



July 16, 2003

Current KB Homeowner
<<ADDRESS>>
<<CITY>>, <<STATE>> <<ZIP>>

Dear KB Homeowner:

Please read this important notice regarding the warranty of your home. As you may know, your KB home has a 10-year limited structural warranty. Whether you are the home's original owner or you purchased the home from someone else, the limited warranty extends through the home's first 10 years. In your warranty, there is a section that talks about mandatory binding arbitration. This letter is to let you know that effective immediately KB Home is changing this part of the warranty. As your warranty indicates, if you have a disagreement with us that can't be resolved through meetings and mediation, the matter will be brought to arbitration. However, starting now, if you are dissatisfied with the arbitrator's decision, you don't have to accept the ruling and may pursue a resolution in the courts. For more details, please see the questions and answers below.

Why does this change affect me?

According to our records, you—or a previous owner of your home—purchased your home from KB Home. Your home comes with KB Home's "New Home Limited Warranty Agreement" which provides, among other things, ten years coverage for your home's structural integrity. In your Warranty Agreement this is referred to as the coverage for "Major Structural Defects." In addition, the Warranty Agreement provides shorter-term coverages for other elements of your home. Since the Warranty Agreement applies to the home itself, even if you purchased your KB home from a previous owner, your home is covered by the original terms of the KB Home Warranty Agreement.

Where can I find the section in my warranty that deals with arbitration?

Your warranty contains a section called "Warranty Coverage Disputes." This section governs the process if you are not satisfied with KB Home's rejection or handling of any warranty claim that may be made on your home.

What has changed?

Our records indicate that the "Warranty Coverage Disputes" section of your warranty contains a provision that requires mandatory binding arbitration as the final means of resolving a dispute. From a practical perspective, arbitration was intended to be called on only if a dispute could not be resolved after a member of KB Home's management conducted a conference and/or a voluntary mediation with you. In other words, arbitration was and is the last avenue of resolution and, fortunately, one that has been very rarely necessary.

Our records also indicate that the "Warranty Coverage Disputes" provision in your warranty provided that, if an arbitration was required, both KB Home and the homeowner would be bound by the results of such an arbitration and that the results could not be appealed to a court by either the homeowner or KB Home. The provision also specified that, regardless of the outcome of the arbitration, neither the homeowner nor KB Home would have the right to take legal action in state or federal courts before or after the arbitration decision had been issued.

KB Home has changed its policy toward the "binding" nature of the arbitration. KB Home will no longer enforce the binding nature of the arbitration provision in your warranty with respect to any current or future disputes regarding your warranty claims. As a result, in the event that there is a warranty dispute between you and KB Home that cannot be resolved through meetings and mediation, each party will still be required to participate in arbitration. However, upon the completion of the arbitration, you (but not KB Home) will have the right to make a decision either to bind KB Home to the arbitration result or to reject the arbitration outcome and pursue litigation against KB Home in court.

Who pays arbitration expenses?

[NOTE: the two shaded gray paragraphs from the original letter have been intentionally deleted because the information is no longer applicable since KB Home now pays for the arbitration fees and expenses as detailed in the current Warranty and as described in the December 17, 2004 letter, which is attached to Frequently Asked Question #10. "Where does KB Home state that it will pay for the arbitration fees and expenses?"]

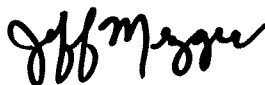
Will you try to resolve issues with me before it gets to this point?

Absolutely. KB Home's priority is to resolve any concerns you may have under the Warranty as promptly as possible. Again, it is very rare that any form of arbitration is initiated or necessary to resolve a claim. It is always KB Home's policy to use informal approaches—such as conferences at your convenience and mediations—to resolve any dispute without the need for arbitration or litigation. Further, with this new change to your warranty, if a matter ends up going as far as arbitration and you are unsatisfied with the result of the arbitration, you can decide to reject the arbitrator's ruling and pursue the matter again in court. Note, of course, that there can be no guarantee that the court's decision will be any more favorable to you than the arbitrator's decision, and may even be less favorable.

Except as described in this letter, none of the terms of the Warranty received are revised. All coverages and the length of the term of such coverages remain the same.

If you have questions, please call [name] at [phone number].

Very truly yours,



Jeff Mezger
Executive Vice President, Chief Operating Officer