

KB HOME
Form 424B5
March 29, 2006

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**As filed pursuant to Rule 424(b)(5)
under the Securities Act of 1933
Registration No. 333-120458**

**PROSPECTUS SUPPLEMENT
(To Prospectus dated November 29, 2004)**

**\$300,000,000
KB Home
7¹/₄% Senior Notes due 2018**

The notes offered hereby will bear interest at the rate of 7¹/₄ % per year. Interest on the notes is payable on June 15 and December 15 of each year, beginning on December 15, 2006. The notes will mature on June 15, 2018. The notes may be redeemed, in whole at any time or from time to time in part, at our option at the redemption prices described in this prospectus supplement, plus accrued and unpaid interest to the applicable redemption date.

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

Investing in the notes involves risks. See Risk Factors beginning on page S-14 of this prospectus supplement.

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

The underwriter has agreed to purchase the notes offered hereby from KB Home at 99.486% of their principal amount for total proceeds to KB Home of approximately \$298.2 million, after deducting estimated offering expenses payable by KB Home. The underwriter proposes to offer the notes offered hereby from time to time for sale in one or more negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale.

Banc of America Securities LLC expects to deliver the notes offered hereby to purchasers on or about April 3, 2006.

Banc of America Securities LLC

March 27, 2006

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized anyone to provide you with any information other than the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not making any offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement or the prospectus is accurate only as of the date on the front of this prospectus supplement, the date on the front of the accompanying prospectus or the date of the applicable incorporated document, as the case may be. Our business, financial condition, results of operations and prospects may have changed since those dates.

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When this prospectus supplement uses the words KB Home, we, us, and our, they refer to KB Home and its subsidiaries unless otherwise expressly stated or the context otherwise requires.

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

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

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

KB Home

KB Home is one of America's premier homebuilders with domestic operating divisions in the following regions and states: West Coast California; Southwest Arizona, Nevada and New Mexico; Central Colorado, Illinois, Indiana, Louisiana and Texas; and Southeast Florida, Georgia, Maryland, North Carolina, South Carolina and Virginia. Kaufman & Broad S.A., KB Home's publicly-traded French subsidiary, is one of the leading homebuilders in France based on revenues. In fiscal 2005, KB Home delivered 37,140 homes in the United States and France. KB Home also offers complete mortgage services through Countrywide KB Home Loans, a joint venture with Countrywide Financial Corporation. Founded in 1957, KB Home is a Fortune 500 company listed on the New York Stock Exchange under the ticker symbol KBH.

Recent Developments

Director Resignation. On February 28, 2006, KB Home announced that Dr. Barry Munitz had resigned from its board of directors.

Proposed Term Loan Facility. We are seeking to obtain a senior unsecured term loan facility, which we sometimes refer to in this prospectus supplement as the proposed term loan facility, and we are currently in negotiation with a bank regarding that facility. The proposal currently under discussion contemplates a \$400 million senior unsecured term loan that matures in 2011 and that we will be allowed to prepay borrowings thereunder without penalty but subject to reimbursement of breakage costs. We expect that the financial and other covenants and events of default in the proposed term loan facility will be substantially similar to those in our \$1.5 billion domestic revolving credit facility, including a right of the lenders thereunder to require us to repay all borrowings and other amounts outstanding thereunder upon the occurrence of specified change in control events relating to us. We also expect that borrowings under the proposed term loan facility will be our unsecured senior obligations and that the proposed term loan facility will be guaranteed, on a senior unsecured basis, by the same subsidiaries of KB Home that currently guarantee our \$1.5 billion domestic revolving credit facility and our outstanding senior notes and senior subordinated notes and that will guarantee the notes offered by this prospectus supplement. We are currently seeking to enter into the proposed term loan facility and to borrow the full amount of the term loans available thereunder on or around March 31, 2006. We intend to use the proceeds from borrowings thereunder to reduce the amount outstanding under our \$1.5 billion domestic revolving credit facility. Borrowings under the \$1.5 billion domestic revolving credit facility that we repay may be re-borrowed, subject to customary conditions.

However, we cannot assure you if or when we will enter into the proposed term loan facility or, if we do enter into that facility, that the amount of borrowings thereunder or the other terms thereof will not differ, perhaps substantially, from the terms described above.

Financial Results for the Quarter Ended February 28, 2006. On March 22, 2006, KB Home announced its financial results for its first fiscal quarter ended February 28, 2006. Results of operations for the three months ended February 28, 2006 do not purport to be indicative of results to be expected for the full fiscal year. The following data should be read in conjunction with the financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

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KB Home's total revenues rose 34% to \$2.19 billion for the quarter ended February 28, 2006 from \$1.64 billion in the year-earlier quarter. A larger volume of unit deliveries and a higher average selling price contributed to the increase. Unit deliveries rose to 7,905 in the quarter ended February 28, 2006, up 15% from 6,847 unit deliveries in the first quarter of fiscal 2005. The average selling price of our homes increased 17% to \$276,200 in the first quarter of fiscal 2006, up from \$236,300 in the year-earlier quarter.

Net income increased 42% to \$174.5 million in the first quarter of fiscal 2006, up from \$122.7 million for the same period of fiscal 2005. Strong earnings growth was fueled by higher revenues and an improved operating margin in our homebuilding operations. KB Home's diluted earnings per share rose 43% to \$2.02 in the first quarter of fiscal 2006, up from \$1.41 in the first quarter of fiscal 2005. We define operating margin as operating income divided by total revenues, and we define operating income as the sum of construction operating income and financial services pretax income.

Housing revenues rose 35% in the first quarter of fiscal 2006 to \$2.18 billion, up from \$1.62 billion in the year earlier quarter, reflecting the increased unit deliveries and higher average selling price described above.

We repurchased two million shares of our common stock during the first quarter of fiscal 2006 at an aggregate price of \$154.4 million. As of February 28, 2006, we had authorization to repurchase an additional eight million shares under our current board-approved common stock repurchase program.

Construction operating income rose 40% to \$274.2 million in the first quarter of fiscal 2006 from \$195.6 million in the year-earlier quarter, reflecting both increased revenues and an improved operating margin. Our construction operating margin expanded .5 percentage points to 12.5% for the first quarter of fiscal 2006, up from 12.0% in the first quarter of fiscal 2005, as our housing gross margin also grew .5 percentage points to 26.0% for the first quarter of fiscal 2006 from 25.5% for the first quarter of fiscal 2005. Higher revenues and an improved operating margin boosted pretax income by 44% in the first quarter of fiscal 2006 to \$268.4 million, up from \$186.0 million in same quarter of fiscal 2005. Earnings per diluted share rose 43% to \$2.02 in the first quarter of fiscal 2006, up from \$1.41 in the year-earlier quarter, driven by the higher pretax earnings. We define construction operating margin as construction operating income divided by construction revenues, and housing gross margin as the total of housing revenues less housing cost of sales divided by housing revenues.

KB Home generated 8,719 net orders during the quarter ended February 28, 2006, a decrease of 12% from the 9,901 net orders posted in the first quarter of fiscal 2005.

We also reported that demand in some housing markets had moderated, that we were experiencing higher cancellation rates of sales contracts by prospective homebuyers and that there were signs of a shift in consumer activity from buying homes to selling homes, resulting in less demand and increased supply in certain markets. If current trends do not improve, we may be required to moderate our revenue guidance for fiscal year 2006.

KB Home released the following summary unaudited consolidated financial data for the fiscal quarters ended February 28, 2006 and 2005:

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KB HOME
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended February 28, 2006 and 2005
(In Thousands, Except Per Share Amounts Unaudited)

	Three Months Ended February 28,	
	2006	2005
Total revenues	\$ 2,191,650	\$ 1,636,120
Construction:		
Revenues	\$ 2,187,324	\$ 1,628,493
Costs and expenses	(1,913,157)	(1,432,873)
Operating income	274,167	195,620
Interest income	1,180	980
Interest expense, net of amounts capitalized	(4,753)	(2,416)
Minority interests	(11,717)	(14,360)
Equity in pretax income of unconsolidated joint ventures	5,755	5,617
Construction pretax income	264,632	185,441
Financial services:		
Revenues	4,326	7,627
Expenses	(1,747)	(7,024)
Equity in pretax income of unconsolidated joint venture	1,150	
Financial services pretax income	3,729	603
Total pretax income	268,361	186,044
Income taxes	(93,900)	(63,300)
Net income	\$ 174,461	\$ 122,744
Basic earnings per share	\$ 2.15	\$ 1.53
Diluted earnings per share	\$ 2.02	\$ 1.41
Basic average shares outstanding	81,031	80,194
Diluted average shares outstanding	86,248	87,096

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KB HOME
CONSOLIDATED BALANCE SHEETS
(In Thousands Unaudited)

	February 28, 2006	November 30, 2005	February 28, 2005
ASSETS			
Construction:			
Cash and cash equivalents	\$ 71,224	\$ 144,783	\$ 112,989
Receivables	568,663	580,931	457,159
Inventories	6,953,844	6,128,342	4,678,998
Investments in unconsolidated joint ventures	348,350	275,378	188,874
Deferred income taxes	211,940	220,814	213,015
Goodwill	243,175	242,589	249,080
Other assets	139,153	124,150	162,201
	8,536,349	7,716,987	6,062,316
Financial services	37,699	29,933	197,251
Total assets	\$ 8,574,048	\$ 7,746,920	\$ 6,259,567
LIABILITIES AND STOCKHOLDERS EQUITY			
Construction:			
Accounts payable	\$ 945,232	\$ 892,727	\$ 722,768
Accrued expenses and other liabilities	1,406,379	1,338,626	703,491
Mortgages and notes payable	3,116,618	2,463,814	2,389,073
	5,468,229	4,695,167	3,815,332
Financial services	51,905	55,131	122,745
Minority interests	150,955	144,951	133,207
Stockholders equity	2,902,959	2,851,671	2,188,283
Total liabilities and stockholders equity	\$ 8,574,048	\$ 7,746,920	\$ 6,259,567

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KB HOME
SUPPLEMENTAL INFORMATION
For the Three Months Ended February 28, 2006 and 2005
(In Thousands Unaudited)

	Three Months Ended February 28,	
	2006	2005
Construction revenues:		
Housing	\$ 2,183,144	\$ 1,618,099
Commercial		2,184
Land	4,180	8,210
Total	\$ 2,187,324	\$ 1,628,493

	Three Months Ended February 28,	
	2006	2005
Costs and expenses:		
Construction and land costs		
Housing	\$ 1,615,061	\$ 1,206,200
Commercial		1,832
Land	3,254	4,343
Subtotal	1,618,315	1,212,375
Selling, general and administrative expenses	294,842	220,498
Total	\$ 1,913,157	\$ 1,432,873

	Three Months Ended February 28,	
	2006	2005
Interest expense:		
Interest incurred	\$ 51,566	\$ 41,196
Interest capitalized	(46,813)	(38,780)
Interest expense	\$ 4,753	\$ 2,416

**Three Months Ended
February 28,**

2006

2005

Other Information:

Depreciation and amortization	\$	4,676	\$	5,003
Amortization of previously capitalized interest		23,413		16,063

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KB HOME
SUPPLEMENTAL INFORMATION
For the Three Months Ended February 28, 2006 and 2005
(Unaudited)

	Three Months Ended February 28,	
	2006	2005
Average sales price per unit:		
West Coast	\$ 486,500	\$ 449,200
Southwest	321,500	233,400
Central	157,400	151,500
Southeast	239,000	191,400
France	210,000	225,700
Total	\$ 276,200	\$ 236,300

	Three Months Ended February 28,	
	2006	2005
Unit deliveries:		
West Coast	1,446	1,095
Southwest	1,552	1,572
Central	1,835	1,873
Southeast	1,610	1,314
France	1,462	993
Total	7,905	6,847
Unconsolidated Joint Ventures:	76	210

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The Offering

Issuer	KB Home, a Delaware corporation.
The Notes	\$300 million aggregate principal amount of 7 ¹ / ₄ % Senior Notes due 2018 are being offered by this prospectus supplement.
Maturity	June 15, 2018.
Interest	Annual rate: 7 ¹ / ₄ %, accruing from April 3, 2006. Payment frequency: Every six months on June 15 and December 15. First payment: December 15, 2006.
Guarantees	Payment of principal of and premium, if any, and interest on the notes offered hereby will be unconditionally guaranteed, jointly and severally, by eight of our operating subsidiaries, which we sometimes refer to as the guarantors. Each of these guarantors also guarantees, on an unsecured senior basis, our \$1.5 billion domestic revolving credit facility and our outstanding 5 ⁷ / ₈ % Senior Notes due 2015, 5 ³ / ₄ % Senior Notes due 2014, 6 ³ / ₈ % Senior Notes due 2011 and 6 ¹ / ₄ % Senior Notes due 2015 and, on an unsecured senior subordinated basis, our outstanding senior subordinated notes. Under certain circumstances, any or all of the guarantors may be released from their guarantees of the notes or other subsidiaries of KB Home may be required to guarantee the notes. Each guarantor's guarantee of the notes offered hereby will rank equally in right of payment with all other unsecured and unsubordinated indebtedness and guarantees of that guarantor, including its guarantees of our borrowings and other obligations under our \$1.5 billion domestic revolving credit facility and our 5 ⁷ / ₈ % Senior Notes due 2015, 5 ³ / ₄ % Senior Notes due 2014, 6 ³ / ₈ % Senior Notes due 2011 and 6 ¹ / ₄ % Senior Notes due 2015, and senior in right of payment to its guarantees of our senior subordinated notes. At February 28, 2006, we had \$730.3 million aggregate principal amount of borrowings and \$383.6 million of letters of credit outstanding under our \$1.5 billion domestic credit facility, \$300.0 million of 5 ⁷ / ₈ % Senior Notes due 2015 outstanding, \$250.0 million of 5 ³ / ₄ % Senior Notes due 2014 outstanding, \$350.0 million of 6 ³ / ₈ % Senior Notes due 2011 outstanding, \$450.0 million of 6 ¹ / ₄ % Senior Notes due 2015 outstanding and \$750.0 million of senior subordinated notes outstanding. In addition, we are seeking to enter into a proposed term loan facility as described under Prospectus Supplement Summary Recent Developments Proposed Term Loan Facility and to make borrowings thereunder in the near future and we currently anticipate that, if we enter into that facility on the terms currently contemplated, our borrowings and other obligations under that facility will be guaranteed, on an unsecured senior basis, by each of the guarantors that will guarantee the notes offered hereby and that each such guarantor's guarantee of the notes offered hereby will rank equally in right of payment with its guarantee of our borrowings and other obligations under the proposed term loan facility. Your right to payment under the guarantees of the notes offered hereby will be effectively subordinated to all existing and future secured indebtedness of the guaran-

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tors of the notes. See Description of Debt Securities Guarantees and Ranking Ranking of Senior Debt Securities and Guarantees in the accompanying prospectus.

Ranking

The notes offered hereby will be our unsecured and unsubordinated obligations. The notes offered hereby will rank equally in right of payment with all of our unsecured and unsubordinated indebtedness including, without limitation, our 5⁷/₈% Senior Notes due 2015, 5³/₄% Senior Notes due 2014, 6³/₈% Senior Notes due 2011, 6¹/₄ % Senior Notes due 2015 and our borrowings and other obligations under our \$1.5 billion domestic revolving credit facility, and will rank senior in right of payment to our outstanding senior subordinated notes. In addition, we are seeking to enter into a proposed term loan facility as described under Prospectus Supplement Summary Recent Developments Proposed Term Loan Facility and to make borrowings thereunder in the near future and we currently anticipate that, if we enter into that facility on the terms currently contemplated, our borrowings under that facility will rank equally in right of payment with the notes offered hereby. Your right to payment under the notes will be:

effectively subordinated to all existing and future indebtedness, trade payables, guarantees and other liabilities of the subsidiaries of KB Home that are not guarantors of the notes; at November 30, 2005, these non-guarantor subsidiaries had approximately \$1.07 billion of liabilities outstanding, excluding collateralized mortgage obligations of approximately \$.6 million and intercompany liabilities; and

effectively subordinated to all our existing and future secured indebtedness and all the existing and future secured indebtedness of the guarantors of the notes, which indebtedness is currently comprised principally of indebtedness secured by purchase money mortgages on real property, the aggregate principal amount of which indebtedness was approximately \$36.4 million at November 30, 2005.

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

Use of Proceeds

We estimate that we will receive approximately \$298.2 million in net proceeds from this offering, after deducting estimated offering expenses payable by us. We expect to use the net proceeds from this offering to repay borrowings under our \$1.5 billion domestic revolving credit facility. See Use of Proceeds.

Optional Redemption

We may, at our option, redeem the notes, in whole at any time or from time to time in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes being redeemed and

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(2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (exclusive of interest accrued to the applicable redemption date), discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined herein) plus 35 basis points, plus, in each case, accrued and unpaid interest on the notes being redeemed to the redemption date. See Description of the Notes Optional Redemption.

Covenants

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

Book-Entry Notes

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

Credit Ratings

Our long-term senior unsecured debt securities that are guaranteed by the guarantors are currently rated Ba1, BB+ and BB+ by Moody's Investors Service, Inc., Standard & Poor's Rating Services and Fitch Ratings, respectively. Credit ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, a credit rating is not a recommendation to buy, sell or hold securities, inasmuch as the rating does not comment as the market price or suitability for a particular investor.

Governing Law

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

Risk Factors

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

Principal Executive Offices

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

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FORWARD-LOOKING STATEMENTS

You are cautioned that certain statements contained or incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (the Act). Statements which are predictive in nature, which depend upon or refer to future events or conditions, or which include words such as expects, anticipates, intends, plans, believes, estimates, hopes, and similar expressions constitute forward-looking statements. In addition, any statements concerning future financial or operating performance (including future revenues, unit deliveries, selling prices, expenses, margins, expense ratios, earnings or earnings per share, or growth or growth rates), future market conditions, future interest rates and other economic conditions, ongoing business strategies or prospects, future dividends and changes in dividend levels, the value of backlog (including amounts that we expect to realize upon delivery of units included in backlog and the timing of those deliveries), potential de novo entry into new markets and the impact of such entry, potential future acquisitions and the impact of completed acquisitions, future share repurchases and possible future actions by KB Home, which may be included in this prospectus supplement, the accompanying prospectus or the documents incorporated or deemed to be incorporated by reference herein or therein, are also forward-looking statements as defined by the Act. Each forward-looking statement is based on our expectations and projections about future events as of the date of the document containing the forward-looking statement, and is subject to risks, uncertainties, and assumptions about KB Home, our operations, economic and market factors and the homebuilding industry, among other things. These statements are not guarantees of future performance, and KB Home has no specific policy or intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in the forward-looking statements made by KB Home due to a number of factors. The principal important risk factors that could cause KB Home's actual performance and future events and actions to differ materially from such forward-looking statements include, but are not limited to, changes in general economic conditions, material prices and availability, labor costs and availability, interest rates and KB Home's debt levels, the secondary market for loans, consumer confidence, competition, currency exchange rates (insofar as they affect KB Home's operations in France), environmental factors, significant natural disasters (including the effect of recent hurricanes on the U.S. housing market and U.S. economy in general), government regulations affecting KB Home's operations, the availability and cost of land in desirable areas, violations of KB Home policy, legal or regulatory proceedings or claims, conditions in the capital, credit and homebuilding markets and other events outside of KB Home's control. See Risk Factors in this prospectus supplement and see KB Home's Annual Report on Form 10-K for the year ended November 30, 2005, and KB Home's other filings with the Securities and Exchange Commission (the SEC) for a further discussion of these and other risks and uncertainties applicable to KB Home's business.

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RISK FACTORS

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

Risk Factors Relating to KB Home

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

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

short and long term interest rates;

the availability of financing for homebuyers;

consumer confidence (which can be substantially affected by external conditions, including international hostilities involving the U.S. or France);

federal mortgage financing programs; and

federal income tax provisions.

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

housing demand;

population growth;

employment levels and job growth; and

property taxes.

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

Fluctuating lumber prices and shortages, as well as shortages or price fluctuations in other important building materials, can have an adverse effect on our homebuilding business. Similarly, labor shortages or unrest among key trades, such as carpenters, roofers, electricians and plumbers, can delay the delivery of our homes and increase our costs. Rebuilding efforts underway in the gulf coast region of the United States following the destruction caused by the two devastating hurricanes there in the summer of 2005 may cause or exacerbate shortages of labor and/or certain materials.

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

difficulties described above could cause some homebuyers to cancel their home purchase contracts altogether.

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The homebuilding industry has not experienced a downturn in many years, and new homes may be overvalued.

Although the homebuilding business can be cyclical, it has not experienced a downturn in many years. Some have speculated that the prices of new homes, and the stock prices of companies like ours that build new homes, are inflated and may decline if the demand for new homes weakens. A decline in the prices for new homes would have an adverse effect on our homebuilding business.

If new home prices decline, interest rates increase or there is a downturn in the economy, some homebuyers may cancel their home purchases because the required deposits are small and generally refundable.