the NEOs). The respective reported Director SAR/stock option and restricted common stock amounts are included in the total ownership amounts reported for each non-employee director and NEO.

The table below shows the beneficial ownership of each stockholder known to us to beneficially own more than five percent of our common stock. Except for the Grantor Stock Ownership Trust ("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, 2017. Some of the percentage ownership figures below have been rounded.

Stockholder(a)	Total Ownership	Percent of Class
BlackRock, Inc. 55 East 52nd Street, New York, NY 10055	10,649,861	12%
The Vanguard Group, Inc. 100 Vanguard Blvd., Malvern, PA 19355	9,394,663	11%
KB Home Grantor Stock Ownership Trust(b) Wells Fargo Retirement and Trust Executive Benefits, One West Fourth Street, Winston-Salem, NC 27101	8,897,954	9%

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

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	Blackrock, Inc.(i)	The Vanguard Group, Inc.(ii)
Sole voting power	10,476,648	108,498
Shared voting power	—	11,562
Sole dispositive power	10,649,861	9,280,566
Shared dispositive power	—	114,097

(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 own 102,535 and 17,525 shares, respectively.

(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 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. The number of GSOT shares that any one employee can direct the vote of depends on how many eligible employees submit voting instructions to the trustee. 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 749,737; Mr. Praw 531,055; Mr. Woram 1,052,597; and Mr. Hollinger 986,370; and all current executive officers as a group (excluding Mr. Mezger) 3,781,395.

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 directors serving on the Board on October 9, 2014 must meet the ownership threshold by the fifth anniversary of that date). Our executive stock ownership policy requires designated senior executives, including our NEOs, to own a certain number of shares within five years of becoming subject to the policy. The policy is discussed under "Equity Stock Ownership Policy." Each of our non-employee directors and NEOs is in compliance with their respective 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 2017 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

2017 Fiscal Year Performance Highlights

In our 2017 fiscal year, we made great progress on our aggressive performance goals under our Returns-Focused Growth Plan, as discussed in our Annual Report, and produced strong financial and operational results.

These results were achieved across several short-term and long-term metrics, with many demonstrating considerable growth compared to the previous year and over the last three years.

We also generated significant returns for our stockholders in 2017 with a substantial rise in our TSR.

Stockholder Returns	One-Year TSR		99%
	One-Year Return on Equity	ñ	10% (+370bps)
Short-Term Financial Results	Total Revenues	ñ	22%
	Homebuilding Operating Income		86%
	Total Pretax Income		94%
	Net Income		71%
Short-Term Operating Results	Annual Net Order Value	ñ	17%
	Year-End Backlog Value		9%
Long-Term Performance Results	Three-Year Revenue Growth	ñ	82%
	Three-Year Pretax Income Growth		205%
	Three-Year Cumulative Pretax Income		$566M

Pay for Performance — CEO Compensation

- Our CEO’s compensation was nearly 90% performance-based.
- 100% of our CEO’s long-term incentives were performance-based restricted stock units (“PSUs”).
- Our CEO’s annual incentive award of $4.38 million was performance-based and formula-driven, and reflected our profitability growth and improved asset efficiency in 2017.

Listening to our Stockholders

In 2017, we continued our longstanding practice of reaching out to our stockholders, including nearly all of our 25 largest stockholders, directly engaging with holders representing over 50% of our outstanding shares ahead of our 2017 Annual Meeting. We also engaged with stockholders in early 2018 to solicit additional feedback on our executive compensation programs.

In evaluating our executive compensation programs during 2017, 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. Therefore, for 2017, 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 with respect to its executive compensation decisions. In addition, taking stockholder views into account, the Compensation Committee approved in 2017 employee equity award agreements that require double-trigger vesting in a change in control, and, at its recommendation, the Board adopted in January 2018 an executive officer incentive compensation claw-back policy. The Compensation Committee welcomes and will continue to consider stockholders’ perspectives on executive compensation in the future.

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Compensation Governance

KEY FEATURES OF OUR EXECUTIVE COMPENSATION PROGRAMS

What We Do	What We Don't Do
ü Engage with and consider stockholder input in designing our executive pay programs.	x Do not allow re-pricing or cash-out of underwater stock options without stockholder approval.
ü Link annual NEO incentive pay to objective, pre-established financial performance goals, which are three-year goals for long-term incentives.	x Do not provide any new excise tax "gross-ups" to any officer or employee.
ü Grant all of our NEOs' long-term incentives in performance-based restricted stock units.	x Do not allow our NEOs (or any employees or non-employee directors) to hedge or pledge their holdings of our securities.
ü Beginning with 2017 awards, employee equity award agreements require double-trigger vesting in a change in control.	x Do not, without stockholder approval, enter into new severance arrangements with executive officers above the limits specified in a longstanding policy, as described under "Severance Arrangements."
ü Subject our executive officers to an incentive compensation claw-back policy.	x Do not provide excessive perquisites. Perquisites are generally limited to market-competitive medical benefits and the opportunity to participate in a deferred compensation plan.
ü 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.	x Do not pay dividends or dividend equivalents on performance-based equity awards before they vest.
ü Engage, at the sole direction of the Compensation Committee, an independent compensation consultant.	
ü Maintain robust stock ownership requirements for all NEOs.	
ü Maintain a relevant industry peer group.	

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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' 2017 annual incentive payouts 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 total grant date fair value for our NEOs, a shift from prior years' grants, which included other long-term incentive vehicles. • 2017 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.	• Focuses executives on achievement of long-term results and encourages retention. • Establishes strong alignment with long-term stockholder interests through performance-based payouts in shares of our common stock.
RETIREMENT PROGRAMS AND PERQUISITES		• A 401(k) plan in which all eligible employees may participate. • Legacy executive retirement and death benefit plans have been closed to new participants for over a decade. • Market-competitive medical, dental and vision benefits and the opportunity to participate in a deferred compensation plan.	• Programs are aligned with market practices. • Focuses executives on earning rewards through performance pay elements, not through entitlements.

As outlined above, we place a significant emphasis on at-risk, performance-based pay. As shown below, in 2017, our CEO received nearly 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, nearly 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 2017, based on an evaluation of these factors, our growth trajectory and our CEO's recommendations as to our other NEOs, the Compensation Committee approved base salary increases for each of our NEOs, with our CEO receiving a base salary increase for the first time in over 10 years.

2017 Annual Incentives. Our annual incentive program is structured to drive performance within a single fiscal year period. As with our 2015 and 2016 programs, if a threshold total adjusted pretax income ("API") goal was achieved, the 2017 program's formula-driven funding would be determined based on two components: (a) API performance relative to threshold and target goals, with the threshold performance goal considered to be reasonably achievable, yet uncertain to be met under then-expected market and business conditions in 2017, and the target performance goal designed to require significant management effort to achieve; and (b) API performance relative to an asset efficiency measure. API is our total pretax income excluding incentive and variable compensation expense and certain inventory impairment and land option contract abandonment charges.

We view API as a comprehensive short-term measure of our executive 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 executive officers to generate profitable growth in alignment with the profitability and asset efficiency components of our Returns-Focused Growth Plan.

The 2017 target payout opportunities were set at the same 150% of base salary for our CEO and 80% – 100% of base salary for each of our other NEOs as with the 2015 and 2016 programs. Maximum payouts were limited to a multiple of target, with our CEO at four times, our CFO at three times and our other NEOs at two times. The target and maximum annual incentive opportunities were designed to generate cash payout levels that, if achieved, would appropriately reward strong performance for 2017, and together with base salary and long-term incentives, provide competitive total direct compensation.

2017 Annual Incentive Program Component Determinations. Because our 2017 API exceeded the applicable $100 million threshold goal, our NEOs became eligible to receive annual incentive payouts based on our performance under the two components of the 2017 program, as discussed below.

API Performance Relative to Goals Component. The Compensation Committee set a challenging API performance target of $260.0 million, which was approximately 10% higher than our actual 2016 API performance. Under the 2017 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 above their target annual incentive amount under the program as a whole.

We achieved API of $356.2 million in 2017, or approximately 137% of target, which represented a significant 52% 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.

2017 API Performance Levels and Payout Summary

	Threshold	Target	Actual Result
API Performance Levels	$195.0 million	$260.0 million	$356.2 million
API Performance Levels Relative to Target	75%	100%	137%
Payout Level Ratios	50%	100%	100%

Participating executive officers 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 115% of target, funded an additional annual incentive pool to be allocated among the participating executive officers. The

Compensation Committee set the 2017 minimum asset efficiency objective at a one percent return on inventory for 2017, which was approximately $33.3 million. With the difference between our API and the minimum asset efficiency objective equal to about $323 million, the asset efficiency performance pool was funded at a total level of approximately $7.0 million.

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The Compensation Committee determined the allocation of the asset efficiency performance pool among the participating executive officers based on pre-established potential payout ranges for each officer (0% – 60% for our CEO; 0% – 12% for our other NEOs) that took into consideration the officer's 2017 annual incentive payout opportunities at threshold, target and maximum levels; historical relative annual incentive payouts by functional role/seniority level; 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 the Company's strategy, and his significant contribution to the considerable growth of our business in 2017. The table below summarizes the individual contributions of each of the NEOs.

NEO	2017 NEO Individual Performance Contributions	IPF
Mr. Mezger	Mr. Mezger provided excellent leadership in establishing and driving performance against our Returns-Focused Growth Plan objectives. In 2017, our pretax income grew by 94% and our net income rose 71%, with total revenues increasing 22%, in each case compared to 2016 levels. We delivered 99% total stockholder return and 10% return on equity in 2017, a 370 basis point improvement from 2016. Mr. Mezger also continued to play a critical role in promoting the KB Home brand as both a premier homebuilder and company in sustainability and innovation.	58.5%
Mr. Kaminski	Mr. Kaminski effectively managed our corporate liquidity and balance sheet, as we generated more than $500 million of net operating cash and reduced our debt by over $300 million. He also played a large role in the successful execution to date of our Returns-Focused Growth Plan, as we are on target to achieve its primary profitability, returns, and balance sheet goals by 2019.	11.0%
Mr. Praw	Mr. Praw led our land investment and asset management efforts, allowing us to achieve 11% growth in deliveries as compared to 2016, and positioning us to meet our 2018 delivery goals, in a very competitive land market. He also spearheaded our initiatives to reduce land held for future development via strategic land sales and activations.	8.3%
Mr. Woram	Mr. Woram achieved significant cost recoveries via settlements and mediations and ensured responsive and skillful transactional support to our divisions. He also led efforts to reduce risk in the areas of construction-defect litigation, regulatory impacts and environmental issues.	8.3%
Mr. Hollinger	Mr. Hollinger played a primary and critical role in our efforts to improve the profitability of the business and key financial metrics. He also continued to work collaboratively with our Information Technology department to lead the implementation of new technology and systems designed to improve efficiency across the entire enterprise.	4.7%

2017 Annual Incentive Payouts. The 2017 fiscal year annual incentive payouts the Compensation Committee approved for our NEOs are presented in the following table. Mr. Mezger's total payout reflects a 25% reduction, consistent with the previously reported Board determination of September 2017, from the amount the Compensation Committee approved for him based on his performance as described above.

2017 Annual Incentive Program Payout Levels and Actual Payouts(a)

NEO	API Performance Component Payout(a)	Asset Efficiency Component Payout	Total Payout
Mr. Mezger	$ 1,725,000	$ 4,112,900	$ 4,378,425
Mr. Kaminski	700,000	773,366	1,473,366
Mr. Praw	585,000	584,946	1,169,946
Mr. Woram	585,000	584,946	1,169,946
Mr. Hollinger	333,600	333,563	667,163

(a) Annex 1 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.

2018 Annual Incentive Program. The 2018 annual incentive program will be similar to our 2017 program, including a formula-driven funding structure determined by API and asset efficiency performance measures, and a minimum API performance level for our participating executive officers to qualify for any annual incentive payouts, with higher threshold performance levels and target performance levels set above our actual 2017 performance.

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Long-Term Incentives. In October 2017, 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. In prior years, 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 has been essentially flat over the past three years.

NEO Long-Term Incentives
Granted in 2017

NEO	PSUs	
	#	$
Mr. Mezger	156,006	$3,999,994
Mr. Kaminski	46,802	1,200,003
Mr. Praw	32,176	824,993
Mr. Woram	30,226	774,995
Mr. Hollinger	18,526	475,007

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 2017 are designed to focus our executive officers on achieving important long-term financial objectives over a three-year period. The 2017 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”)	50%	Measures profitability trajectory over the period
• Average Adjusted Return on Invested Capital (“AROIC”)	20%	Measures profitability relative to capital deployed
• Revenue Growth Rank Versus Peers	30%	Measures top-line growth relative to peers

The 2017 PSU amounts shown in the table above reflect a target award of shares of our common stock and the grant date fair value. Each 2017 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, 2017 to November 30, 2020. The performance for both the AEPS and AROIC measures will be determined on a tax-effected basis that excludes only pre-specified categories of compensation expense/charges; certain inventory impairment and land option contract abandonment charges; and other extraordinary items that are subject to Compensation Committee approval. As with prior PSU grants, upon vesting, each recipient of a 2017 PSU 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 with respect to 2017 PSU payouts if the recipient terminates service before the date the Compensation Committee determines the applicable performance achievements.

The following tables present our goals with respect to the performance measures for the PSUs granted in 2015, 2016 and 2017, which utilize identical measures for all three of the awards. As shown below, the goals for both the AEPS and AROIC measures have increased year-over-year at each performance level.

Performance Measure	PSU Grant Year	Threshold Goal	Target Goal	Maximum Goal
	2015	$2.73	$3.31	$4.36
AEPS	2016	$3.00	$3.64	$4.77
	2017	$4.13	$5.16	$6.19
	2015	3.0%	3.5%	4.3%
AROIC	2016	3.1%	3.6%	4.4%
	2017	3.3%	3.8%	4.6%

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.

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Performance Measure	2014—2015 PSU Awards Performance (Rank)	Target Award Multiplier	2016—2017 PSU Awards 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 or 2	200%	1 or 2	200%
	3	178%	3	180%
	4	156%	4	160%
	5	134%	5	140%
	6	113%	6	120%
	7	90%	7	100%
	8	67%	8	80%
	9	44%	9	60%
	10	21%	10	40%
	11 or 12	0%	11	20%
			12 or 13	0%

The threshold performance levels outlined above are designed 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 2015–2017 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. With respect to the 2015 PSUs, the performance period of which runs until the end of our 2018 fiscal year, our AEPS and AROIC performance through the end of our 2017 fiscal year is between the target and maximum performance levels for each such metric. Relative revenue growth rank versus the applicable peer group for the 2015 PSUs will not be known until after the applicable performance period ends.

2014 PSU Awards. The PSUs granted to our executive officers in 2014 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, 2014 to November 30, 2017. The applicable AEPS and AROIC performance measures and goals were as follows:

2014 PSU Performance Measure	2014 PSU Performance Goals	2014 PSU Target Award Multiplier
AEPS	$4.00 and above	200%
	$3.04	100%
	$2.52	25%
	Below $2.52	0%
AROIC	4.0% and above	200%
	3.3%	100%
	2.8%	25%
	Below 2.8%	0%

Our actual performance with respect to the 2014 PSU measures is set forth in the table below.

2014 PSU Award Determinations

Performance Measure	Average Annual Performance	Aggregate Total Performance	Target Award Multiplier
AEPS (50% weight)	N/A	$4.43	200%
AROIC (20% weight)	3.3%	N/A	100%
Relative Revenue Growth (30% weight)	N/A	1st in the peer group	200%
Weighted Cumulative Multiplier			180%

The cumulative AEPS performance result for the 2014 PSUs exceeded the challenging $4.00 maximum goal level and reflected our emphasis on and success at growing our earnings over a three-year period amid an improving housing market. Strong, consistent profitability and cumulative net income of more than $371 million over this period contributed to a solid adjusted return on invested capital over the same three-year span, in line with our target goal for this measure. The relative revenue growth performance for the 2014 PSUs reflected our 82% revenue growth over the applicable period, a result that placed us in first place within the peer group. During 2015, two of the peer companies that were part of the original peer group for this performance measure merged to form a single peer company. Our ranking in the table above reflects our position at the end of the performance period among the post-merger peer group, consistent with the terms of the 2014 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 2014 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, 2018, the Compensation Committee certified the performance we achieved for the period ending November 30, 2017 and approved share grants with respect to the 2014 PSUs as set forth in the table below.

2014 PSU Awards(a)

NEO	Target Award(#)	Actual Award(#)
Mr. Mezger	195,622	352,120
Mr. Kaminski	15,048	27,086
Mr. Praw	10,602	19,084
Mr. Woram	10,602	19,084
Mr. Hollinger	6,156	11,081

(a) Annex 1 to this Proxy Statement contains a reconciliation of our pretax income calculated in accordance with GAAP to the non-GAAP financial measure of adjusted pretax income, adjusted net income and adjusted earnings per share used in computing the AEPS and AROIC performance measures.

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 takes into account 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 (which is described below); 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 five years of compensation data.

Role of Our Management and Compensation Consultants. Our CEO and senior human resources and legal department executives 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, assists the Compensation Committee in the executive compensation decision-making process, as well as on compliance and disclosure requirements. FWC 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 2017, FWC did not provide any services that would have required such pre-approval. Based on its consideration of factors under 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. 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.

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Our Peer Group

• Beazer Homes USA, Inc.	• CalAtlantic Group, Inc.	• D.R. Horton, Inc.
• Hovnanian Enterprises, Inc.	• Lennar Corp.	• M.D.C. Holdings, Inc.
• Meritage Homes Corp.	• NVR, Inc.	• PulteGroup, Inc.
• Taylor Morrison Home Corp.	• Toll Brothers, Inc.	• Tri Pointe Group, Inc.

As of December 31, 2017, 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 3.3 times our total revenues, and our total revenues approximated the median of the peer group. Also as of December 31, 2017, the market capitalization of our peer group was within a range of approximately 0.2 to 6.1 times our market capitalization, and our market capitalization approximated the median of the peer group. On February 12, 2018, Lennar Corp. completed a merger with CalAtlantic Group, Inc. Therefore, CalAtlantic Group, Inc. has ceased to be a member of our peer group as of that date.

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 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
Messrs. Kaminski, Praw and Woram	2.0 times base salary
Mr. Hollinger	1.0 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, or 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 requirement 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. The policy requires that the Compensation Committee (or the Board) approve all grants of equity-based awards, and their terms. The policy does not permit any delegation of granting authority for equity-based awards to our management. Per the policy, the exercise price of any stock option award will not be less than the closing price of our common stock on the NYSE 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) has the authority, to the extent permitted by applicable law (including California law), to require reimbursement or forfeiture to us of the amount of 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 that exceeds what the officer would have received based on an applicable restated performance measure or target. In addition, under his Employment Agreement, 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, regulations and listing standards that may be issued under that Act.

Tax Implications of our Executive Compensation Program. In past years, including 2017, we have generally designed our incentive compensation plans in order to maintain federal tax deductibility for executive compensation under Section 162(m) of the Code, and the Compensation Committee considered the potential Section 162(m) impact when approving the compensation paid to our NEOs. Prior to the Tax Cuts and Jobs Act, enacted on December 22, 2017, 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 Tax Cuts and Jobs Act effectively repealed the exemption for performance-based compensation with respect to tax years beginning after December 31, 2017 other than arrangements in place on November 2, 2017 that are not later modified in any material respect. As such, beginning with our 2019 fiscal year, we will no longer be able to deduct compensation awarded after the effective date to certain of our executive officers above $1.0 million. While we intend for our 2017 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. Going forward, 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 and Benefits

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 severance 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, Praw and Hollinger 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 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 2017, 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 Deferred Compensation Plan ("DCP"). These market-competitive benefits are offered to attract and retain key executive talent.

Retirement Programs. The KB Home 401(k) Savings Plan ("401(k) Plan"), a qualified defined contribution plan, is the only post-employment benefit program we offer to all full-time employees. Our NEOs and certain other employees can also participate in the unfunded nonqualified DCP to defer compensation they receive. 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. 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 fully vest after five years of service. 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. NEO deferrals under the DCP are shown in the Non-Qualified Deferred Compensation During Fiscal Year 2017 table. We also maintain a supplemental non-qualified, unfunded retirement plan ("Retirement Plan") for certain executives, including Messrs. Mezger and Hollinger, whose participation is shown in the Pension Benefits

During Fiscal Year 2017 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, and Mr. Hollinger's was $100,000.

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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

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	2017	$1,062,500	$ —	$3,999,994	$ —	$4,378,425	$ 428,586	$ 75,008	$9,944,513
Chairman, President and	2016	1,000,000	—	2,400,004	1,600,001	3,771,237	115,539	70,078	8,956,859
Chief Executive Officer	2015	1,000,000	—	1,984,360	1,828,403	3,974,964	—	69,196	8,856,923
Jeff J. Kaminski	2017	688,333	—	1,200,003	—	1,473,366	—	56,048	3,417,750
Executive Vice President and	2016	671,250	—	719,999	480,003	1,100,285	—	52,893	3,024,430
Chief Financial Officer	2015	656,250	—	566,960	631,431	1,386,191	—	51,156	3,291,988
Albert Z. Praw	2017	573,333	—	824,993	—	1,169,946	—	48,740	2,617,012
Executive Vice	2016	556,250	—	495,005	330,001	951,323	—	45,585	2,378,164
President, Real Estate and Business Development	2015	541,250	—	417,760	439,256	1,200,439	—	43,803	2,642,508
Brian J. Woram	2017	576,250	—	774,995	—	1,169,946	—	49,518	2,570,709
Executive Vice President and	2016	564,167	—	464,984	310,000	913,869	—	46,468	2,299,488
General Counsel	2015	554,166	—	417,760	439,256	1,188,560	—	44,731	2,644,473
William R. Hollinger Senior Vice President and Chief Accounting Officer	2017	410,000	—	475,007	—	667,163	95,241	34,140	1,681,551

(a) Salary. As discussed under “Base Salaries,” NEO annual base salary levels were increased in July 2017 to the following amounts: Mr. Mezger $1,150,000; Mr. Kaminski $700,000; Mr. Praw $585,000; Mr. Woram $585,000; and Mr. Hollinger $417,000.

(b) Stock Awards and Option Awards. These amounts represent the aggregate grant date fair value of stock awards (consisting of both restricted stock and PSUs) and common stock options (for those granted in 2015 and 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 2017 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 $7,999,988; Mr. Kaminski $2,400,006; Mr. Praw $1,649,986; Mr. Woram $1,549,990; and Mr. Hollinger $950,014.

(c)

Non-Equity Incentive Plan Compensation. The 2017 and 2016 amounts reflect only annual incentive payouts. The 2015 amounts include the sum of the annual incentive and three-year performance cash award payouts made in that year, as summarized below. Performance cash awards have not been granted to senior executive officers, including our NEOs, since 2012.

NEO	Year	Annual Incentive Payout ($)	Performance Cash Award Payout ($)	Total Non-Equity Incentive Plan Compensation ($)
Mr. Mezger	2015	$2,488,297	$1,486,667	$ 3,974,964
Mr. Kaminski	2015	940,191	446,000	1,386,191
Mr. Praw	2015	799,039	401,400	1,200,439
Mr. Woram	2015	787,160	401,400	1,188,560

(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 or Mr. Hollinger. The respective amounts attributed to the change in

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actuarial present value in 2017, 2016 and 2015 were $428,586, $115,539 and $(84,667), respectively, for Mr. Mezger, and $95,241 in 2017 for Mr. Hollinger.

(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 other than Mr. Hollinger, and the following items:

- 401(k) Plan and DCP Matching Contributions. The respective aggregate 2017, 2016 and 2015 401(k) Plan and DCP matching contributions we made to our NEOs were as follows: Mr. Mezger $58,700, $55,900 and $55,900; Mr. Kaminski $41,300, $40,275 and $39,375; Mr. Praw $34,400, $33,375 and $32,475; Mr. Woram $34,575, $33,850 and $32,950; and Mr. Hollinger $24,601.
- Premium Payments. The respective aggregate premiums we paid for our NEOs in 2017, 2016 and 2015 for a supplemental medical expense reimbursement plan and life insurance policies, as described under “Other Benefits,” were as follows: Mr. Mezger $14,742, $14,178 and $13,296; Mr. Kaminski $13,182, $12,618 and $11,781; Mr. Praw $12,774, $12,210 and $11,328; Mr. Woram $13,182, $12,618 and $11,781; and Mr. Hollinger $9,539.

Grants of Plan-Based Awards During Fiscal Year 2017

Name	Grant Date(a)	Type of Award	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(b)			Estimated Possible Payouts Under Equity Incentive Plan Awards(c)			Grant Date Fair Value of Stock and Option Awards ($)(d)
			Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	
Mr. Mezger	2/15/2017	Annual Incentive	$862,500	$1,725,000	$6,900,000				
	10/5/2017	PSUs				63,962	156,006	312,012	$3,999,994
Mr. Kaminski	2/15/2017	Annual Incentive	350,000	700,000	2,100,000				
	10/5/2017	PSUs				19,189	46,802	93,604	1,200,003
Mr. Praw	2/15/2017	Annual Incentive	292,500	585,000	1,170,000				
	10/5/2017	PSUs				13,192	32,176	64,352	824,993
Mr. Woram	2/15/2017	Annual Incentive	292,500	585,000	1,170,000				
	10/5/2017	PSUs				12,393	30,226	60,452	774,995
Mr. Hollinger	2/15/2017	Annual Incentive	166,800	333,600	667,200				
	10/5/2017	PSUs				7,596	18,526	37,052	475,007

(a) Grant Date. The date shown for each award is the date the Compensation Committee approved the award.

(b) Estimated Possible Payouts Under Non-Equity Incentive Plan Awards. The 2017 target payouts were set at 150% of base salary for our CEO and at 80% – 100% 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 at three times and our other NEOs at two times. “Threshold” represents the lowest possible payout if threshold performance is achieved for each performance measure. The performance measures are described under “2017 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 2017 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 2017

		Option Awards					Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)(a)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised 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)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(d)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(d)
Mr. Mezger	10/24/2003	74,667			$33.24 (e)	10/24/2018				
	10/24/2003	149,333			34.05 (e)	10/24/2018				
	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				
	8/13/2010	397,818			19.90	10/2/2018 (f)				
	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				
	10/9/2014						352,120	$11,042,483		
	10/8/2015	222,000	111,000		14.92	10/8/2025				
	10/8/2015								133,000	$4,170,880
	10/6/2016	91,651	183,301		16.21	10/6/2026				
	10/6/2016								148,057	4,643,068
	10/5/2017								156,006	4,892,348
Mr. Kaminski	10/6/2011	125,000			6.32	10/6/2021				
	10/10/2013	50,000			16.63	10/10/2023				