



KB Home CEO Resigns Over Backdating

One of the nation's highest paid executives agrees to forfeit his gains.

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The ever-widening options backdating scandal has claimed the career of another top executive. Bruce Karatz has "retired" as chairman, chief executive officer and director of KB Home after an internal investigation found that he and Gary A. Ray, the head of human resources, "selected grant dates under the company's stock option plans," according to a regulatory filing.

Ray was fired, the homebuilder said in a regulatory filing. In addition, Richard B. Hirst has resigned as executive vice president and chief legal officer, effective immediately. Jeffrey T. Mezger, the company's executive vice president and chief operating officer since 1999, was appointed CEO, a director, and a member of the board's executive committee. The company said in the filing that Mezger and the other current senior executives had no role in establishing incorrect grant dates.

After an investigation into past options practices, a subcommittee of the audit and compliance committee and its independent legal counsel concluded that the homebuilder used incorrect measurement dates for financial reporting purposes for annual stock option grants from 1998 to 2005, said the statement.

Karatz agreed to forfeit \$13 million. He plans to pay the company the difference between the initial strike price and the closing price on the new measurement date for certain annual stock options grants he has exercised that were incorrectly priced. Karatz also agreed that each new strike price for unexercised stock options will be the closing price on the new measurement date.

Under their agreement, KB Home will immediately pay Karatz his unpaid base salary and the dollar value of all accrued and unpaid vacation benefits and sick pay. In addition, all of Karatz's outstanding unvested stock options, restricted stock, and other equity awards, plans and programs will be retained but suspended.

Karatz will retain his interests in all vested stock options, restricted stock and other equity awards, and qualified and nonqualified retirement plans of KB Home. As of November 30, 2006, Karatz still had 2.2 million options that he could immediately exercise and another 810,000 that had not yet vested, according to the company's most recent proxy filing.

The company said incremental non-cash compensation expense arising from the errors discovered by its internal investigation will not exceed \$50 million. It also said the errors may require an increased tax provision. The company added that it is currently determining whether it needs to restate certain previously-filed financial statements.

Karatz is among the most highly paid corporate executives in recent years. Last year, he netted more than \$118 million from exercising stock options. The prior year he earned \$26 million from exercised options.

In 2005 he also received nearly \$28 million in restricted stock, about double the \$14 million he fetched the prior year. Altogether, he has received \$70 million in restricted stock over the past five years. He also received \$3.5 million in long term incentive payouts (LTIP) in 2005, which were actually slightly less than the nearly \$3.9 million in LTIP he received the prior year. Karatz also received a \$5 million bonus in each of the past three years. In 2002, he received a \$7.7 million bonus.

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