



KB Home Reviews Options Awarded to Chief Executive (Update2)

By Daniel Taub

Aug. 23 (Bloomberg) -- KB Home, the fifth-largest U.S. homebuilder by stock-market value, said it's reviewing some stock options awarded to Chief Executive Officer Bruce Karatz.

"The company has been reviewing these grants with the assistance of outside counsel," KB Home spokeswoman Caroline Shaw said today in a statement. "Because they are the subject of pending litigation, we will not comment on them."

More than 100 companies are being investigated by federal prosecutors, regulators or independent committees of their boards over alleged efforts to inflate stock-option grants by timing them to coincide with stock price declines. In one stock-option award, Karatz was granted options for 450,000 shares on Oct. 25, 1999, the day KB Home's shares reached their low for the year, according to company regulatory filings.

"There are some irregularities in the price data around these grant dates, which might suggest that some back-dating has taken place," said Erik Lie, a professor of finance at the University of Iowa who has studied stock-option dating.

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Karatz, 60, is the homebuilding industry's best-paid executive and was the fifth-highest paid CEO running a company with a stock market value of at least \$3 billion last year, according to a study by Bloomberg. With total 2005 pay of \$43.2 million, his compensation was 311 percent above a competitive level that takes account of differences in company size and performance and CEO pay risk. Karatz didn't return a call seeking comment.

KB Home's review of its stock options was reported earlier today by the Wall Street Journal.

Karatz had a 2,370 percent increase in total pay from 1995 to 2005, second only to Ryland Group Inc. CEO Chad Dreier among 83 CEOs who were in their jobs for the 10-year period, according to another study by Bloomberg.

Karatz, other board members and KB Home itself are the defendants in a shareholder derivative complaint filed by Sylvie Davidson in Los Angeles Superior Court two days ago.

According to the complaint, there were 16 times between January 1995 and October of last year when the company granted stock options "dated just before a substantial rise in KB Home's stock price." The biggest 10-day rise was 36.3 percent, according to the complaint.

One member of the KB Home board also serves on the board of UnitedHealth Group Inc. which also is involved in the stock options probes.

James Johnson

James Johnson, 62, the former chairman of mortgage-finance company Fannie Mae and now vice chairman of Washington-based merchant bank Perseus LLC, is on six compensation committees and is chairman of five, more than any other board member in the U.S., according to Equilar Inc., a San Mateo, California-based proxy-research firm.

UnitedHealth's board is conducting an investigation of its options grants, and the company also is under investigation by state and federal regulators.

Johnson is chairman of the compensation committee of Minnetonka, Minnesota-based UnitedHealth, and was chairman of KB Home's compensation committee from 1995 to 2000. Johnson left the committee until 2004, when he rejoined as a member.

Johnson didn't return a telephone call seeking comment today.

KB Home shares fell \$2.66, or 6 percent, to \$40.53 as of 4:21 p.m. in New York Stock Exchange composite trading. They have dropped 44 percent this year, compared with a 3.6 percent increase in the Standard & Poor's 500 Index.

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