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1 of 12



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2 of 12



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## SEC Adds to KB Home's Troubles

SEC Probe Comes as Builder Struggles With Decreased Demand



By JAMES R. HAGERTY And DAWN WOTAPKA

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Update:

KB Home's disclosure late Friday that the Securities and Exchange Commission is investigating its accounting is the latest in a series of regulatory scrapes for the Los Angeles-based home builder.

In recent years, KB also has been rocked by scandals over manipulation of stock options paid to its chief executive and by federal charges that it engaged in improper mortgage lending.

In a quarterly filing Friday with the Securities and Exchange Commission, KB said the SEC staff has issued a "formal order of investigation...regarding possible accounting and disclosure issues." KB added: "The staff has stated that its investigation should not be construed as an indication by the SEC that there has been any violation of the federal securities laws."

KB, the fifth-largest U.S. home builder in terms of completed sales last year, said in the filing that it is cooperating with the investigation. On Sunday, a KB spokeswoman said: "While the SEC has not specified the subject matter and we cannot speculate on it at this time, we understand that part of the SEC's mandate is to conduct these sorts of investigations, which it has done with hundreds of public companies over the past few years." She added that the company "strives to operate its business with the utmost transparency and integrity, and in accordance with generally accepted accounting principles."

The SEC declined to comment.

In November 2006, Bruce Karatz resigned as chief executive officer of KB after an internal investigation found that he backdated his own stock option grants to increase his pay. In September 2008, Mr. Karatz agreed to pay more than \$7 million to settle securities charges with the SEC but didn't admit any wrongdoing in the backdating case. His lawyer, John Kecker, said in a statement then that Mr. Karatz acted "appropriately."

In mid-2005, KB agreed to pay \$3.2 million to settle federal allegations that its mortgage unit engaged in poor lending practices. The U.S. Department of Housing and Urban Development charged that a KB subsidiary made it possible for ineligible borrowers to get mortgages guaranteed by the Federal Housing Administration.

Like other home builders, KB has suffered heavy losses in recent years amid plunging demand and the need to write down the value of land. KB reported a net loss of \$66 million for the fiscal third quarter ended Aug. 31, compared with a year-earlier loss of \$144.7 million. In its filing Friday, KB said the housing market continues to suffer from a glut of homes available for sale, foreclosures, unemployment and tight lending standards. In the current fiscal quarter, the company said, it expects to report a decline in revenue from the year-earlier level but improved "bottom line results."

Shares of KB Home were down 2.8% to \$16.00 in after-hours trading Friday.

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