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CLERK U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
LOS ANGELES

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10
11 **UNITED STATES DISTRICT COURT**
12 **CENTRAL DISTRICT OF CALIFORNIA**
13

14 SECURITIES AND EXCHANGE
15 COMMISSION,

16 Plaintiff,

17 vs.
18

19 BRUCE E. KARATZ,

20 Defendant.
21
22

Case No. **CV08-06012**

AHM (FFMx)

COMPLAINT

23 1. From at least 1999 through 2005, Bruce E. Karatz, the former chief
24 executive officer and chairman of the board of KB Home, Inc. ("KB Home" or the
25 "Company"), enriched himself and others at the Company by using hindsight to
26 pick advantageous grant dates for KB Home's annual stock option grants, which
27 on many occasions coincided with dates of low monthly closing prices for the
28 Company's common stock. As a result, KB Home made annual grants of

1 undisclosed in-the-money stock options to its officers and employees that were not
2 accurately reported in the Company's records. Finally, because of the backdating
3 scheme, KB Home filed periodic reports and proxy statements with the Securities
4 and Exchange Commission (the "Commission") which inaccurately stated that KB
5 Home granted options at fair-market-value on the date of the grant.

6 2. Karatz received backdated annual stock option awards amounting to
7 2,860,000 shares of KB Home stock. Karatz exercised many of these options and
8 profited more than \$6 million from the improper backdating.

9 3. By engaging in the acts alleged in this Complaint, Karatz, among other
10 things, violated, or aided and abetted violations of, the antifraud, books and records,
11 and reporting provisions of the federal securities laws. The Commission seeks an
12 order imposing an office-and-director bar and enjoining Karatz from future
13 violations of the securities laws, requiring him to disgorge ill-gotten gains, pay
14 prejudgment interest, and pay a civil monetary penalty.

15 **JURISDICTION AND VENUE**

16 4. This Court has jurisdiction over this action pursuant to Sections 20(b),
17 20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§
18 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d), 21(e), and 27 of the Securities
19 Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§ 78u(d), 78u(e), and 78aa.
20 Karatz, directly or indirectly, made use of the means or instrumentalities of
21 interstate commerce, of the mails, or of the facilities of a national securities
22 exchange in connection with the transactions, acts, practices, and courses of
23 business alleged in this Complaint.

24 5. Venue is proper in this district pursuant to Section 22(a) of the
25 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.
26 § 78aa, because Karatz resided within this district during the relevant time period
27 and certain of the transactions, acts, practices, and courses of conduct constituting
28 violations of the laws alleged in this Complaint occurred within this district.

1 **THE DEFENDANT**

2 6. Bruce E. Karatz, 61, is a resident of Los Angeles, California. Karatz
3 served as KB Home's CEO, president, and a member of its board of directors from
4 1986 until his resignation on November 12, 2006. Karatz became KB Home's
5 chairman in 1993 and served in that position until his November 2006 resignation.

6 **RELEVANT ENTITY**

7 7. KB Home, one of America's largest homebuilders, is a Delaware
8 corporation headquartered in Los Angeles, California. At all relevant times, its
9 common stock was registered under Section 12(b) of the Exchange Act, 15 U.S.C.
10 §78l(b), and was traded on the New York Stock Exchange under the symbol "KBH."

11 **FACTS**

12 **A. KB Home's Annual Option Grant Process**

13 8. Between 1999 and 2005, KB Home awarded annual stock options as a
14 form of compensation to executives and lower-level employees. These options
15 were granted pursuant to the Company's stock option plans, which stated "in no
16 event shall the exercise price be less than 100% of the fair market value of a share
17 of Common Stock at the time such Option is granted."

18 9. During this period, KB Home's compensation committee met in early
19 October and reviewed and approved the total number of options to be awarded in
20 the annual option grant. Specifically, the compensation committee approved:

21 (1) specific option grant amounts to executives who fell within the definition of
22 "officer" under Rule 16a-1(f) of the Exchange Act, 17 C.F.R. § 240.16a-1(f)
23 ("Section 16 officers"), and (2) a pool of options for lower-level employees to be
24 allocated by KB Home's human resources group subject to Karatz's approval
25 sometime before the end of the fiscal year.

26 10. Karatz either approved or selected the grant date for the annual option
27 grants to Section 16 officers and lower-level employees. As a Section 16 officer,
28 Karatz received options in these yearly grants.

1 **1999-2001 Annual Grants**

2 11. For the three annual grants between 1999 and 2001, KB Home
3 employees reviewed KB Home's historical stock prices between the compensation
4 committee meeting date and the end of the fiscal year on November 30 to find the
5 date with the lowest stock price. Karatz then either approved or selected that date
6 as the grant date for the annual option award.

7 12. The grant date Karatz either approved or selected for each of the
8 1999, 2000, and 2001 annual grants coincided with KB Home's lowest stock price
9 between the compensation committee meeting date in each of those years and the
10 end of each fiscal year.

11 **2002-2005 Annual Grants**

12 13. In April 2002, Congress passed the Sarbanes-Oxley Act ("SOX").
13 Among other things, SOX changed the reporting rules for Section 16 officers by
14 requiring that any change in stock ownership, including the receipt of stock
15 options, be reported on Commission Form 4 "before the end of the second business
16 day, following the day on which the subject transaction has been executed."

17 14. In October 2002, in light of this new requirement and to ensure the
18 timely filing of Forms 4, KB Home's in-house legal counsel recommended to the
19 vice president of human resources that KB Home use a "fixed date" rather than a
20 "play it out" strategy when selecting the grant date for annual option grants.

21 15. Karatz ultimately approved the "play it out" strategy, which involved
22 using hindsight, although SOX's Form 4 filing requirements prevented him from
23 looking back several weeks when selecting the grant date for annual option awards.

24 16. Between 2002 and 2005, Karatz and others at KB Home tracked the
25 Company's stock price after the compensation committee meeting, waiting for a
26 downward trend. Once a downward trend was identified, Karatz and others at KB
27 Home reviewed the stock price over the previous three business days. Karatz then
28 selected or approved the date with the lowest price as the grant date for the

1 Company's annual stock option grant. As a result, Karatz and others at KB Home
2 received undisclosed in-the-money option grants while still filing timely Forms 4.

3 17. On October 2, 2003, the compensation committee met and approved
4 the fiscal year 2004 annual option grants, including a grant of 280,000 options to
5 Karatz. On Tuesday, October 28, Karatz waited for the market close before
6 deciding on a grant date. Because the stock price on the three business days
7 between October 24 and October 28 was the lowest on Friday, October 24, Karatz
8 selected that day as the grant date for the annual option awards.

9 18. On October 7, 2004, the compensation committee met and approved
10 the fiscal year 2005 annual option grants, including the 280,000 options that were
11 granted to Karatz. On Monday, October 25, Karatz approved October 22 as the
12 grant date, which had the lowest stock price on the three business days between
13 October 21 and October 25.

14 19. On October 6, 2005, the compensation committee met and approved
15 the fiscal year 2006 annual option grants, including 250,000 options to Karatz. On
16 Wednesday, October 19, Karatz selected Tuesday, October 18 as the grant date for
17 the 2006 annual option award, as the stock price on that day was nearly \$3.00 per
18 share lower than on October 19.

19 **B. Karatz Hides His Backdating Conduct**

20 20. In mid-2006, the media began focusing on stock option backdating.
21 Due to media scrutiny of both KB Home's unusually advantageous option grant
22 dates and Karatz's extremely high compensation, the chief legal officer ("CLO") at
23 KB Home began a review of the Company's stock option practices. The results of
24 this review were to be provided to KB Home's audit committee in a written report
25 (the "Report").

26 21. Karatz was advised that the Report would be provided to KB Home's
27 audit committee. During the review, Karatz did not inform the CLO that hindsight
28 had been used in selecting the annual option grant date between 1999 and 2005.

1 22. During the review, Karatz was advised that selecting option grant
2 dates with a short “look-back” could be improper.

3 23. Karatz reviewed several drafts of the Report before it was provided to
4 the audit committee, and failed to correct the inaccurate conclusion that KB Home
5 did not backdate annual option grants from 1999 through 2005. The Report was
6 completed on June 14, 2006 and delivered to the audit committee.

7 24. That same day, Karatz participated in an audit committee conference
8 call in which the chairman of the audit committee summarized the Report,
9 including its conclusion that no backdating had occurred at KB Home. Once
10 again, Karatz did not correct the inaccurate conclusion.

11 25. After the completion of the Report, outside counsel advised Karatz,
12 among other things, that employing a short, price-driven “look-back” when
13 choosing an option grant date was improper.

14 **C. Karatz Certifies KB Home’s Misleading Second Quarter 2006**
15 **Form 10-Q**

16 26. On July 7, 2006, KB Home filed a Form 10-Q stating that “all options
17 granted under the Company’s stock-based employee compensation plans had an
18 exercise price equal to the market value of the underlying common stock on the
19 date of grant.”

20 27. Two days before the filing, Karatz was advised by an in-house lawyer
21 that this statement may make the Form 10-Q misleading and was urged to delay
22 the filing in order to conduct an independent investigation into KB Home’s stock
23 option practices. That in-house lawyer later withdrew his concerns when Karatz
24 assured him that there would be an independent investigation into KB Home’s
25 stock option practices.

26 28. Karatz signed and certified KB Home’s second quarter Form 10-Q on
27 July 6, 2006, despite having selected or approved the grant date for the annual
28 option awards with hindsight.

1 **D. Karatz Causes KB Home to File Materially False and Misleading**
2 **Periodic Reports**

3 29. From fiscal year 2000 through fiscal year 2006, KB Home filed
4 various registration statements on Forms S-3 (shelf take-down note offerings), S-4
5 (exchange offers), and S-8 that incorporated by reference KB Home's Forms 10-K
6 and 10-Q.

7 30. Karatz reviewed and signed all of KB Home's periodic reports from
8 fiscal year 2000 through fiscal year 2006. Additionally, pursuant to Section 302 of
9 SOX, Karatz certified KB Home's periodic reports from 2003 through 2006.

10 31. KB Home's Forms 10-Q for 1999 through 2001 failed to disclose that
11 Karatz backdated his and others' option grants.

12 32. From 2002 through 2006, KB Home's periodic reports inaccurately
13 described KB Home's stock option granting process by stating that all options had
14 an exercise price equal to market value on the date of grant. Because the date of
15 grant listed in the periodic reports was selected with hindsight and approved by
16 Karatz, he knew or was reckless in not knowing that this disclosure was
17 misleading.

18 33. KB Home also made misrepresentations in its proxy statements,
19 which Karatz reviewed. For example, between February 8, 2000 and March 6,
20 2006, KB Home filed six proxy statements that stated, "All options were granted at
21 market value on the date of grant." As with KB Home's periodic reports, this
22 disclosure was misleading because the grant dates were selected with hindsight and
23 approved by Karatz. In addition, each proxy disclosed an incorrect grant date that
24 applied to Karatz's option awards. Moreover, KB Home's Forms 10-K
25 incorporated by reference the executive compensation portion of the proxies,
26 which included the misleading statements above.

27 34. Because Karatz approved grant dates for the annual option awards that
28 had been chosen using hindsight, he knew or was reckless in not knowing that

1 these disclosures were misleading.

2 **E. Karatz Benefits From the Scheme**

3 35. Between 1999 and 2005, Karatz received approximately 2,860,000
4 options - about 35% of all of the annual stock options that KB Home granted in
5 this period. Karatz or his assigns exercised 1,164,350 of the backdated options he
6 received in 1999, 2000, 2001, and 2003, and then sold his shares. In doing so,
7 Karatz received an in-the-money benefit of \$6,183,390.50.

8 **F. KB Home's False Books and Records and Inadequate Accounting**
9 **Controls**

10 36. Karatz played a central role in options backdating at KB Home. He
11 approved the final option amounts distributed to lower-level employees and either
12 approved or selected the grant date for annual option awards.

13 37. By virtue of Karatz's conduct, KB Home's books and records
14 inaccurately reflected, among other things, option grant dates and exercise prices.

15 38. Karatz failed to maintain KB Home's system of controls by, among
16 other things, systematically backdating annual option grants to himself and others
17 from 1999 to 2005.

18 **FIRST CLAIM FOR RELIEF**

19 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

20 **Violations of Section 17(a) of the Securities Act**

21 39. The Commission realleges and incorporates by reference ¶¶ 1 through
22 38 above.

23 40. Karatz, by engaging in the conduct described above, directly or
24 indirectly, in the offer or sale of securities by the use of means or instruments of
25 transportation or communication in interstate commerce or by use of the mails,
26 knowingly or recklessly:

27 a. employed devices, schemes, or artifices to defraud;

28

- 1 b. obtained money or property by means of untrue statements of a
2 material fact or by omitting to state a material fact necessary in
3 order to make the statements made, in light of the circumstances
4 under which they were made, not misleading; or
5 c. engaged in transactions, practices, or courses of business which
6 operated or would operate as a fraud or deceit upon the
7 purchaser.

8 41. By engaging in the conduct described above, Karatz violated, and
9 unless restrained and enjoined will continue to violate, Section 17(a) of the
10 Securities Act, 15 U.S.C. § 77q(a).

11 **SECOND CLAIM FOR RELIEF**
12 **FRAUD IN CONNECTION WITH THE**
13 **PURCHASE OR SALE OF SECURITIES**
14 **Violations of Section 10(b) of the Exchange Act**
15 **and Rule 10b-5 Thereunder**

16 42. The Commission realleges and incorporates by reference ¶¶ 1 through
17 38 above.

18 43. Karatz, by engaging in the conduct described above, directly or
19 indirectly, in connection with the purchase or sale of a security, by the use of
20 means or instrumentalities of interstate commerce, of the mails, or of the facilities
21 of a national securities exchange, knowingly or recklessly:

- 22 a. employed devices, schemes, or artifices to defraud;
23 b. made untrue statements of a material fact or omitted to state a
24 material fact necessary in order to make the statements made, in
25 light of the circumstances under which they were made, not
26 misleading; or
27 c. engaged in acts, practices or courses of business which operated
28 or would operate as a fraud or deceit upon other persons.

1 44. By engaging in the conduct described above, Karatz violated, and
2 unless restrained and enjoined will continue to violate, Section 10(b) of the
3 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. §
4 240.10b-5.

5 **THIRD CLAIM FOR RELIEF**

6 **FALSE PROXY STATEMENTS**

7 **Violations of Section 14(a) of the Exchange Act**
8 **and Rule 14a-9 Thereunder**

9 45. The Commission realleges and incorporates by reference ¶¶ 1 through
10 38 above.

11 46. Karatz, by the use of the mails or by any means or instrumentality of
12 interstate commerce or of any facility of a national securities exchange or
13 otherwise, knowingly, recklessly or negligently, solicited proxies by means of a
14 proxy statement, form of proxy, notice of meeting or other communication, written
15 or oral, containing statements which, at the time and in light of the circumstances
16 under which they were made, were false and misleading with respect to material
17 facts, or omitted to state material facts necessary in order to make the statements
18 therein not false or misleading or necessary to correct statements in earlier
19 communications with respect to the solicitation of the proxy for the same meeting
20 or subject matter which was false or misleading.

21 47. By engaging in the conduct described above, Karatz violated, and
22 unless restrained and enjoined will continue to violate, Section 14(a) of the
23 Exchange Act, 15 U.S.C. §78n(a), and Rule 14a-9 thereunder, 17 C.F.R. §
24 240.14a-9.

25 **FOURTH CLAIM FOR RELIEF**

26 **EQUITY BENEFICIAL OWNERSHIP REPORTING VIOLATION**

27 **Violations of Section 16(a) of the Exchange Act and Rule 16a-3 Thereunder**

28 48. The Commission realleges and incorporates by reference ¶¶ 1 through

1 38 above.

2 49. Section 16(a) of the Exchange Act, 15 U.S.C. § 78p(a), and Rule 16a-
3 3 thereunder, 17 C.F.R. § 240.16a-3, require that any person that directly or
4 indirectly beneficially owns more than 10% of a company's class of stock
5 registered under Section 12 of the Exchange Act, 15 U.S.C. § 78l, must notify the
6 Commission within 10 days of the acquisition. Additionally, Section 16(a) of the
7 Exchange Act requires that if there has been a change of such ownership during a
8 month, the reporting persons shall file with the Commission a statement indicating
9 their ownership at the end of the calendar month and the changes in that ownership
10 that occurred during the month. Exchange Act Rule 16a-3 requires that statements
11 of changes in beneficial ownership be filed on Form 4.

12 50. By engaging in the conduct described above, Karatz violated, and
13 unless restrained and enjoined will continue to violate, Section 16(a) of the
14 Exchange Act, 15 U.S.C. § 78p(a), and Rule 16a-3 thereunder, 17 C.F.R. §
15 240.16a-3.

16 **FIFTH CLAIM FOR RELIEF**

17 **FALSIFICATION OF RECORDS**

18 **Violations of Exchange Act Rule 13b2-1**

19 51. The Commission realleges and incorporates by reference ¶¶ 1 through
20 38 above.

21 52. Karatz, directly or indirectly, falsified or caused to be falsified KB
22 Home's books, records and accounts subject to Section 13(b)(2)(A) of the
23 Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

24 53. By engaging in the conduct alleged above, Karatz violated, and unless
25 restrained and enjoined will continue to violate, Exchange Act Rule 13b2-1, 17
26 C.F.R. § 240.13b2-1.

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SIXTH CLAIM FOR RELIEF

FALSE CERTIFICATION

Violations of Exchange Act Rule 13a-14

54. The Commission realleges and incorporates by reference ¶¶ 1 through 38 above.

55. Karatz certified in each quarterly and annual report filed by KB Home from 2002 through July 2006, that among other things, he reviewed each of these reports and, based on his knowledge, these reports (i) did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading and (ii) included financial statements and other financial information which fairly presented, in all material respects, KB Home's financial condition, results of operations and cash flows.

56. By engaging in the conduct described above, Karatz violated, and unless restrained and enjoined will continue to violate, Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14.

SEVENTH CLAIM FOR RELIEF

VIOLATIONS OF COMMISSION PERIODIC

REPORTING REQUIREMENTS

Aiding and Abetting Violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 Thereunder

57. The Commission realleges and incorporates by reference ¶¶ 1 through 38 above.

58. KB Home violated Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13, thereunder, by filing with the Commission materially false and misleading annual reports on Forms 10-K for the fiscal years 1999 through 2005, and by filing with the Commission materially false and misleading quarterly

1 reports on Forms 10-Q for the same period.

2 59. Karatz knowingly provided substantial assistance to KB Home's
3 violation of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules
4 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13,
5 thereunder.

6 60. By engaging in the conduct described above and pursuant to Section
7 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Karatz aided and abetted KB
8 Home's violations, and unless restrained and enjoined will continue to aid and abet
9 violations, of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules
10 12b-20, 13a-1, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13,
11 thereunder.

12 **EIGHTH CLAIM FOR RELIEF**

13 **RECORD-KEEPING VIOLATIONS**

14 **Aiding and Abetting Violations of Section 13(b)(2)(A) of the Exchange Act**

15 61. The Commission realleges and incorporates by reference ¶¶ 1 through
16 38 above.

17 62. KB Home violated Section 13(b)(2)(A) of the Exchange Act, 15
18 U.S.C. § 78m(b)(2)(A), by failing to make or keep books, records, and accounts
19 that in reasonable detail accurately and fairly reflected its transactions and
20 disposition of its assets.

21 63. Karatz knowingly provided substantial assistance to KB Home's
22 violation of Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

23 64. By engaging in the conduct described above and pursuant to Section
24 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Karatz aided and abetted KB
25 Home's violations, and unless restrained and enjoined will continue to aid and abet
26 violations, of Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

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1 **NINTH CLAIM FOR RELIEF**

2 **INTERNAL CONTROLS VIOLATIONS**

3 **Aiding and Abetting Violations of Section 13(b)(2)(B) of the Exchange Act**

4 65. The Commission realleges and incorporates by reference ¶¶ 1 through
5 38 above.

6 66. KB Home violated Section 13(b)(2)(B) of the Exchange Act, 15
7 U.S.C. § 78m(b)(2)(B), which obligates issuers of securities registered pursuant to
8 Section 12 of the Exchange Act, 15 U.S.C. § 78l, to devise and maintain a
9 sufficient system of internal accounting controls.

10 67. Karatz knowingly provided substantial assistance to KB Home's
11 violation of Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(B).

12 68. By engaging in the conduct described above and pursuant to Section
13 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Karatz aided and abetted KB
14 Home's violations, and unless restrained and enjoined will continue to aid and abet
15 violations, of Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(B).

16 **PRAYER FOR RELIEF**

17 WHEREFORE, the Commission respectfully requests that the Court:

18 (a) Issue findings of fact and conclusions of law that Karatz committed
19 the violations alleged and charged herein.

20 (b) Issue judgments, in a form consistent with Rule 65(d) of the Federal
21 Rules of Civil Procedures, permanently enjoining Karatz, his agents, servants,
22 employees, attorneys, and those persons in active concert or participation with him,
23 who receive actual notice of the order by personal service or otherwise, from
24 violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), Sections 10(b),
25 14(a), and 16(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78n(a), 78p(a), and
26 Rules 10b-5, 13b2-1, 13a-14, 14a-9, and 16a-3 thereunder, 17 C.F.R. §§ 240.10b-
27 5, 240.13b2-1, 240.13a-14, 240.14a-9, and 240.16a-3, and from aiding and abetting
28 violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, 15

1 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B), and Rules 12b-20, 13a-1, and
2 13a-13 thereunder, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

3 (c) Order Karatz to disgorge all ill-gotten gains from his illegal conduct,
4 together with prejudgment interest thereon.

5 (d) Order Karatz to pay civil penalties pursuant to Section 20(d) of the
6 Securities Act, 15 U.S.C. § 77t(d), and/or Section 21(d)(3) of the Exchange Act, 15
7 U.S.C. § 78u(d)(3).

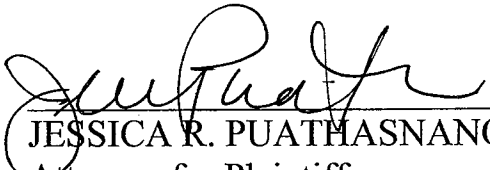
8 (e) Enter an order, pursuant to Section 20(e) of the Securities Act, 15
9 U.S.C. § 77t(e), and/or Section 21(d)(2) of the Exchange Act, 15 U.S.C. §
10 78u(d)(2), prohibiting Karatz from serving as an officer or director of any issuer
11 that has a class of securities registered with the Commission pursuant to Section 12
12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to
13 Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

14 (f) Retain jurisdiction of this action in accordance with the principles of
15 equity and the Federal Rules of Civil Procedure in order to implement and carry
16 out the terms of all orders and decrees that may be entered, or to entertain any
17 suitable application or motion for additional relief within the jurisdiction of this
18 Court.

19 (g) Grant such other and further relief as this Court may determine to be
20 just and necessary.

21
22 DATED: September 15, 2008

Respectfully submitted,

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24 
25 JESSICA R. PUATHASNANON
26 Attorney for Plaintiff
27 Securities and Exchange Commission
28

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SECURITIES AND EXCHANGE COMMISSION

CASE NUMBER

PLAINTIFF(S)

CV08-06012 AHM (FFM)

v.

BRUCE E. KARATZ

SUMMONS

DEFENDANT(S).

TO: DEFENDANT(S): Bruce E. Karatz

A lawsuit has been filed against you.

Within 20 days after service of this summons on you (not counting the day you received it), you must serve on the plaintiff an answer to the attached complaint _____ amended complaint counterclaim cross-claim or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff's attorney, Marshall Sprung/Jessica Puathasnanon, whose address is SEC, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, CA 90036. If you fail to do so, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

Clerk, U.S. District Court

NATALIE LONGORIA

Dated: SEP 15 2008

By: _____

Deputy Clerk



[Use 60 days if the defendant is the United States or a United States agency, or is an officer or agent of the United States. Allowed 60 days by Rule 12(a)(3)].

1198

UNITED STATES DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA
CIVIL COVER SHEET

I (a) PLAINTIFFS (Check box if you are representing yourself <input type="checkbox"/>) SECURITIES AND EXCHANGE COMMISSION	DEFENDANTS BRUCE E. KARATZ Los Angeles County
(b) Attorneys (Firm Name, Address and Telephone Number. If you are representing yourself, provide same.) Jessica R. Puathasnanon (323) 965-3998 Securities and Exchange Commission 5670 Wilshire Blvd., 11th Floor, Los Angeles, CA 90036	Attorneys (If Known) Christopher Caldwell, Esq. (213) 629-9040 Caldwell, Leslie, and Proctor, PC 1000 Wilshire Blvd., Suite 600 Los Angeles, CA 90017

II. BASIS OF JURISDICTION (Place an X in one box only.) <input checked="" type="checkbox"/> 1 U.S. Government Plaintiff <input type="checkbox"/> 3 Federal Question (U.S. Government Not a Party) <input type="checkbox"/> 2 U.S. Government Defendant <input type="checkbox"/> 4 Diversity (Indicate Citizenship of Parties in Item III)	III. CITIZENSHIP OF PRINCIPAL PARTIES - For Diversity Cases Only (Place an X in one box for plaintiff and one for defendant.) <table style="width:100%; border-collapse: collapse;"> <tr> <td style="width:30%;">Citizen of This State</td> <td style="width:10%;"><input type="checkbox"/> 1</td> <td style="width:10%;"><input type="checkbox"/> 1</td> <td style="width:40%;">Incorporated or Principal Place of Business in this State</td> <td style="width:10%;"><input type="checkbox"/> 4</td> <td style="width:10%;"><input type="checkbox"/> 4</td> </tr> <tr> <td>Citizen of Another State</td> <td><input type="checkbox"/> 2</td> <td><input type="checkbox"/> 2</td> <td>Incorporated and Principal Place of Business in Another State</td> <td><input type="checkbox"/> 5</td> <td><input type="checkbox"/> 5</td> </tr> <tr> <td>Citizen or Subject of a Foreign Country</td> <td><input type="checkbox"/> 3</td> <td><input type="checkbox"/> 3</td> <td>Foreign Nation</td> <td><input type="checkbox"/> 6</td> <td><input type="checkbox"/> 6</td> </tr> </table>	Citizen of This State	<input type="checkbox"/> 1	<input type="checkbox"/> 1	Incorporated or Principal Place of Business in this State	<input type="checkbox"/> 4	<input type="checkbox"/> 4	Citizen of Another State	<input type="checkbox"/> 2	<input type="checkbox"/> 2	Incorporated and Principal Place of Business in Another State	<input type="checkbox"/> 5	<input type="checkbox"/> 5	Citizen or Subject of a Foreign Country	<input type="checkbox"/> 3	<input type="checkbox"/> 3	Foreign Nation	<input type="checkbox"/> 6	<input type="checkbox"/> 6
Citizen of This State	<input type="checkbox"/> 1	<input type="checkbox"/> 1	Incorporated or Principal Place of Business in this State	<input type="checkbox"/> 4	<input type="checkbox"/> 4														
Citizen of Another State	<input type="checkbox"/> 2	<input type="checkbox"/> 2	Incorporated and Principal Place of Business in Another State	<input type="checkbox"/> 5	<input type="checkbox"/> 5														
Citizen or Subject of a Foreign Country	<input type="checkbox"/> 3	<input type="checkbox"/> 3	Foreign Nation	<input type="checkbox"/> 6	<input type="checkbox"/> 6														

IV. ORIGIN (Place an X in one box only.)

1 Original Proceeding
 2 Removed from State Court
 3 Remanded from Appellate Court
 4 Reinstated or Reopened
 5 Transferred from another district (specify):
 6 Multi-District Litigation
 7 Appeal to District Judge from Magistrate Judge

V. REQUESTED IN COMPLAINT: JURY DEMAND: Yes No (Check 'Yes' only if demanded in complaint.)

CLASS ACTION under F.R.C.P. 23: Yes No **MONEY DEMANDED IN COMPLAINT: \$**

VI. CAUSE OF ACTION (Cite the U.S. Civil Statute under which you are filing and write a brief statement of cause. Do not cite jurisdictional statutes unless diversity.)

The Complaint alleges violations of the federal securities laws. 15 U.S.C. § 77q(a); 15 U.S.C. § 78j(b) & 17 C.F.R. § 240.10b-5; 15 U.S.C. § 78n(a) & 17 C.F.R. § 240-14a-9; 15 U.S.C. § 78p(a) & 17 C.F.R. § 240.16a-3; 17 C.F.R. §§

VII. NATURE OF SUIT (Place an X in one box only.) 240.13b2-1 & 240.13a-14; 15 U.S.C. § 78m(a) & 17 C.F.R. §§ 240.12b-20, 240.13a-1, & 240.13a-13; 15 U.S.C. § 78m(b)(2)(A); and 15 U.S.C. § 78m(b)(2)(B)

OTHER STATUTES	CONTRACT	TORTS PERSONAL INJURY	TORTS PERSONAL PROPERTY	PRISONER PETITIONS	LABOR
<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce/ICC Rates/etc. <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 480 Consumer Credit <input type="checkbox"/> 490 Cable/Sat TV <input type="checkbox"/> 810 Selective Service <input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 890 Other Statutory Actions <input type="checkbox"/> 891 Agricultural Act <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Info. Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes	<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loan (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability <input type="checkbox"/> 196 Franchise <input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	<input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Fed. Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury <input type="checkbox"/> 362 Personal Injury-Med Malpractice <input type="checkbox"/> 365 Personal Injury-Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability <input type="checkbox"/> 462 Naturalization Application <input type="checkbox"/> 463 Habeas Corpus-Alien Detainee <input type="checkbox"/> 465 Other Immigration Actions	<input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability <div style="background-color: #cccccc; text-align: center;">BANKRUPTCY</div> <input type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157 <div style="background-color: #cccccc; text-align: center;">CIVIL RIGHTS</div> <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 445 American with Disabilities - Employment <input type="checkbox"/> 446 American with Disabilities - Other <input type="checkbox"/> 440 Other Civil Rights	<input type="checkbox"/> 510 Motions to Vacate Sentence Habeas Corpus <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus/Other <input type="checkbox"/> 550 Civil Rights <input type="checkbox"/> 555 Prison Condition <div style="background-color: #cccccc; text-align: center;">FORFEITURE/PENALTY</div> <input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other	<input type="checkbox"/> 710 Fair Labor Standards Act <input type="checkbox"/> 720 Labor/Mgmt. Relations <input type="checkbox"/> 730 Labor/Mgmt. Reporting & Disclosure Act <input type="checkbox"/> 740 Railway Labor Act <input type="checkbox"/> 790 Other Labor Litigation <input type="checkbox"/> 791 Empl. Ret. Inc. Security Act <div style="background-color: #cccccc; text-align: center;">PROPERTY RIGHTS</div> <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark <div style="background-color: #cccccc; text-align: center;">SOCIAL SECURITY</div> <input type="checkbox"/> 861 HIA (1395ff) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g)) <div style="background-color: #cccccc; text-align: center;">FEDERAL TAX SUITS</div> <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS-Third Party 26 USC 7609

FOR OFFICE USE ONLY: Case Number: CV08-06012

AFTER COMPLETING THE FRONT SIDE OF FORM CV-71, COMPLETE THE INFORMATION REQUESTED BELOW.

UNITED STATES DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA
CIVIL COVER SHEET

VIII(a). IDENTICAL CASES: Has this action been previously filed in this court and dismissed, remanded or closed? No Yes
If yes, list case number(s): _____

VIII(b). RELATED CASES: Have any cases been previously filed in this court that are related to the present case? No Yes
If yes, list case number(s): _____

Civil cases are deemed related if a previously filed case and the present case:

- (Check all boxes that apply) A. Arise from the same or closely related transactions, happenings, or events; or
 B. Call for determination of the same or substantially related or similar questions of law and fact; or
 C. For other reasons would entail substantial duplication of labor if heard by different judges; or
 D. Involve the same patent, trademark or copyright, and one of the factors identified above in a, b or c also is present.

IX. VENUE: (When completing the following information, use an additional sheet if necessary.)

(a) List the County in this District; California County outside of this District; State if other than California; or Foreign Country, in which EACH named plaintiff resides.
 Check here if the government, its agencies or employees is a named plaintiff. If this box is checked, go to item (b).

County in this District:*	California County outside of this District; State, if other than California; or Foreign Country

(b) List the County in this District; California County outside of this District; State if other than California; or Foreign Country, in which EACH named defendant resides.
 Check here if the government, its agencies or employees is a named defendant. If this box is checked, go to item (c).

County in this District:*	California County outside of this District; State, if other than California; or Foreign Country
Bruce E. Karatz - Los Angeles County	

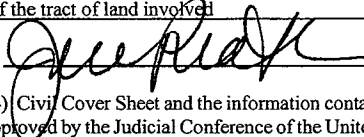
(c) List the County in this District; California County outside of this District; State if other than California; or Foreign Country, in which EACH claim arose.
Note: In land condemnation cases, use the location of the tract of land involved.

County in this District:*	California County outside of this District; State, if other than California; or Foreign Country
Los Angeles County	

* Los Angeles, Orange, San Bernardino, Riverside, Ventura, Santa Barbara, or San Luis Obispo Counties

Note: In land condemnation cases, use the location of the tract of land involved

X. SIGNATURE OF ATTORNEY (OR PRO PER):

 Date 9/12/08

Notice to Counsel/Parties: The CV-71 (JS-44) Civil Cover Sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law. This form, approved by the Judicial Conference of the United States in September 1974, is required pursuant to Local Rule 3-1 is not filed but is used by the Clerk of the Court for the purpose of statistics, venue and initiating the civil docket sheet. (For more detailed instructions, see separate instructions sheet.)

Key to Statistical codes relating to Social Security Cases:

Nature of Suit Code	Abbreviation	Substantive Statement of Cause of Action
861	HIA	All claims for health insurance benefits (Medicare) under Title 18, Part A, of the Social Security Act, as amended. Also, include claims by hospitals, skilled nursing facilities, etc., for certification as providers of services under the program. (42 U.S.C. 1935FF(b))
862	BL	All claims for "Black Lung" benefits under Title 4, Part B, of the Federal Coal Mine Health and Safety Act of 1969. (30 U.S.C. 923)
863	DIWC	All claims filed by insured workers for disability insurance benefits under Title 2 of the Social Security Act, as amended; plus all claims filed for child's insurance benefits based on disability. (42 U.S.C. 405(g))
863	DIWW	All claims filed for widows or widowers insurance benefits based on disability under Title 2 of the Social Security Act, as amended. (42 U.S.C. 405(g))
864	SSID	All claims for supplemental security income payments based upon disability filed under Title 16 of the Social Security Act, as amended.
865	RSI	All claims for retirement (old age) and survivors benefits under Title 2 of the Social Security Act, as amended. (42 U.S.C. (g))

1 JOHN M. MCCOY III, Cal. Bar No. 166244
 Email: Mccoyj@sec.gov
 2 FINOLA MANVELIAN, Cal. Bar No. 180681
 Email: Manvelianf@sec.gov
 3 MARSHALL S. SPRUNG, Cal. Bar No. 188253
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 4 JESSICA R. PUATHASNANON, Cal. Bar No. 208074
 Email: Puathasnanonj@sec.gov

5 Attorneys for Plaintiff
 6 Securities and Exchange Commission
 Rosalind R. Tyson, Regional Director
 7 Michele Wein Layne, Associate Regional Director
 5670 Wilshire Boulevard, 11th Floor
 8 Los Angeles, California 90036-3648
 Telephone: (323) 965-3998
 9 Facsimile: (323) 965-3908

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 CLERK U.S. DISTRICT COURT
 CENTRAL DIST. OF CALIF.
 LOS ANGELES

BY

**UNITED STATES DISTRICT COURT
 CENTRAL DISTRICT OF CALIFORNIA**

SECURITIES AND EXCHANGE
 COMMISSION,

Plaintiff,

vs.

BRUCE E. KARATZ,

Defendant.

Case No. **CV08-06012 AHM(FFMx)**

**[PROPOSED] FINAL JUDGMENT
 AS TO DEFENDANT BRUCE E.
 KARATZ**

1 The Securities and Exchange Commission (the "Commission") having filed
2 a Complaint and Defendant Bruce E. Karatz ("Karatz") having entered a general
3 appearance; consented to the Court's jurisdiction over Karatz and the subject
4 matter of this action; consented to entry of this Final Judgment without admitting
5 or denying the allegations of the Complaint (except as to jurisdiction); waived
6 findings of fact and conclusions of law; and waived any right to appeal from this
7 Final Judgment:

8 **I.**

9 IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that Karatz
10 and his agents, servants, employees, attorneys, and all persons in active concert or
11 participation with them who receive actual notice of this Final Judgment by
12 personal service or otherwise are permanently restrained and enjoined from
13 violating, directly or indirectly, Section 10(b) of the Securities Exchange Act of
14 1934 (the "Exchange Act"), 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated
15 thereunder, 17 C.F.R. § 240.10b-5, by using any means or instrumentality of
16 interstate commerce, or of the mails, or of any facility of any national securities
17 exchange, in connection with the purchase or sale of any security:

- 18 (a) to employ any device, scheme, or artifice to defraud;
- 19 (b) to make any untrue statement of a material fact or to omit to state a
20 material fact necessary in order to make the statements made, in the
21 light of the circumstances under which they were made, not
22 misleading; or
- 23 (c) to engage in any act, practice, or course of business which operates or
24 would operate as a fraud or deceit upon any person.

25 **II.**

26 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
27 and his agents, servants, employees, attorneys, and all persons in active concert or
28 participation with them who receive actual notice of this Final Judgment by

1 personal service or otherwise are permanently restrained and enjoined from
2 violating Section 17(a) of the Securities Act of 1933 (the "Securities Act"), 15
3 U.S.C. § 77q(a), in the offer or sale of any security by the use of any means or
4 instruments of transportation or communication in interstate commerce or by use
5 of the mails, directly or indirectly:

- 6 (a) to employ any device, scheme, or artifice to defraud;
- 7 (b) to obtain money or property by means of any untrue statement of a
8 material fact or any omission of a material fact necessary in order to
9 make the statements made, in light of the circumstances under which
10 they were made, not misleading; or
- 11 (c) to engage in any transaction, practice, or course of business which
12 operates or would operate as a fraud or deceit upon the purchaser.

13 **III.**

14 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
15 and his agents, servants, employees, attorneys, and all persons in active concert or
16 participation with them who receive actual notice of this Final Judgment by
17 personal service or otherwise are permanently restrained and enjoined from
18 violating Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14, directly or
19 indirectly, by falsely signing personal certifications indicating that he has reviewed
20 periodic reports containing financial statements which an issuer filed with the
21 Commission pursuant to Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a),
22 and that, based on his knowledge,

- 23 (a) these reports do not contain any untrue statement of material fact or
24 omit to state a material fact necessary to make the statements made, in
25 light of the circumstances under which such statements were made,
26 not misleading with respect to the period covered by the report; and

27 ///
28 ///

1 (b) that information contained in these reports fairly present, in all
2 material respects, the financial condition and results of the issuer's
3 operations.

4 **IV.**

5 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
6 and his agents, servants, employees, attorneys, and all persons in active concert or
7 participation with them who receive actual notice of this Final Judgment by
8 personal service or otherwise are permanently restrained and enjoined from aiding
9 and abetting any violation of Section 13(a) of the Exchange Act, 15 U.S.C.
10 § 78m(a), and Rules 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.12b-
11 20, 240.13a-1, and 240.13a-13, by knowingly providing substantial assistance to an
12 issuer which has a class of securities registered pursuant to Section 12 of the
13 Exchange Act, 15 U.S.C. § 78l, that files quarterly and annual reports with the
14 Commission on Forms 10-Q and Forms 10-K that fail to contain material
15 information necessary to make the required statements in the Forms 10-Q and
16 Forms 10-K, in light of the circumstances under which they are made, not
17 misleading.

18 **V.**

19 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
20 and his agents, servants, employees, attorneys, and all persons in active concert or
21 participation with them who receive actual notice of this Final Judgment by
22 personal service or otherwise are permanently restrained and enjoined from aiding
23 and abetting any violation of Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C.
24 § 78m(b)(2)(A), by knowingly providing substantial assistance to an issuer which
25 has a class of securities registered pursuant to Section 12 of the Exchange Act, 15
26 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the
27 Exchange Act, 15 U.S.C. § 78o(d), in failing to make and keep books, records, and

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1 accounts, which, in reasonable detail, accurately and fairly reflect the transactions
2 and disposition of the assets of the issuer.

3 **VI.**

4 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
5 and his agents, servants, employees, attorneys, and all persons in active concert or
6 participation with them who receive actual notice of this Final Judgment by
7 personal service or otherwise are permanently restrained and enjoined from aiding
8 and abetting any violation of Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C.
9 § 78m(b)(2)(B), by knowingly providing substantial assistance to an issuer which
10 has a class of securities registered pursuant to Section 12 of the Exchange Act, 15
11 U.S.C. § 78l, or that is required to file reports pursuant to Section 15(d) of the
12 Exchange Act, 15 U.S.C. § 78o(d), in failing to devise and maintain a system of
13 internal accounting controls sufficient to provide reasonable assurances that
14 (i) transactions are executed in accordance with management's general or specific
15 authorization; (ii) transactions are recorded as necessary (a) to permit preparation
16 of financial statements in conformity with generally accepted accounting principles
17 or any other criteria applicable to such statements, and (b) to maintain
18 accountability for assets; (iii) access to assets is permitted only in accordance with
19 management's general or specific authorization; and (iv) the recorded
20 accountability for assets is compared with the existing assets at reasonable
21 intervals and appropriate action is taken with respect to any differences.

22 **VII.**

23 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
24 and his agents, servants, employees, attorneys, and all persons in active concert or
25 participation with them who receive actual notice of this Final Judgment by
26 personal service or otherwise are permanently restrained and enjoined from
27 violating Rule 13b2-1 of the Exchange Act, 17 C.F.R. § 240.13b2-1, by, directly or
28 ///

1 indirectly, falsifying or causing to be falsified, any book, record or account subject
2 to Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

3 **VIII.**

4 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
5 and his agents, servants, employees, attorneys, and all persons in active concert or
6 participation with them who receive actual notice of this Final Judgment by
7 personal service or otherwise are permanently restrained and enjoined from
8 violating, directly or indirectly, Section 14(a) of the Exchange Act, 15 U.S.C. §
9 78n(a), and Rule 14a-9 promulgated thereunder, 17 C.F.R. § 240.14a-9, by using
10 the mails or by any means or instrumentality of interstate commerce or of any
11 facility of a national securities exchange to solicit by means of any proxy
12 statement, form of proxy, notice of meeting or other communication, written or
13 oral, containing any statement which, at the time and in the light of the
14 circumstances under which it is made, is false or misleading with respect to any
15 material fact, or which omits to state any material fact necessary in order to make
16 the statements therein not false or misleading or necessary to correct any statement
17 in any earlier communications with respect to the solicitation of a proxy for the
18 same meeting or subject matter which has become false or misleading.

19 **IX.**

20 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
21 and his agents, servants, employees, attorneys, and all persons in active concert or
22 participation with them who receive actual notice of this Final Judgment by
23 personal service or otherwise are permanently restrained and enjoined from
24 violating Section 16(a) of the Exchange Act, 15 U.S.C. § 78p(a), and Rule 16a-3
25 thereunder, 17 C.F.R. § 240.16a-3, by failing to timely file required statements
26 with the Commission regarding changes in beneficial ownership of an issuer's
27 stock.

28 ///

X.

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz is liable for disgorgement of \$6,183,390.50, representing profits gained as a result of the conduct alleged in the Complaint, together with prejudgment interest thereon in the amount of \$531,428.77, for a total of \$6,714,819.27 (the "Disgorgement Amount"). Karatz shall make this payment within ten (10) business days after entry of this Final Judgment by certified check, bank cashier's check, or United States postal money order payable to KB Home, Inc. A copy of the cover letter and money order or check shall be sent to Finola H. Manvelian, Assistant Regional Director, Los Angeles Regional Office, United States Securities and Exchange Commission, 5670 Wilshire Boulevard, Suite 11, Los Angeles, California 90036. Karatz shall pay post-judgment interest on any delinquent amounts pursuant to 28 USC § 1961.

If Karatz fails to make the payment under this Final Judgment, the payment including post-judgment interest, shall become due and payable to the Securities and Exchange Commission immediately without further application to the Court. Karatz shall satisfy this obligation by paying the Disgorgement Amount within ten (10) business days after entry of this Final Judgment by certified check, bank cashier's check, or United States postal money order payable to the Securities and Exchange Commission. The payment shall be delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Mail Stop 0-3, Alexandria, Virginia 22312, and shall be accompanied by a letter identifying Bruce E. Karatz as a defendant in this action; setting forth the title and civil action number of this action and the name of this Court; and specifying that payment is made pursuant to this Final Judgment. Karatz shall simultaneously transmit photocopies of such payment to the attention of Finola H. Manvelian, Assistant Regional Director, Los Angeles Regional Office, United States Securities and Exchange Commission, 5670 Wilshire

1 Boulevard, Suite 11, Los Angeles, California 90036. Karatz shall pay post-
2 judgment interest on any delinquent amounts pursuant to 28 USC § 1961. The
3 Commission shall remit the funds paid pursuant to this paragraph to the United
4 States Treasury.

5 **XI.**

6 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Karatz
7 shall pay a civil penalty in the amount of \$480,000 pursuant to Section 20(d) of the
8 Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15
9 U.S.C. § 78u(d)(3). Karatz shall make this payment within ten (10) business days
10 after entry of this Final Judgment by certified check, bank cashier's check, or
11 United States postal money order payable to the Securities and Exchange
12 Commission. The payment shall be delivered or mailed to the Office of Financial
13 Management, Securities and Exchange Commission, Operations Center, 6432
14 General Green Way, Mail Stop 0-3, Alexandria, Virginia 22312, and shall be
15 accompanied by a letter identifying Bruce E. Karatz as a defendant in this action;
16 setting forth the title and civil action number of this action and the name of this
17 Court; and specifying that payment is made pursuant to this Final Judgment. A
18 copy of the cover letter and money order or check shall be sent to Finola H.
19 Manvelian, Assistant Regional Director, Los Angeles Regional Office, United
20 States Securities and Exchange Commission, 5670 Wilshire Boulevard, Suite 11,
21 Los Angeles, California 90036. Karatz shall pay post-judgment interest on any
22 delinquent amounts pursuant to 28 U.S.C. § 1961. The Commission shall remit the
23 funds paid pursuant to this paragraph to the United States Treasury.

24 **XII.**

25 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that, pursuant
26 to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), and Section 20(e)
27 of the Securities Act, 15 U.S.C. § 77t(e), Karatz is prohibited, for 5 years following
28 the date of entry of this Final Judgment, from acting as an officer or director of any

1 issuer that has a class of securities registered pursuant to Section 12 of the
2 Exchange Act, 15 U.S.C. § 78l, or that is required to file reports pursuant to
3 Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

4 **XIII.**

5 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that the
6 Consent is incorporated herein with the same force and effect as if fully set forth
7 herein, and that Karatz shall comply with all of the undertakings and agreements
8 set forth therein.

9 **XIV.**

10 IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that this
11 Court shall retain jurisdiction of this matter for the purposes of enforcing the terms
12 of this Final Judgment.

13
14
15 Dated: _____

UNITED STATES DISTRICT JUDGE

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NOTICE OF ASSIGNMENT TO UNITED STATES MAGISTRATE JUDGE FOR DISCOVERY

This case has been assigned to District Judge A. Howard Matz and the assigned discovery Magistrate Judge is Frederick F. Mumm.

The case number on all documents filed with the Court should read as follows:

CV08- 6012 AHM (FFM~~x~~)

Pursuant to General Order 05-07 of the United States District Court for the Central District of California, the Magistrate Judge has been designated to hear discovery related motions.

All discovery related motions should be noticed on the calendar of the Magistrate Judge

=====
NOTICE TO COUNSEL

A copy of this notice must be served with the summons and complaint on all defendants (if a removal action is filed, a copy of this notice must be served on all plaintiffs).

Subsequent documents must be filed at the following location:

Western Division
312 N. Spring St., Rm. G-8
Los Angeles, CA 90012

Southern Division
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