

K. Hovnanian at Fresno, LLC  
Form 424B5  
September 11, 2013  
**Table of Contents**

**Filed pursuant to Rule 424(b)(5)  
Registration No. 333-189802**

The information contained in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale of these securities is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 11, 2013

PRELIMINARY PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED AUGUST 23, 2013

**\$41,581,000**

## **K. Hovnanian Enterprises, Inc.**

**6.25% Senior Notes due 2016**

guaranteed by

**Hovnanian Enterprises, Inc.**

The notes are being issued as additional 6.25% Senior Notes due 2016 under the indenture dated as of August 8, 2005. There are \$130.5 million aggregate principal amount of 6.25% Senior Notes due 2016 already outstanding under the indenture. The additional notes offered hereby will be treated as a single class with the outstanding 6.25% Senior Notes due 2016. The notes will bear interest at the rate of 6.25% per year. Interest on the notes is payable on January 15 and July 15 of each year, beginning on January 15, 2014. The notes will mature on January 15, 2016. We may redeem some or all of the notes at any time at the redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption, if any, plus a Make-Whole Amount. See **Description of Debt Securities** **Description of 6.25% Senior Notes** **Redemption** in the accompanying prospectus. There is no sinking fund for, or mandatory redemption of, the notes.

The obligations under the notes will be fully and unconditionally guaranteed by our parent company, Hovnanian Enterprises, Inc., and substantially all of its restricted subsidiaries.

**Investing in the notes involves risks. See Risk Factors beginning on page S-7.**

|          | <b>Price to<br/>Public(1)</b><br>% | <b>Underwriting<br/>Discounts and<br/>Commissions</b><br>% | <b>Proceeds to Us<br/>Before<br/>Expenses</b><br>% |
|----------|------------------------------------|--|--|
| Per Note |                                    |  |  |
| Total    | \$                                 | \$   | \$   |

(1) Plus accrued interest from July 15, 2013.  
The notes have not been and will not be listed on any exchange.

The underwriter expects to deliver the notes to purchasers on or about \_\_\_\_\_, 2013.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

## Credit Suisse

, 2013

**Table of Contents**

We have not authorized anyone to provide you with any information other than that contained in this prospectus supplement, the accompanying prospectus, any free writing prospectus prepared by or on behalf of us and the documents incorporated by reference herein. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement and the accompanying prospectus may only be used where it is legal to sell these securities. The information in this prospectus supplement and the accompanying prospectus may only be accurate on the date of this prospectus supplement or such incorporated document.

**TABLE OF CONTENTS**

**Prospectus Supplement**

|  |      |
|--|------|
| <u>SUMMARY</u>   | S-1  |
| <u>RISK FACTORS</u>                                    | S-7  |
| <u>USE OF PROCEEDS</u>                                 | S-21 |
| <u>CAPITALIZATION</u>                                  | S-22 |
| <u>DESCRIPTION OF NOTES</u>                            | S-23 |
| <u>CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES</u>  | S-24 |
| <u>CERTAIN ERISA CONSIDERATIONS</u>                    | S-29 |
| <u>UNDERWRITING</u>                                    | S-31 |
| <u>LEGAL MATTERS</u>                                   | S-33 |
| <u>EXPERTS</u>   | S-33 |
| <u>AVAILABLE INFORMATION</u>                           | S-33 |
| <u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u> | S-33 |

**Prospectus dated August 23, 2013**

|   |    |
|---|----|
| <u>ABOUT THIS PROSPECTUS</u>  | 1  |
| <u>FORWARD-LOOKING STATEMENTS</u>   | 1  |
| <u>AVAILABLE INFORMATION</u>  | 2  |
| <u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>  | 3  |
| <u>THE COMPANY</u>  | 4  |
| <u>RISK FACTORS</u>   | 4  |
| <u>RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</u> | 5  |
| <u>USE OF PROCEEDS</u>  | 5  |
| <u>SELLING SHAREHOLDERS</u>   | 5  |
| <u>DESCRIPTION OF DEBT SECURITIES</u>   | 7  |
| <u>DESCRIPTION OF CAPITAL STOCK</u>   | 81 |
| <u>DESCRIPTION OF DEPOSITARY SHARES</u>   | 85 |
| <u>DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS</u>   | 89 |
| <u>DESCRIPTION OF UNITS</u>   | 89 |
| <u>DESCRIPTION OF WARRANTS</u>  | 90 |
| <u>PLAN OF DISTRIBUTION</u>   | 91 |
| <u>LEGAL MATTERS</u>  | 92 |
| <u>EXPERTS</u>  | 92 |

**Table of Contents**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission ( SEC ) utilizing a shelf registration process. Under this shelf process, we are offering to sell the securities described in this prospectus supplement, using this prospectus supplement and the accompanying prospectus. When we refer to prospectus we are referring to both this prospectus supplement as well as the accompanying prospectus. This prospectus supplement describes the specific terms of this offering. The accompanying prospectus and the information incorporated by reference therein describes our business and gives more general information, some of which may not apply to this offering. You should read this prospectus supplement together with the accompanying prospectus, including the documents incorporated by reference therein and herein, before making an investment in the securities offered by this prospectus supplement. If the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus, the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

Unless the context otherwise requires, all references in this prospectus supplement to:

Issuer or K. Hovnanian are to K. Hovnanian Enterprises, Inc., a California corporation;

Hovnanian, us, we, our or Company are to Hovnanian Enterprises, Inc., a Delaware corporation, together with its consolidated subsidiaries, including K. Hovnanian; and

Guarantors are to Hovnanian and its restricted subsidiaries that will guarantee the notes offered hereby.

**INDUSTRY AND MARKET DATA**

We obtained the market and competitive position data used throughout this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications is reliable, neither we nor the underwriter has independently verified such data and neither we nor the underwriter makes any representation as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources.

**FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference include forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by, such forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to:

changes in general and local economic, industry and business conditions and impacts of the sustained homebuilding downturn;

adverse weather and other environmental conditions and natural disasters;

**Table of Contents**

changes in market conditions and seasonality of the Company's business;

changes in home prices and sales activity in the markets where the Company builds homes;

government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment;

fluctuations in interest rates and the availability of mortgage financing;

shortages in, and price fluctuations of, raw materials and labor;

the availability and cost of suitable land and improved lots;

levels of competition;

availability of financing to the Company;

utility shortages and outages or rate fluctuations;

levels of indebtedness and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;

the Company's sources of liquidity;

changes in credit ratings;

availability of net operating loss carryforwards;

operations through joint ventures with third parties;

product liability litigation, warranty claims and claims made by mortgage investors;

successful identification and integration of acquisitions;

changes in tax laws affecting the after-tax costs of owning a home;

significant influence of the Company's controlling stockholders;

geopolitical risks, terrorist acts and other acts of war; and

other factors described in detail in our Annual Report on Form 10-K for the year ended October 31, 2012, our quarterly reports on Form 10-Q for the quarters ended January 31, 2013, April 30, 2013 and July 31, 2013 and in this prospectus supplement.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

S-iii

**Table of Contents**

**SUMMARY**

*The following summary contains information about us and the offering of the notes. It does not contain all of the information that may be important to you in making a decision to purchase the notes. For a more complete understanding of us and the offering of the notes, we urge you to read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including the Risk Factors sections and our financial statements and the notes to those statements incorporated by reference herein.*

**The Company**

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, the Company was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 300,000 homes, including 5,356 homes in fiscal 2012. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 186 communities in 37 markets in 16 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. We offer a variety of home styles at base prices ranging from \$68,652 (low income housing) to \$1,067,000 with an average sales price, including options, of \$301,000 nationwide in fiscal 2012.

Hovnanian markets and builds homes that are constructed in 18 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

*Northeast:* New Jersey and Pennsylvania

*Mid-Atlantic:* Delaware, Maryland, Virginia, West Virginia, and Washington, D.C.

*Midwest:* Illinois, Minnesota, and Ohio

*Southeast:* Florida, Georgia, North Carolina, and South Carolina

*Southwest:* Arizona and Texas

*West:* California

Our corporate offices are located at 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, our telephone number is 732-747-7800, and our Internet web site address is [www.khov.com](http://www.khov.com). Information on or accessible through our website is not a part of, or incorporated by reference in, this prospectus.

**Table of Contents**

**Related Transactions**

**Redemption of the 2014 Notes**

We intend to use the net proceeds from this offering to fund the redemption of all of K. Hovnanian's outstanding 6.5% Senior Notes due 2014 (the "6.5% Senior Notes") and 6.375% Senior Notes due 2014 (the "6.375% Senior Notes" and, together with the 6.5% Senior Notes, the "2014 Notes"). As of July 31, 2013, there were approximately \$36.7 million aggregate principal amount of 6.5% Senior Notes outstanding and approximately \$3.0 million aggregate principal amount of 6.375% Senior Notes outstanding. The 2014 Notes may be called for redemption at K. Hovnanian's option at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the redemption date, plus a make-whole amount. We currently expect to issue notices of redemption to holders of the 2014 Notes concurrently with the closing of this offering, specifying a redemption date for the 2014 Notes that is 30 days after the date of such notice. We also intend to exercise our covenant defeasance option under the 2014 Notes and the related indentures by depositing with the trustee sufficient funds to pay principal of, and premium and interest on, the 2014 Notes to the redemption date. We refer to the anticipated redemption and covenant defeasance of the 2014 Notes as the "Redemptions."



---

**Table of Contents**

**THE OFFERING**

|                        |   |
|------------------------|---|
| Issuer                 | K. Hovnanian Enterprises, Inc.  |
| Notes Offered          | We are offering \$41.6 million aggregate principal amount of 6.25% Senior Notes due 2016 (the "New Notes"). The New Notes are being issued as additional 6.25% Senior Notes due 2016 under an indenture dated as of August 8, 2005. There are \$130.5 million aggregate principal amount of 6.25% Senior Notes due 2016 already outstanding under that indenture (the "Existing Notes" and together with the New Notes, the "Notes"). The New Notes we are offering hereby constitute "Additional Notes" under the indenture and will be treated with the Existing Notes as a single class.   |
| Maturity Date          | January 15, 2016.   |
| Interest Payment Dates | Each January 15 and July 15, beginning January 15, 2014.  |
| Optional Redemption    | We may redeem the Notes, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest to the date of redemption, if any, plus a Make-Whole Amount. See "Description of Debt Securities" "Description of 6.25% Senior Notes" "Redemption" in the accompanying prospectus.   |
| Change of Control      | Upon a Change of Control as described in the section "Description of Debt Securities" "Description of 6.25% Senior Notes" "Certain covenants" "Repurchase of 6.25% Senior Notes upon Change of Control" in the accompanying prospectus, you will have the right to require us to purchase some or all of the Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. We can give no assurance that, upon such an event, we will have sufficient funds to purchase any of the Notes.   |
| Guarantees             | The Guarantors are Hovnanian Enterprises, Inc., the parent corporation of the Issuer, and most of the parent's existing and future restricted subsidiaries. If the Issuer cannot make payments on the Notes when they are due, the Guarantors must make the payments instead. As of the date of this prospectus supplement, our home mortgage subsidiaries, certain of our title insurance subsidiaries, joint ventures, subsidiaries holding interests in our joint ventures and our foreign subsidiary are not Guarantors or restricted subsidiaries. In particular, the 2021 Notes Guarantors (as defined below) that have pledged their assets to secure the 2021 Notes (as defined below) will not be guarantors of the Notes and will be unrestricted subsidiaries under the indenture governing the Notes. |
| Ranking                | The Notes and the guarantees thereof will be general unsecured senior obligations and will not be secured by any collateral. Your right to payment under the Notes and the guarantees thereof will be:  |

effectively junior to the rights of secured creditors, to the extent of their security in our assets;

S-3

**Table of Contents**

equal with the rights of creditors under other existing and future unsecured senior debt;

senior to the rights of creditors under existing and future debt that is expressly subordinated to the Notes and the guarantees thereof; and

structurally subordinated to all of the existing and future liabilities, including trade payables, of our joint ventures and subsidiaries that do not guarantee the Notes, including the guarantees (the 2021 Notes Guarantees ) by certain of our joint ventures and subsidiaries (the 2021 Notes Guarantors ) of K. Hovnanian's 2.0% Senior Secured Notes due 2021 and 5.0% Senior Secured Notes due 2021 (collectively the 2021 Notes ), which 2021 Notes Guarantees are secured by a first-priority lien, subject to certain exceptions, on substantially all of the assets of such 2021 Notes Guarantors. The Guarantors of the Notes also guarantee the 2021 Notes on a senior unsecured basis.

As of July 31, 2013, after giving effect to the completion of this offering and the Redemptions, the Issuer and the Guarantors would have had:

approximately \$992.0 million of secured indebtedness outstanding (\$978.3 million, net of discount);

approximately \$549.2 million of senior unsecured notes (\$547.7 million, net of discount), which includes approximately \$20.9 million of senior amortizing notes and approximately \$65.8 million of senior exchangeable notes, and which would include the Notes; and

approximately \$3.2 million of senior subordinated amortizing notes.

In addition, as of July 31, 2013, we had a total of \$27.9 million of letters of credit outstanding issued under our letter of credit and other credit facilities and agreements. We recently entered into a five-year \$75 million unsecured revolving credit facility (our revolving credit facility ). As of July 31, 2013, there were no borrowings and \$22.8 million of letters of credit outstanding under such facility resulting in available borrowing capacity of \$52.2 million.

In addition to the 2021 Note Guarantees, as of July 31, 2013, our non-guarantor subsidiaries had approximately \$144.9 million of outstanding liabilities, including trade payables.

See the section Description of Debt Securities Description of 6.25% Senior Notes Ranking in the accompanying prospectus.

Certain Covenants

The Notes will be issued under an indenture, dated as of August 8, 2005, that contains covenants that, among other things, restrict the Issuer's ability and the ability of the

Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

Guarantors to:

borrow money;

pay dividends and distributions on our common and preferred stock;

S-4

**Table of Contents**

repurchase our common and preferred stock;

make investments in subsidiaries and joint ventures that are not restricted subsidiaries;

sell certain assets;

incur certain liens;

merge with or into other companies; and

enter into certain transactions with our affiliates.

These covenants are subject to a number of important exceptions and qualifications. For more details, see the section "Description of Debt Securities—Description of 6.25% Senior Notes—Certain covenants" in the accompanying prospectus.

If the Notes receive an investment grade rating by both Moody's and Standard & Poor's, then our obligation to comply with certain of the covenants will cease for so long as the Notes continue to be rated investment grade. See "Description of Debt Securities—Description of 6.25% Senior Notes—Certain covenants—Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade."

Use of Proceeds

We intend to use the net proceeds from this offering to fund the Redemptions and to pay related fees and expenses.

Risk Factors

See "Risk Factors" beginning on page S-7 of this prospectus supplement for a discussion of risks you should carefully consider before deciding to invest in the New Notes.

**Table of Contents**

**Ratios of Earnings to Fixed Charges**

For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes and income or loss from equity investees, plus fixed charges and distributed income of equity investees, less interest capitalized. Fixed charges consist of all interest incurred, plus that portion of operating lease rental expense (33%) deemed to be representative of interest, plus the amortization of debt issuance costs and bond discounts. The following table sets forth the ratios of earnings to fixed charges for each of the periods indicated:

|                                    | Nine Months Ended<br>July 31, 2013 | 2012 | Years Ended October 31, |      |      | 2008 |
|------------------------------------|------------------------------------|------|-------------------------|------|------|------|
|                                    |                                    |      | 2011                    | 2010 | 2009 |      |
| Ratio of earnings to fixed charges | (a)                                | (a)  | (a)                     | (a)  | (a)  | (a)  |

(a) Earnings for the nine months ended July 31, 2013 and the years ended October 31, 2012, 2011, 2010, 2009 and 2008 were insufficient to cover fixed charges for such period by \$11.2 million, \$99.4 million, \$266.3 million, \$265.9 million, \$616.1 million and \$1,138.5 million, respectively.

**Table of Contents**

**RISK FACTORS**

*An investment in the New Notes involves a high degree of risk. Before making a decision to invest in the New Notes, you should carefully consider the following:*

*the risk factors described below and those contained in the documents incorporated by reference in this prospectus supplement; and*

*the other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement.*

**Risks Related to Our Business**

**The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets, and weather and other environmental conditions, which could affect our ability to build homes at prices our customers are willing or able to pay, could reduce profits that may not be recaptured, could result in cancellation of sales contracts, and could affect our liquidity.**

The homebuilding industry is cyclical, has from time to time experienced significant difficulties, and is significantly affected by changes in general and local economic conditions such as:

Employment levels and job growth;

Availability of financing for home buyers;

Interest rates;

Foreclosure rates;

Inflation;

Adverse changes in tax laws;

Consumer confidence;

Housing demand;

Population growth; and

Availability of water supply in locations in which we operate.

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

Turmoil in the financial markets could affect our liquidity. In addition, our cash balances are primarily invested in short-term government-backed instruments. The remaining cash balances are held at numerous financial institutions and may, at times, exceed insurable amounts. We seek to mitigate this risk by depositing our cash in major financial institutions and diversifying our investments. In addition, our homebuilding operations often require us to obtain letters of credit. We recently entered into a new \$75 million unsecured revolving credit facility under which letters of credit may be issued. We also have certain stand alone letter of credit facilities and agreements pursuant to which letters of credit are issued. However, we may need additional letters of credit above the amounts provided under these facilities and agreements. If we are unable to obtain such additional letters of credit as needed to operate our business, we may be adversely affected.

Weather conditions and man-made or natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions can harm the local homebuilding business. For example, our business in Florida was adversely affected in late 2005 and into 2006 due to the effects of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an effect on materials and labor availability or pricing, but did affect the volume of home sales in subsequent weeks. In August 2011 and October 2012, Hurricane Irene and Hurricane Sandy, respectively, caused

S-7



---

## **Table of Contents**

widespread flooding and disruptions on the Atlantic seaboard, which impacted our sales and construction activity in affected markets during that month.

The difficulties described above could cause us to take longer and incur more costs to build our homes. We may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to 12 months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

### **The homebuilding industry has experienced a significant and sustained downturn which has, and could continue to, materially and adversely affect our business, liquidity, and results of operations.**

The homebuilding industry experienced a significant and sustained downturn over the past several years. An industry-wide softening of demand for new homes resulted from a lack of consumer confidence, decreased availability of mortgage financing, and large supplies of resale and new home inventories, among other factors. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes, and foreclosures, depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations in fiscal years 2007 through 2011 and may continue to materially adversely affect our business and results of operations in future years. Further, we substantially increased our inventory through fiscal 2006, which required significant cash outlays and which has increased our price and margin exposure as we work through this inventory.

General economic conditions in the U.S. remain weak. Several challenges such as persistently high unemployment levels, national and global economic weakness and uncertainty, the restrictive mortgage lending environment and the potential for more foreclosures continue to threaten a recovery in the housing market. In addition, both national new home sales and our home sales remain below historical levels. Until there is a more robust U.S. economic recovery, we expect national demand for new homes to remain at historically low levels, with uneven improvement across our operating markets. Looking forward, although we have begun to see improvements, given instability in the housing market, it may continue to be difficult to generate positive cash flow especially as we invest in land to fund future homebuilding. In addition, while sales have increased, we saw lower sales in July and August 2013 in part due to increasing interest rates. Market volatility has been unprecedented and extraordinary in the last several years, and the resulting economic turmoil may continue to exacerbate industry conditions or have other unforeseen consequences, leading to uncertainty about future conditions in the homebuilding industry. Continuation or worsening of the downturn or general economic conditions would continue to have a material adverse effect on our business, liquidity, and results of operations.

In addition, an increase in the default rate on the mortgages we originate may adversely affect our ability to sell mortgages or the pricing we receive upon the sale of mortgages. Although substantially all of the mortgage loans we originate are sold in the secondary mortgage market on a servicing released, non-recourse basis, we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. As default rates rise, this may increase our potential exposure regarding mortgage loan sales because investors may seek to have us buy back or make whole investors for mortgages we previously sold. To date, we have not made significant payments related to our mortgage loans but because of the uncertainties inherent to these matters, actual future payments could differ significantly from our currently estimated amounts.

During the industry downturn, the housing market benefited from a number of government programs, including:

Tax credits for home buyers provided by the federal government and certain state governments, including California; and

Support of the mortgage market, including through purchases of mortgage-backed securities by The Federal Reserve Bank and the underwriting of a substantial amount of new mortgages by the Federal Housing Administration ( FHA ) and other governmental agencies.

These programs are expected to wind down over time; for example, the California tax credit ended in the fourth quarter of fiscal 2009 and the federal tax credit expired in April 2010. In addition, in fiscal 2010, the U.S.

## **Table of Contents**

Department of Housing and Urban Development ( HUD ) tightened FHA underwriting standards. The maximum size of mortgage loans that are treated as conforming by Fannie Mae and Freddie Mac was reduced on October 1, 2011, which could further weaken home sales in general as mortgages may become more expensive and, if conforming loan limits are further reduced, it could have a material adverse effect on the Company. Housing markets may further decline as these programs are modified or terminated.

**Our leverage places burdens on our ability to comply with the terms of our indebtedness, may restrict our ability to operate, may prevent us from fulfilling our obligations, and may adversely affect our financial condition.**

We have a significant amount of debt.

Our debt (excluding nonrecourse secured debt and debt of our financial subsidiaries), as of July 31, 2013, including the debt of the subsidiaries that guarantee our debt, was \$1,542.5 million (\$1,527.3 million net of discount); and

Our debt service payments for the 12-month period ended July 31, 2013 were \$119.5 million, substantially all of which represented interest incurred and the remainder of which represented payments on the principal of our amortizing notes, and do not include principal and interest on nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter of credit and other credit facilities and agreements.

In addition, as of July 31, 2013, we had \$27.9 million in aggregate outstanding face amount of letters of credit issued under various letter of credit and other credit facilities and agreements, certain of which were collateralized by \$5.2 million of cash. Our fees for these letters of credit for the 12-month period ended July 31, 2013, which are based on both the used and unused portion of the facilities and agreements, were \$0.3 million. We also had substantial contractual commitments and contingent obligations, including approximately \$237.3 million of performance bonds as of July 31, 2013.

Our significant amount of debt could have important consequences. For example, it could:

Limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements, or other requirements;

Require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes;

Limit our flexibility in planning for, or reacting to, changes in our business;

Place us at a competitive disadvantage because we have more debt than some of our competitors; and

Make us more vulnerable to downturns in our business and general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by customer sentiment and financial, political, business, and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations to the extent we have any floating rate indebtedness. A higher interest rate on our debt service obligations could result in lower earnings or increased losses.

**Our sources of liquidity are limited and may not be sufficient to meet our needs.**

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

We are largely dependent on our current cash balance and future cash flows from operations (which may not be positive) to enable us to service our indebtedness, to cover our operating expenses, and/or to fund our other

S-9

## **Table of Contents**

liquidity needs. We used \$67.0 million of cash in operating activities in the fiscal year ended October 31, 2012 and \$47.4 million of cash in operating activities in the nine months ended July 31, 2013, and expect to continue to generate negative cash flow, after taking into account land purchases. If the homebuilding industry does not experience improved conditions over the next several years, our cash flows could be insufficient to fund our obligations and support land purchases; if we cannot buy additional land we would ultimately be unable to generate future revenues from the sale of houses. In addition, we may need to further refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all. If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital, or restructure our indebtedness. These alternative measures may not be successful or, if successful, made on desirable terms and may not permit us to meet our debt service obligations. We have also entered into certain cash collateralized letter of credit agreements and facilities that require us to maintain specified amounts of cash in segregated accounts as collateral to support our letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. If our available cash and capital resources are insufficient to meet our debt service and other obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or the proceeds from the dispositions may not be adequate to meet any debt service obligations then due.

### **Restrictive covenants in our debt instruments may restrict our and certain of our subsidiaries' ability to operate and if our financial performance worsens, we may not be able to undertake transactions within the restrictions of our debt instruments.**

The indentures governing our outstanding debt securities and our revolving credit facility impose certain restrictions on our and certain of our subsidiaries' operations and activities. The most significant restrictions relate to debt incurrence, creating liens, sales of assets, cash distributions, including paying dividends on common and preferred stock, capital stock and debt repurchases, and investments by us and certain of our subsidiaries. Because of these restrictions, we are currently prohibited from paying dividends on our common and preferred stock and anticipate that we will remain prohibited for the foreseeable future.

The restrictions in our debt instruments could prohibit or restrict our and certain of our subsidiaries' activities such as undertaking capital raising or restructuring activities or entering into other transactions. In such a situation, we may be unable to amend the instrument or obtain a waiver. In addition, if we fail to make timely payments on this debt and other material indebtedness, our debt under these debt instruments could become due and payable prior to maturity. In such a situation, there can be no assurance that we would be able to obtain alternative financing. Either situation could have a material adverse effect on the solvency of the Company.

### **The terms of our debt instruments allow us to incur additional indebtedness.**

Under the terms of our indebtedness under our indentures, we have the ability, subject to our debt covenants, to incur additional amounts of debt. The incurrence of additional indebtedness could magnify the risks described above. In addition, certain obligations such as standby letters of credit and performance bonds issued in the ordinary course of business, including those issued under our stand-alone letter of credit agreements and facilities, are not considered indebtedness under our indentures (and may be secured), and therefore, are not subject to limits in our debt covenants.

### **We could be adversely affected by a negative change in our credit rating.**

Our ability to access capital on favorable terms is a key factor in our ability to service our indebtedness to cover our operating expenses, and to fund our other liquidity needs. For example, during fiscal 2011 and thereafter, credit agencies took a series of negative actions, including downgrades, with respect to their credit ratings of us and our debt. Downgrades may make it more difficult and costly for us to access capital. Therefore,

## **Table of Contents**

any further downgrade by any of the principal credit agencies may exacerbate these difficulties. Although certain of our credit ratings have recently been upgraded, there can be no assurances that our credit ratings will not be further downgraded in the future, whether as a result of deteriorating general economic conditions, a more protracted downturn in the housing industry, failure to successfully implement our operating strategy, the adverse impact on our results of operations or liquidity position of any of the above, or otherwise.

### **Our business is seasonal in nature and our quarterly operating results can fluctuate.**

Our quarterly operating results generally fluctuate by season. The construction of a customer's home typically begins after signing the agreement of sale and can take 12 months or more to complete. Weather-related problems, typically in the fall, winter and early spring, can delay starts or closings and increase costs and thus reduce profitability. In addition, delays in opening communities could have an adverse effect on our sales and revenues. Due to these factors, our quarterly operating results will likely continue to fluctuate.

### **Our success depends on the availability of suitable undeveloped land and improved lots at acceptable prices and our having sufficient liquidity to fund such investments.**

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and improved lots at acceptable prices. The availability of undeveloped land and improved lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce revenue and profits. In addition, our ability to make land purchases will depend upon us having sufficient liquidity to fund such purchases. We may be at a disadvantage in competing for land due to our significant debt obligations, which require substantial cash resources.

### **Raw material and labor shortages and price fluctuations could delay or increase the cost of home construction and adversely affect our operating results.**

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. For example, manufacturers have increased the price of drywall in 2012 by approximately 12% as compared to the prior year, and there is a potential for significant future price increases. In addition, we contract with subcontractors to construct our homes. Therefore, the timing and quality of our construction depends on the availability, skill, and cost of our subcontractors. Delays or cost increases caused by shortages and price fluctuations could harm our operating results, the impact of which may be further affected depending on our ability to raise sales prices to offset increased costs.

### **Changes in economic and market conditions could result in the sale of homes at a loss or holding land in inventory longer than planned, the cost of which can be significant.**

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots, and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting

---

## **Table of Contents**

Policies in our Annual Report on Form 10-K incorporated by reference herein. For example, during the nine months ended July 31, 2013 and during fiscal 2012, 2011 and 2010, we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of \$1.9 million, \$2.7 million, \$24.3 million and \$13.2 million, respectively. Also, in the nine months ended July 31, 2013 and during fiscal 2012, 2011 and 2010, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of \$1.6 million, \$9.8 million, \$77.5 million and \$122.5 million, respectively. If market conditions worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

**Home prices and sales activities in the Arizona, California, New Jersey and Texas markets have a large impact on our results of operations because we conduct a significant portion of our business in these markets.**

We presently conduct a significant portion of our business in the Arizona, California, New Jersey and Texas markets. Home prices and sales activities in these markets and in most of the other markets in which we operate have declined from time to time, particularly as a result of slow economic growth. In particular, market conditions in California and New Jersey have declined significantly since the end of 2006. Furthermore, precarious economic and budget situations at the state government level may adversely affect the market for our homes in those affected areas. If home prices and sales activity decline in one or more of the markets in which we operate, our costs may not decline at all or at the same rate and may negatively impact our results of operations.

**Because almost all of our customers require mortgage financing, increases in interest rates or the decreased availability of mortgage financing could impair the affordability of our homes, lower demand for our products, limit our marketing effectiveness, and limit our ability to fully realize our backlog.**

Virtually all of our customers finance their acquisitions through lenders providing mortgage financing. Increases in interest rates or decreases in availability of mortgage financing could lower demand for new homes because of the increased monthly mortgage costs to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. This could prevent or limit our ability to attract new customers as well as our ability to fully realize our backlog because our sales contracts generally include a financing contingency. Financing contingencies permit the customer to cancel its obligation in the event mortgage financing at prevailing interest rates, including financing arranged or provided by us, is unobtainable within the period specified in the contract. This contingency period is typically four to eight weeks following the date of execution of the sales contract.

Starting in 2007, many lenders have been significantly tightening their underwriting standards, and subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be difficult to obtain, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes will be adversely affected, which will adversely affect our operating results. In addition, we believe that the availability of mortgage financing, including Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and FHA/Veterans Administration financing, is an important factor in marketing many of our homes. The maximum size of mortgage loans that are treated as conforming by Fannie Mae and Freddie Mac was reduced on October 1, 2011, which could further weaken home sales in general as mortgages may become more expensive and, if conforming loan limits are further reduced (as currently expected to occur on October 1, 2013), it could have a material adverse effect on the Company. In addition, HUD continues to tighten FHA underwriting standards. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

**Increases in the after-tax costs of owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results.**

Significant expenses of owning a home, including mortgage interest expenses and real estate taxes, generally are deductible expenses for an individual's federal, and in some cases state, income taxes, subject to limitations under current tax law and policy. If the federal government or a state government were to change its

## **Table of Contents**

income tax laws to eliminate or substantially limit these income tax deductions, as has been discussed from time to time, the after-tax cost of owning a new home would increase for many of our potential customers. The loss or reduction of these homeowner tax deductions, if such tax law changes were enacted without any offsetting legislation, would adversely impact demand for and sales prices of new homes, including ours. In addition, increases in property tax rates or fees on developers by local governmental authorities, as experienced in response to reduced federal and state funding or to fund local initiatives such as funding schools or road improvements, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes, and can have an adverse impact on our business and financial results.

**We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest. These investments involve risks and are highly illiquid.**

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At July 31, 2013, we had invested an aggregate of \$54.3 million in these joint ventures, including advances to these joint ventures of approximately \$5.6 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

These investments involve risks and are highly illiquid. There are a limited number of sources willing to provide acquisition, development, and construction financing to land development and homebuilding joint ventures, and as market conditions become more challenging, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms. Over the past few years, we have been unable to obtain financing for newly created joint ventures. In addition, we lack a controlling interest in these joint ventures and, therefore, are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions, or take any other action without the vote of at least one of our venture partners. Therefore, absent partner agreement, we will be unable to liquidate our joint venture investments to generate cash.

**Homebuilders are subject to a number of federal, local, state, and foreign laws and regulations concerning the development of land, the homebuilding, sales, and customer financing processes and the protection of the environment, which can cause us to incur delays and costs associated with compliance and which can prohibit or restrict our activity in some regions or areas.**

We are subject to extensive and complex laws and regulations that affect the development of land and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These laws and regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding. In light of recent developments in the home building industry and the financial markets, federal, state, or local governments may seek to adopt regulations that limit or prohibit homebuilders from providing mortgage financing to their customers. If adopted, any such regulations could adversely affect future revenues and earnings. In addition, some state and local governments in markets where we operate have approved, and others may approve, slow-growth or no-growth initiatives that could negatively impact the availability of land and building opportunities within those areas. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets and/or could require the satisfaction of additional administrative and regulatory requirements, which could result in slowing the progress or increasing the costs of our homebuilding operations in these markets. Any such delays or costs could have a negative effect on our future revenues and earnings.

We also are subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment. The particular environmental laws and regulations that apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former uses of the site. These environmental laws and regulations may result in delays, may cause us to incur substantial compliance, remediation and/or other costs and can prohibit or severely restrict development and homebuilding activity.

---

## **Table of Contents**

For example, we engaged in discussions with the U.S. Environmental Protection Agency ( EPA ) and the U.S. Department of Justice ( DOJ ) regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively, the States ). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we paid a fine of \$1.0 million collectively to the United States and the States named above and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations. We received in October 2012 a notice from Region III of the EPA concerning stipulated penalties, totaling approximately \$120,000, based on the extent to which we reportedly did not meet certain compliance performance specified in the previously discussed consent decree entered into in August 2010; we have since paid the stipulated penalties as assessed, and more recently have paid approximately \$8,000 in response to an EPA demand received in June 2013 for stipulated penalties based on information about our performance under the consent decree for 2012. Until terminated by court order, which can occur no sooner than three years from the date of its entry, the consent decree remains in effect and could give rise to additional assessments of stipulated penalties. In October 2012, we also received notices from Region III of the EPA concerning alleged violations of stormwater discharge permits, issued in 2010 pursuant to the federal Clean Water Act, at two projects in Maryland. We negotiated with the EPA two orders, which the EPA issued in February 2013, to resolve the violations. One requires us to pay a penalty of \$130,000, which we have done, while the other obligates us to take certain measures to comply with those permits and detail the specific compliance measures we take, among other things. Our obligations under the orders will not materially affect us.

In March 2013, we received a letter from the EPA requesting information about our involvement in a housing redevelopment project in Newark, New Jersey that a Company entity undertook during the 1990s. We understand that the development is in the vicinity of a former lead smelter and that recent tests on soil samples from properties within the development conducted by the EPA show elevated levels of lead. We also understand that the smelter operated before the City of Newark acquired properties, demolished structures existing on them, and sold the properties to the Company entity in connection with the redevelopment project. We responded to the EPA s request. In August 2013, we were notified that the EPA considers us a potentially responsible party (or PRP ) with respect to the site, that the EPA believes the site requires cleanup, and that the EPA is proposing that we address contamination at the site. We do not know the scope or extent of the Company s obligations, if any, that may arise from the site and therefore cannot provide any assurance that this matter will not have a material impact on the Company.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict the effect of these requirements, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. In addition, the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond our control, such as changes in policies, rules, and regulations and their interpretations and application.

Several other homebuilders have received inquiries from regulatory agencies regarding the potential for homebuilders using contractors to be deemed employers of the employees of their contractors under certain circumstances. Contractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the industry; however, if regulatory agencies reclassify the employees of contractors as employees of homebuilders, homebuilders using contractors could be responsible for wage, hour and other employment-related liabilities of their contractors.

### **Product liability litigation and warranty claims that arise in the ordinary course of business may be costly.**

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. For example, in the past we have received construction defect and home warranty claims associated with, and we were involved in a multidistrict litigation concerning, allegedly defective drywall manufactured in China ( Chinese Drywall ) that



## **Table of Contents**

may have been responsible for noxious smells and accelerated corrosion of certain metals in certain homes we have constructed. We remediated certain homes in response to such claims and settled the litigation. In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, or if the costs associated with such claims significantly exceed the amount of our insurance coverage or if our insurers do not pay on claims under our policies (whether because of dispute, inability or otherwise), we may experience losses that could hurt our financial results. Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims.

### **Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties.**

Our financial services segment originates mortgages, primarily for our homebuilding customers. Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to sellers' representations and warranties in particular loan sale agreements. We have established reserves for potential losses, however there can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material.

### **We compete on several levels with homebuilders that may have greater sales and financial resources, which could hurt future earnings.**

We compete not only for home buyers but also for desirable properties, financing, raw materials, and skilled labor often within larger subdivisions designed, planned, and developed by other homebuilders. Our competitors include other local, regional, and national homebuilders, some of which have greater sales and financial resources.

The competitive conditions in the homebuilding industry together with current market conditions have, and could continue to, result in:

difficulty in acquiring suitable land at acceptable prices;

increased selling incentives;

lower sales; or

delays in construction.

Any of these problems could increase costs and/or lower profit margins.

### **We may have difficulty in obtaining the additional financing required to operate and develop our business.**

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of debt or equity securities or borrowing additional money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indentures for our outstanding debt securities contain provisions that restrict the debt we may incur in the future and our ability to pay dividends on equity. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations. In addition, pledging substantially all of our assets to support our senior secured notes may make it more difficult to raise additional financing in the future.

---

**Table of Contents**

**Our future growth may include additional acquisitions of companies that may not be successfully integrated and may not achieve expected benefits.**

Acquisitions of companies have contributed to our historical growth and may again be a component of our growth strategy in the future. In the future, we may acquire businesses, some of which may be significant. As a result of acquisitions of companies, we may need to seek additional financing and integrate product lines, dispersed operations, and distinct corporate cultures. These integration efforts may not succeed or may distract our management from operating our existing business. Additionally, we may not be able to enhance our earnings as a result of acquisitions. Our failure to successfully identify and manage future acquisitions could harm our operating results.

**Our controlling stockholders are able to exercise significant influence over us.**

Members of the Hovnanian family, including Ara K. Hovnanian, our chairman of the board, president and chief executive officer, have voting control, through personal holdings, the limited partnership established for members of Mr. Hovnanian's family, family trusts and shares held by the estate of our former chairman, Kevork S. Hovnanian, of Class A and Class B common stock that enables them to cast approximately 55.4% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of the board of directors and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

**Our net operating loss carryforwards could be substantially limited if we experience an ownership change as defined in the Internal Revenue Code.**

Based on recent impairments and our current financial performance, we generated a federal net operating loss carryforward of \$1.5 billion through the fiscal year ended October 31, 2012, and we may generate net operating loss carryforwards in future years.

Section 382 of the Internal Revenue Code (the "Code") contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership shifts among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our stock, including purchases or sales of stock between 5% shareholders, our ability to use our net operating loss carryforwards and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our net operating loss carryforwards could expire before we would be able to use them. A limitation imposed under Section 382 on our ability to utilize our net operating loss carryforwards could have a negative impact on our financial position and results of operations.

In August 2008, we announced that the board of directors adopted a shareholder rights plan (the "Rights Plan") designed to preserve shareholder value and the value of certain tax assets primarily associated with net loss carryforwards and built-in losses under Section 382 of the Code, and on December 5, 2008, our stockholders approved the board of director's decision to adopt the Rights Plan. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Class A common stock (any such person an "Acquiring Person"), without the approval of the Company's board of directors. Subject to the terms, provisions and conditions of the Rights Plan, if and when they become exercisable, each right would entitle its holder to purchase from the Company one ten-thousandth of a share of the Company's Series B Junior Preferred

---

## **Table of Contents**

Stock for a purchase price of \$35.00 per share (the **Purchase Price** ). The rights will not be exercisable until the earlier of (i) 10 business days after a public announcement by us that a person or group has become an **Acquiring Person** and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group for 4.9% of the Class A common stock (the **Distribution Date** ). If issued, each fractional share of Series B Junior Preferred Stock would give the stockholder approximately the same dividend, voting and liquidation rights as does one share of the Company's Class A common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder of the Company, including without limitation any dividend, voting or liquidation rights. See **Description of Capital Stock Rights Plan** in the accompanying prospectus for more information. After the **Distribution Date**, each holder of a right, other than rights beneficially owned by the **Acquiring Person** (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and payment of the **Purchase Price**, that number of shares of Class A common stock or Class B common stock, as the case may be, having a market value of two times the **Purchase Price**. After the **Distribution Date**, our board of directors may exchange the rights (other than rights owned by an **Acquiring Person** which will have become void), in whole or in part, at an exchange ratio of one share of common stock, or a fractional share of Series B Junior Preferred Stock (or of a share of a similar class or series of Hovnanian's preferred stock having similar rights, preferences and privileges) of equivalent value, per right (subject to adjustment).

In addition, on December 5, 2008, our stockholders approved an amendment to our Certificate of Incorporation to restrict certain transfers of our common stock in order to preserve the tax treatment of our net operating loss carryforwards and built-in losses under Section 382 of the Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in the amended Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of the Company's stock that result from the transfer of interests in other entities that own the Company's stock) if the effect would be to: (i) increase the direct or indirect ownership of the Company's stock by any person (or public group) from less than 5% to 5% or more of the Company's stock; (ii) increase the percentage of the Company's stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of the Company's stock; or (iii) create a new public group (as defined in the applicable United States Treasury regulations). See **Description of Capital Stock Transfer Restrictions** in the Certificate of Incorporation in the accompanying prospectus for more information.

### **Utility shortages and outages or rate fluctuations could have an adverse effect on our operations.**

In prior years, the areas in which we operate in California have experienced power shortages, including periods without electrical power, as well as significant fluctuations in utility costs. We may incur additional costs and may not be able to complete construction on a timely basis if such power shortages and outages and utility rate fluctuations continue. Furthermore, power shortages and outages and rate fluctuations may adversely affect the regional economies in which we operate, which may reduce demand for our homes. Our operations may be adversely affected if further rate fluctuations and/or power shortages and outages occur in California, the Northeast, or in our other markets.

### **Geopolitical risks and market disruption could adversely affect our operating results and financial condition.**

Geopolitical events, such as the aftermath of the war with Iraq and the continuing involvement in Afghanistan, may have a substantial impact on the economy and the housing market. The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 had an impact on our business and the occurrence of similar events in the future cannot be ruled out. The war and the continuing involvement in Afghanistan, terrorism, and related geopolitical risks have created many economic and political uncertainties, some of which may have additional material adverse effects on the U.S. economy, our customers and, in turn, our results of operations and financial condition.

---

**Table of Contents**

**Risks Related to the Notes**

**We have a significant amount of indebtedness and we may incur additional indebtedness.**

As of July 31, 2013, after giving effect to the completion of this offering and the anticipated Redemptions, the Issuer and the Guarantors would have had approximately \$1,544.4 million (\$1,529.2 million, net of discount) of debt (including the Notes and excluding nonrecourse debt and debt of our financial subsidiaries) outstanding. We and our subsidiaries may incur additional indebtedness in the future. Subject to certain conditions, the terms of the indenture under which the Notes will be issued and our other existing debt instruments do not prohibit us or our subsidiaries from incurring additional indebtedness. If indebtedness is added to our current debt levels, the risks related to the Notes and our indebtedness generally that we and our subsidiaries now face could intensify.

**The Notes are unsecured obligations.**

The Notes will not be secured by any of our assets and will be subordinated to all of our existing and future secured indebtedness. Accordingly, in the event of our bankruptcy, liquidation or any similar proceeding, holders of the Notes will be entitled to payment only after the holders of any of our secured indebtedness have been paid. As of July 31, 2013, we had approximately \$992.0 million of secured indebtedness outstanding. Subject to certain limits in the indenture under which the Notes will be issued and our other existing debt instruments, we will be able to incur additional secured obligations.

**Our non-guarantor subsidiaries and joint ventures are not subject to the restrictive covenants in the indenture under which the Notes will be issued.**

Certain of our subsidiaries and all of our joint venture operations are not subject to the restrictive covenants in the indenture under which the Notes will be issued. This means that these entities will be able to engage in many of the activities that we and our restricted subsidiaries are prohibited or limited from doing under the terms of such indenture, such as incurring additional debt, securing assets in priority to the claims of the holders of the Notes, paying dividends, making certain investments, selling assets and entering into mergers or other business combinations. If non-guarantor subsidiaries and joint ventures engage in any of these activities, their actions could reduce the amount of cash we will have available to us to fund payments of principal and interest on the Notes when due and to comply with our other obligations under the Notes, and could reduce the amount of our assets that would be available to satisfy your claims should we default on the Notes.

**The Notes and the guarantees thereof will be structurally subordinated to indebtedness of our non-guarantor subsidiaries and joint ventures.**

The Notes and the guarantees thereof will be structurally subordinated to the indebtedness (including trade payables) of any non-guarantor subsidiary and joint venture to the extent of the value of their assets, and holders of the Notes will not have any claim as a creditor against any non-guarantor subsidiary or joint venture. This indebtedness includes the 2021 Notes Guarantees by certain of the guarantors of the 2021 Notes which were issued by K. Hovnanian, which 2021 Notes Guarantees are secured by a first-priority lien, subject to certain exceptions, on substantially all of the assets of such 2021 Notes Guarantors. As of July 31, 2013, our non-guarantor subsidiaries and joint ventures had approximately \$144.9 million and \$77.8 million, respectively, of outstanding liabilities, including trade payables. In addition, the indenture under which the Notes will be issued will permit, subject to certain limitations, non-guarantor subsidiaries and joint ventures to incur additional indebtedness and will not contain any limitation on the amount of liabilities (such as trade payables) that may be incurred by them.

**Exercise of Change of Control Rights We may not have the ability to raise funds necessary to finance any change of control offer required by the indenture.**

If a change of control occurs as described in the section Description of Debt Securities Description of 6.25% Senior Notes Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control in the

## **Table of Contents**

accompanying prospectus, we would be required to offer to purchase the Notes at 101% of their principal amount together with all accrued and unpaid interest, if any, to the date of purchase. If a purchase offer obligation arises under the indenture governing the Notes, a change of control will have also occurred under other indentures governing our debt. Any of our future debt agreements may contain restrictions and provisions such as providing that certain change of control events will constitute a default and could result in the acceleration of indebtedness. If a purchase offer were required under the indentures for our debt, we may not have sufficient funds to pay the purchase price for all debt that we are required to repurchase or repay.

### **If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.**

Any default under the agreements governing our other indebtedness and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our other indebtedness, or if we otherwise fail to comply with the various covenants in our debt instruments, we could be in default under the terms of the agreements governing our other indebtedness. In the event of such default:

the holders of such indebtedness may be able to cause all of our available cash flow to be used to pay such indebtedness and, in any event, could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest; and/or

we could be forced into bankruptcy or liquidation.

If our operating performance declines, we may in the future need to amend or modify the agreements governing our other indebtedness or seek concessions from the holders of such indebtedness.

### **An active trading market may not develop for the Notes.**

There is no active public trading market for the Notes. The Issuer has not and does not intend to apply for listing of the Notes on a security exchange. We cannot assure you that an active trading market will develop for the Notes. In addition, the liquidity of the trading market in the Notes and the market prices quoted for the Notes may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a consequence, an active trading market may not develop for your Notes, you may not be able to sell your Notes, or, even if you can sell your Notes, you may not be able to sell them at an acceptable price.

### **Federal and state laws allow courts, under specific circumstances, to void guarantees and to require you to return payments received from Guarantors.**

Although you will be direct creditors of the Guarantors by virtue of the guarantees, existing or future creditors of any guarantor could avoid or subordinate that guarantor's guarantee under the fraudulent conveyance laws if they were successful in establishing that:

the guarantee was incurred with fraudulent intent; or

the Guarantor did not receive fair consideration or reasonably equivalent value for issuing its guarantee and:

was insolvent at the time of the guarantee;

was rendered insolvent by reason of the guarantee;

Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business; or  
  
intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

S-19

**Table of Contents**

The measures of insolvency for purposes of determining whether a fraudulent conveyance occurred vary depending upon the laws of the relevant jurisdiction and upon the valuation assumptions and methodology applied by the courts. Generally, however, a company would be considered insolvent for purposes of the foregoing if:

the sum of the company's debts, including contingent, unliquidated and unmatured liabilities, is greater than all of such company's property at a fair valuation; or

if the present fair saleable value of the company's assets is less than the amount that will be required to pay the probable liability on its existing debts as they become absolute and matured.

We cannot assure you as to what standard a court would apply in order to determine whether a guarantor was insolvent as of the date its guarantee was issued, and we cannot assure you that, regardless of the method of valuation, a court would not determine that any Guarantors were insolvent on that date. The subsidiary guarantees could be subject to the claim that, since the guarantees were incurred for the benefit of Hovnanian and the Issuer, and only indirectly for the benefit of the other Guarantors, the obligations of the Guarantors thereunder were incurred for less than reasonably equivalent value or fair consideration.

**Table of Contents**

**USE OF PROCEEDS**

We expect to receive net proceeds from this offering of approximately \$        million, after deducting underwriting discounts and estimated transaction expenses payable by us (but excluding any discount or premium on the New Notes). We intend to use the net proceeds from this offering to fund the Redemptions and to pay related fees and expenses. The 6.5% Senior Notes bear interest at a rate of 6.5% per annum and mature on January 15, 2014 and the 6.375% Senior Notes bear interest at a rate of 6.375% per annum and mature on December 15, 2014.

S-21



**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of July 31, 2013 on an actual and an as adjusted basis to give effect to this offering and the application of the estimated net proceeds from this offering to fund the Redemptions and pay related fees and expenses.

This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein and our financial statements and related notes incorporated by reference herein.

|  | <b>As of July 31, 2013</b>                  |                    |
|--|---|--------------------|
|  | <b>Actual</b>                               | <b>As Adjusted</b> |
|  | <b>(Unaudited)</b>                          |                    |
|  | <b>(In thousands, except share numbers)</b> |                    |
| Homebuilding Cash and Cash Equivalents:  |   |                    |
| Cash and Cash Equivalents, Excluding Restricted Cash   | \$ 221,500                                  | \$ 221,500         |
| Restricted Cash and Cash Equivalents(1)  | 11,085                                      | 11,085             |
| <br>   |   |                    |
| Total Homebuilding Cash and Cash Equivalents(2)  | \$ 232,585                                  | \$ 232,585         |
| <br>   |   |                    |
| Debt(3):   |   |                    |
| Nonrecourse Land Mortgages   | \$ 55,286                                   | \$ 55,286          |
| Nonrecourse Mortgages Secured by Operating Properties  | 18,000                                      | 18,000             |
| 7.25% Senior Secured First Lien Notes due 2020   | 577,000                                     | 577,000            |
| 9.125% Senior Secured Second Lien Notes due 2020   | 220,000                                     | 220,000            |
| 2.0% Senior Secured Notes due 2021 (net of discount)   | 53,116                                      | 53,116             |
| 5.0% Senior Secured Notes due 2021 (net of discount)   | 128,179                                     | 128,179            |
| 6.5% Senior Notes due 2014   | 36,649                                      |                    |
| 6.375% Senior Notes due 2014   | 3,015                                       |                    |
| 6.25% Senior Notes due 2015  | 21,438                                      | 21,438             |
| 11.875% Senior Notes due 2015 (net of discount)  | 59,959                                      | 59,959             |
| 7.5% Senior Notes due 2016   | 86,532                                      | 86,532             |
| 6.25% Senior Notes due 2016 (net of discount)  |   |                    |
| Existing Notes   | 130,509                                     | 130,509            |
| New Notes offered hereby(4)  |   | 41,581             |
| 8.625% Senior Notes due 2017   | 121,043                                     | 121,043            |
| Senior Subordinated Amortizing Notes due 2014 (issued as part of our Tangible Equity Units)  | 3,181                                       | 3,181              |
| Units:   |   |                    |
| Senior Amortizing Notes due 2017   | 20,857                                      | 20,857             |
| Exchangeable Notes due 2017  | 65,772                                      | 65,772             |
| <br>   |   |                    |
| Total Debt(3)(5)   | \$ 1,600,536                                | \$ 1,602,453       |
| <br>   |   |                    |
| Equity:  |   |                    |
| Preferred Stock, \$.01 par value; 100,000 Shares authorized; 5,600 Shares of 7.625% Series A Preferred Stock issued at July 31, 2013 with a liquidation preference of \$140,000                      | \$ 135,299                                  | \$ 135,299         |
| Common Stock, Class A, \$.01 par value; 400,000,000 Shares authorized; 136,305,223 Shares issued at July 31, 2013, actual (including 11,760,763 shares held in treasury)                             | 1,363                                       | 1,363              |
| Common Stock, Class B, \$.01 par value (Convertible to Class A at time of sale); 60,000,000 Shares authorized; 15,348,615 Shares issued at July 31, 2013 (including 691,748 Shares held in treasury) | 153   | 153                |
| Paid in Capital Common Stock   | 688,145                                     | 688,145            |
| Accumulated Deficit(6)   | (1,177,227)                                 | (1,178,011)        |
| Treasury Stock at Cost   | (115,360)                                   | (115,360)          |
| <br>   |   |                    |
| Total Hovnanian Enterprises, Inc. Stockholders' Equity Deficit(5)  | (467,627)                                   | (468,411)          |
| <br>   |   |                    |
| Noncontrolling Interest in Consolidated Joint Ventures   | 423   | 423                |
| <br>   |   |                    |
| Total Equity Deficit(6)  | \$ (467,204)                                | \$ (467,988)       |

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

|                         |              |              |
|-------------------------|--------------|--------------|
| Total Capitalization(6) | \$ 1,133,332 | \$ 1,134,465 |
|-------------------------|--------------|--------------|

- (1) As of July 31, 2013, Restricted Cash and Cash Equivalents includes \$5.2 million of cash collateralizing our letter of credit agreements and facilities, and homebuilding customers' deposits of \$5.9 million, which are restricted from our use.
- (2) As of July 31, 2013, substantially all of our cash collateralized our secured indebtedness.
- (3) References to our consolidated debt in this prospectus supplement exclude debt of \$57.5 million under our secured master repurchase agreements, which are short-term borrowing facilities used by our mortgage banking subsidiary.
- (4) Reflects aggregate principal amount of the New Notes and does not reflect any discount or premium on the New Notes or the underwriter's discount.
- (5) Total Debt does not reflect our revolving credit facility, which as of July 31, 2013, had no borrowings and \$22.8 million of letters of credit outstanding, resulting in available borrowing capacity of \$52.2 million.
- (6) As adjusted, reflects writeoff of deferred financing fees on the 2014 Notes.

S-22

**Table of Contents**

**DESCRIPTION OF NOTES**

The New Notes being offered hereby will be issued as additional notes under the indenture dated as of August 8, 2005, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors party thereto and Deutsche Bank National Trust Company, as successor trustee, relating to the Existing Notes, as amended or supplemented as of the date of issuance of the New Notes.

The New Notes will bear interest from July 15, 2013 at the rate of 6.25% per annum and the initial offering price of the New Notes will include accrued interest from July 15, 2013 to the date of issuance of the New Notes.

See Description of Debt Securities Description of 6.25% Senior Notes in the accompanying prospectus for a description of the terms of the New Notes offered hereby.

**Table of Contents**

**CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES**

The following is a summary of certain United States federal income and, in the case of non-U.S. holders (as defined below), estate tax consequences of the purchase, ownership and disposition of the New Notes as of the date of this prospectus supplement. Unless otherwise stated, this summary deals only with New Notes held as capital assets (within the meaning of Section 1221 of the Code) by persons who purchase the New Notes for cash pursuant to this offering at their initial offering price.

As used herein, a U.S. holder means a beneficial owner of the New Notes that is for United States federal income tax purposes any of the following:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

Except as modified for estate tax purposes (as discussed below), the term non-U.S. holder means a beneficial owner of the New Notes (other than a partnership or any other entity treated as a partnership for United States federal income tax purposes) that is not a U.S. holder.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are a person subject to special tax treatment under the United States federal income tax laws, including, without limitation:

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

a tax-exempt organization;

an insurance company;

a person holding the New Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;

a trader in securities that has elected the mark-to-market method of tax accounting for your securities;

a person liable for alternative minimum tax;

a partnership or other pass-through entity (or an investor in such an entity) for United States federal income tax purposes;

a U.S. holder whose functional currency is not the U.S. dollar;

a controlled foreign corporation ;

a passive foreign investment company ; or

a United States expatriate.

S-24

---

## **Table of Contents**

This summary is based on the Code, United States Treasury regulations, administrative rulings and judicial decisions as of the date hereof. Those authorities may be changed, possibly on a retroactive basis, so as to result in United States federal income and estate tax consequences different from those summarized below. We have not and will not seek any rulings from the Internal Revenue Service (the IRS), regarding the matters discussed below. There can be no assurance that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the New Notes that are different from those discussed below.

If a partnership (including any entity classified as a partnership for United States federal income tax purposes) holds New Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner in a partnership holding New Notes, you should consult your own tax advisors.

This summary does not represent a detailed description of the United States federal income and estate tax consequences to you in light of your particular circumstances and does not address the effects of any United States federal tax consequences other than income taxes, and in the case of non-U.S. holders, estate taxes (such as gift taxes and the recently enacted Medicare tax on certain investment income) and does not address state, local or non-United States tax laws. It is not intended to be, and should not be construed to be, legal or tax advice to any particular purchaser of New Notes. **If you are considering the purchase of New Notes, you should consult your own tax advisors concerning the particular United States federal income and estate tax consequences to you of the purchase, ownership and disposition of the New Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

### **Pre-issuance Accrued Interest**

The initial offering price for the New Notes will include amounts attributable to interest accrued from July 15, 2013 which we call pre-issuance accrued interest. Pre-issuance accrued interest will be included in the accrued interest to be paid on the New Notes on the first interest payment date after the issuance of the New Notes. In accordance with applicable United States Treasury regulations, for United States federal income tax purposes, we will treat the New Notes as having been purchased for a price that does not include any pre-issuance accrued interest. Thus, the portion of the first stated interest payment equal to the pre-issuance accrued interest will be deemed to be a non-taxable return of pre-issuance accrued interest and, accordingly, will not be taxable as interest on the New Notes.

### **Certain Tax Consequences to U.S. Holders**

The following is a summary of certain United States federal income tax consequences that will apply to U.S. holders of the New Notes.

*Payments of Interest.* Stated interest on a New Note (other than any pre-issuance accrued interest excluded from the purchase price of the New Notes, as discussed above under *Pre-issuance Accrued Interest*) generally will be taxable to you as ordinary income at the time it is received or accrued in accordance with your method of accounting for United States federal income tax purposes.

*Amortizable Premium.* If your initial purchase price for a New Note (excluding any pre-issuance accrued interest excluded from the purchase price of a New Note, as discussed above under *Pre-issuance Accrued Interest*) exceeds the stated principal amount of such New Note, you will be considered to have amortizable bond premium equal to such excess. A U.S. holder generally may elect to amortize the premium over the remaining term of such New Note on a constant yield method as an offset to interest when includible in income under the holder's regular method of tax accounting. However, because the New Notes may be redeemed by us prior to maturity at a premium, special rules apply that may reduce or eliminate the amount of premium that a U.S. holder may amortize with respect to the New Notes. You should consult your tax advisors about these special rules. If you make this election to amortize premium with respect to a New Note, you will be required to

---

## **Table of Contents**

reduce your adjusted tax basis in the New Note by the amount of the premium amortized. If you do not make this election, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the New Note. An election to amortize premium on a constant yield method will also apply to all other taxable debt instruments held or subsequently acquired by you on or after the first day of the first taxable year for which the election is made. Such an election may not be revoked without the consent of the IRS. You should consult your own tax advisors about this election.

*Sale, Exchange, Retirement, or Other Disposition of New Notes.* Upon the sale, exchange, retirement, or other taxable disposition of a New Note, you generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement, or other taxable disposition (less an amount attributable to any accrued and unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the adjusted tax basis of the New Note. Your adjusted tax basis in a New Note will, in general, be your cost for the New Note (less any amount attributable to pre-issuance accrued interest that is excluded from the purchase price of the New Note, as discussed above under *Pre-issuance Accrued Interest* ), reduced by any amortized premium. Any such gain or loss will be capital gain or loss. Capital gains of non-corporate U.S. holders derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### **Certain Tax Consequences to Non-U.S. Holders**

The following is a summary of certain United States federal income and estate tax consequences that will apply to non-U.S. holders of the New Notes. For purposes of the following discussion, interest does not include any pre-issuance accrued interest excluded from the purchase price of the New Notes, as discussed above under *Pre-issuance Accrued Interest*. However, to the extent any interest is subject to United States federal withholding tax as described below, the applicable withholding agent may withhold such tax on all payments of interest, including payment of pre-issuance accrued interest, if the withholding agent is unable to determine which portion of the payments is attributable to pre-issuance accrued interest.

*United States Federal Withholding Tax.* A 30% United States federal withholding tax will not apply to any payment to you of interest on the New Notes under the portfolio interest rule, provided that:

interest paid on the New Notes is not effectively connected with your conduct of a trade or business in the United States;

you do not actually (or constructively) own 10% or more of the total combined voting power of all classes of our voting stock within the meaning of the Code and applicable United States Treasury regulations;

you are not a controlled foreign corporation that is related to us (actually or constructively) through stock ownership;

you are not a bank whose receipt of interest on the New Notes is described in Section 881(c)(3)(A) of the Code; and

either (a) you provide your name and address on an IRS Form W-8BEN (or other applicable form), and certify, under penalties of perjury, that you are not a United States person as defined under the Code or (b) you hold your New Notes through certain foreign intermediaries and satisfy the certification requirements of applicable United States Treasury regulations. Special certification rules apply to non-U.S. holders that are pass-through entities rather than corporations or individuals.

If you cannot satisfy the requirements described above, payments of interest made to you will be subject to the 30% United States federal withholding tax, unless you provide the applicable withholding agent with a properly executed:

IRS Form W-8BEN (or other applicable form) certifying an exemption from or reduction in withholding under the benefit of an applicable income tax treaty; or





---

## **Table of Contents**

IRS Form W-8ECI (or other applicable form) certifying interest paid on the New Notes is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the United States (as discussed below under *United States Federal Income Tax* ).

The 30% United States federal withholding tax will not apply to any payment of principal or gain that you realize on the sale, exchange, retirement or other disposition of a New Note.

*United States Federal Income Tax.* If you are engaged in a trade or business in the United States and interest on the New Notes is effectively connected with the conduct of that trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment), then you will be subject to United States federal income tax on that interest on a net income basis (although any effectively connected interest will be exempt from the 30% United States federal withholding tax, provided the certification requirements discussed above in *United States Federal Withholding Tax* are satisfied) in generally the same manner as if you were a United States person as defined under the Code, subject to an applicable income tax treaty providing otherwise. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% (or lower applicable income tax treaty rate) of your effectively connected earnings and profits attributable to such interest, subject to certain adjustments.

Any gain realized on the disposition of a New Note generally will not be subject to United States federal income tax unless:

the gain is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or

you are an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met.

*United States Federal Estate Tax.* If you are a non-U.S. person (as specifically defined for United States federal estate tax purposes), your estate will not be subject to United States federal estate tax on New Notes beneficially owned by you at the time of your death, provided that any payment to you on the New Notes would be eligible for exemption from the 30% United States federal withholding tax under the portfolio interest rule described above under *United States Federal Withholding Tax* without regard to the statement requirement described in the fifth bullet point of that section.

## **Information Reporting and Backup Withholding**

*U.S. Holders.* In general, information reporting requirements will apply to certain payments of principal and interest paid on the New Notes and to the proceeds of the sale or other disposition (including a redemption) of a New Note paid to you (unless you are an exempt recipient). Backup withholding may apply to such payments if you fail to provide a correct taxpayer identification number or a certification that you are not subject to backup withholding.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

*Non-U.S. Holders.* Generally, we must report to the IRS and to you the amount of interest paid to you and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty.

In general, you will not be subject to backup withholding with respect to payments of interest on the New Notes that we make to you provided that the payor does not have actual knowledge or reason to know that you

**Table of Contents**

are a United States person as defined under the Code, and the payor has received from you the required certification that you are a non-U.S. holder described above in the fifth bullet point under *Certain Tax Consequences to Non-U.S. Holders United States Federal Withholding Tax*.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale or other disposition (including a redemption) of New Notes within the United States or conducted through certain United States-related financial intermediaries, unless you certify to the payor under penalties of perjury that you are a non-U.S. holder (and the payor does not have actual knowledge or reason to know that you are a United States person as defined under the Code), or you otherwise establish an exemption.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

**Table of Contents**

**CERTAIN ERISA CONSIDERATIONS**

The following is a summary of certain considerations associated with the purchase of the Notes (including the New Notes) by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ( ERISA ), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, Similar Laws ), and entities whose underlying assets are considered to include plan assets of any such plan, account or arrangement (each, a Plan ).

**General Fiduciary Matters**

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an ERISA Plan ) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

**Prohibited Transaction Issues**

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are parties in interest, within the meaning of ERISA, or disqualified persons, within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of the Notes by an ERISA Plan with respect to which the Issuer, an underwriter, or a Guarantor, is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or PTCEs, that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be purchased or held by any person investing plan assets of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

**Table of Contents**

**Representation**

Accordingly, by acceptance of a Note (including a New Note), each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes or any interest therein constitutes assets of any Plan or (ii) the purchase and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

S-30

## Table of Contents

### UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus supplement, we have agreed to sell to Credit Suisse Securities (USA) LLC (the underwriter ) and the underwriter has agreed to purchase, the entire principal amount of the New Notes.

The underwriting agreement provides that the underwriter is obligated to purchase all of the New Notes if any are purchased.

The underwriter proposes to offer the New Notes initially at the public offering price on the cover page of this prospectus supplement. After the initial public offering, the underwriter may change the public offering price. The offering of the New Notes by the underwriter is subject to receipt and acceptance of the New Notes and subject to the underwriter's right to reject any order in whole or in part.

We estimate that our out of pocket expenses for this offering will be approximately \$0.4 million.

The underwriter intends to make a secondary market for the New Notes. However, it is not obligated to do so and may discontinue making a secondary market for the New Notes at any time without notice. No assurance can be given as to how liquid the trading market for the New Notes will be.

We have agreed that, for a period beginning on the date of this prospectus and continuing to and including the date 10 days following the closing date, we will not, without the prior written consent of Credit Suisse Securities (USA) LLC, offer, sell, contract to sell or otherwise transfer or dispose of any debt securities of the Issuer or any guarantor or any warrants, rights or options to purchase or otherwise acquire debt securities of the Issuer or any guarantor that are substantially similar to the New Notes and the guarantees other than (1) the New Notes and the guarantees or (2) debt or letter of credit facilities, commercial paper issued in the ordinary course of business or borrowing under any bank loan agreements. Credit Suisse Securities (USA) LLC in its sole discretion may release any of the securities subject to this lock-up agreement at any time without notice.

We have agreed to indemnify the underwriter against certain liabilities, including certain liabilities under the Securities Act, or to contribute to payments the underwriter may be required to make in respect of those liabilities.

The underwriter and its affiliates have performed investment banking, commercial banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

In connection with the offering, the underwriter may engage in stabilizing transactions, over-allotment transactions and syndicate covering transactions in accordance with Regulation M under the Securities Exchange Act of 1934 (the Exchange Act ).

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriter of New Notes in excess of the principal amount of the New Notes the underwriter is obligated to purchase, which creates a syndicate short position.

Syndicate covering transactions involve purchases of the New Notes in the open market after the distribution has been completed in order to cover syndicate short positions. A short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the New Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of the New Notes or preventing or retarding a decline in the market price



## **Table of Contents**

of the New Notes. As a result, the price of the New Notes may be higher than the price that might otherwise exist in the open market. These transactions, if commenced, may be discontinued at any time.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State ), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date ) it has not made and will not make an offer of New Notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided* that no such offer of New Notes shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any New Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

The underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA )) received by it in connection with the issue or sale of the New Notes in circumstances in which Section 21(1) of the FSMA does not apply to us or the Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

**Table of Contents**

**LEGAL MATTERS**

The validity of the Notes being offered hereby is being passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York and certain legal matters are being passed upon for us by Michael Discafani, Vice President and Corporate Counsel for the Company. Certain legal matters relating to the offering of the Notes will be passed upon for the underwriter by Davis Polk & Wardwell LLP, New York, New York.

**EXPERTS**

The consolidated financial statements incorporated in this prospectus supplement by reference from the Company's Annual Report on Form 10-K and the effectiveness of the Company's internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

**AVAILABLE INFORMATION**

We are subject to the informational requirements of the Exchange Act and file reports, proxy statements and other information with the SEC. You may read, free of charge, and copy, at the prescribed rates, any reports, proxy statements and other information at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such material also can be obtained by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington, D.C. 20549, at the prescribed rates. The SEC also maintains a website that contains reports, proxy and information statements and other information. The website address is: <http://www.sec.gov>. Hovnanian's Class A common stock is listed on the New York Stock Exchange, and reports, proxy statements and other information also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We incorporate by reference the documents listed below filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act. Information furnished under Item 2.02 or Item 7.01 of our Current Reports on Form 8-K is not incorporated by reference in this prospectus.

Hovnanian has filed the following documents with the SEC and these documents are incorporated herein by reference:

Annual Report on Form 10-K for the fiscal year ended October 31, 2012, Registration File No. 1-8551;

The portions of Hovnanian's definitive proxy statement on Schedule 14A that were deemed filed with the Commission under the Exchange Act on January 28, 2013;

Quarterly Reports on Form 10-Q for the quarters ended January 31, 2013, April 30, 2013 and July 31, 2013, Registration File Nos. 1-8551; and

Current Report on Form 8-K filed on March 15, 2013, Registration File No. 1-8551.

All documents filed by Hovnanian pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus supplement and prior to the termination of the offering made by this prospectus supplement are to be incorporated herein by reference. Any statement contained in a document



**Table of Contents**

incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Hovnanian will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus supplement is delivered, upon the written or oral request of such person, a copy of any or all of the information incorporated by reference in this prospectus supplement, other than exhibits to such information (unless such exhibits are specifically incorporated by reference into the information that this prospectus incorporates). Requests for such copies should be directed to Brad G. O Connor, Vice President, Chief Accounting Officer and Corporate Controller, Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701 (telephone: (732) 747-7800).

S-34

Table of Contents

PROSPECTUS

**\$481,896,163**

**Hovnanian Enterprises, Inc.**

**Preferred Stock**

**Class A Common Stock**

**Depository Shares**

**Debt Securities**

**Warrants to Purchase Preferred Stock**

**Warrants to Purchase Class A Common Stock**

**Warrants to Purchase Depository Shares**

**Warrants to Purchase Debt Securities**

**Stock Purchase Contracts**

**Stock Purchase Units**

**Units**

**Guarantees of Debt Securities**

**K. Hovnanian Enterprises, Inc.**

**Debt Securities**

**Units**

**Guarantees of Debt Securities**

**Guarantees of Warrants to Purchase Class A Common Stock**

**Subsidiary Guarantors**

**Guarantees of Debt Securities**

**Guarantees of Warrants to Purchase Class A Common Stock**

**Selling Shareholders**

**8,726,003 Shares of**

**Hovnanian Enterprises, Inc.**

**Class A Common Stock**

**Table of Contents**

We, Hovnanian Enterprises, Inc., may offer and sell from time to time, in one or more series:

Preferred Stock,

Class A Common Stock (along with Preferred Stock Purchase Rights),

Depositary Shares,

Debt securities, consisting of notes, debentures or other evidences of indebtedness, which may be senior debt securities, senior subordinated debt securities or subordinated debt securities, and which may be convertible into, or exchangeable or exercisable for, any of the other securities referred to herein,

Warrants to purchase our Preferred Stock, our Class A Common Stock, our Depositary Shares or our debt securities,

Stock Purchase Contracts,

Stock Purchase Units,

Units, comprised of the combination of securities that are separately issuable hereunder, and

Guarantees of debt securities (which debt securities may be convertible into, or exchangeable or exercisable for, Class A Common Stock issuable by Hovnanian Enterprises, Inc.);  
in amounts, at prices and on terms that will be determined at the time of the offering.

Our 100% owned subsidiary, K. Hovnanian Enterprises, Inc., may offer and sell from time to time, in one or more series:

Debt securities, consisting of notes, debentures or other evidences of indebtedness, which may be senior debt securities, senior subordinated debt securities or subordinated debt securities, which in each case will be fully and unconditionally guaranteed by Hovnanian Enterprises, Inc., and which may be convertible into, or exchangeable or exercisable for, Class A Common Stock issuable by Hovnanian Enterprises, Inc.,

Units, comprised of the combination of securities that are separately issuable by K. Hovnanian Enterprises, Inc. hereunder,

Guarantees of debt securities (which debt securities may be convertible into, or exchangeable or exercisable for, Class A Common Stock issuable by Hovnanian Enterprises, Inc.), and

Guarantees of warrants to purchase Class A Common Stock issuable by Hovnanian Enterprises, Inc.;

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

in amounts, at prices and on terms that will be determined at the time of the offering.

Hovnanian and K. Hovnanian may also co-issue units consisting of securities of both entities that are separately issuable by Hovnanian or K. Hovnanian hereunder. If Hovnanian and K. Hovnanian co-issue such a unit, K. Hovnanian will only have obligations with respect to the constituent part(s) of such unit that it may issue hereunder.

The debt securities (which debt securities may be convertible into, or exchangeable or exercisable for, Class A Common Stock issuable by Hovnanian Enterprises, Inc.) and/or warrants to purchase Class A Common Stock issuable by Hovnanian Enterprises, Inc. registered on this Form S-3 and issued by Hovnanian Enterprises, Inc. or K. Hovnanian Enterprises, Inc., as applicable, may be guaranteed by the subsidiary guarantors. Any such guarantee will be full and unconditional and joint and several. K. Hovnanian Enterprises, Inc. and each of the subsidiary guarantors is directly or indirectly 100% owned by Hovnanian Enterprises, Inc.

The shareholders named in this prospectus may offer and sell from time to time and aggregate of 8,726,003 shares of Class A Common Stock.

**Table of Contents**

We, K. Hovnanian Enterprises, Inc., the subsidiary guarantors or selling shareholders may offer and sell the securities directly to you, through agents, underwriters or dealers. The prospectus supplement for each offering will describe in detail the plan of distribution for that offering and will set forth the names of any agents, dealers or underwriters involved in the offering and any applicable fees, commissions or discount arrangements. The net proceeds we or K. Hovnanian Enterprises, Inc. expect to receive from sales will be set forth in the prospectus supplement.

This prospectus describes some of the general terms that may apply to these securities. The specific terms of the securities to be offered, and any other information relating to a specific offering, will be set forth in a post-effective amendment to the registration statement of which this prospectus is a part or in a supplement to this prospectus.

**Investing in our securities involves risks. See Risk Factors beginning on page 4 of this prospectus and in the documents that we incorporate by reference.**

Our common stock is traded on the New York Stock Exchange under the symbol HOV.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

**The date of the prospectus is August 23, 2013.**

**Table of Contents**

**TABLE OF CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <u>About This Prospectus</u>  | 1           |
| <u>Forward-Looking Statements</u>   | 1           |
| <u>Available Information</u>  | 2           |
| <u>Incorporation of Certain Documents By Reference</u>  | 3           |
| <u>The Company</u>  | 4           |
| <u>Risk Factors</u>   | 4           |
| <u>Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends</u> | 5           |
| <u>Use of Proceeds</u>  | 5           |
| <u>Selling Shareholders</u>   | 5           |
| <u>Description of Debt Securities</u>   | 7           |
| <u>Description of Capital Stock</u>   | 81          |
| <u>Description of Depositary Shares</u>   | 85          |
| <u>Description of Stock Purchase Contracts and Stock Purchase Units</u>   | 89          |
| <u>Description of Units</u>   | 89          |
| <u>Description of Warrants</u>  | 90          |
| <u>Plan of Distribution</u>   | 91          |
| <u>Legal Matters</u>  | 92          |
| <u>Experts</u>  | 92          |

---

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or the Commission, using the shelf registration process. Under the shelf registration process, using this prospectus, together with a prospectus supplement, we may sell from time to time any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities that may be offered. Each time we sell securities pursuant to this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered. A prospectus supplement may include a discussion of any risk factors or other special considerations applicable to those securities or to us. The prospectus supplement may also add to, update or change information contained in this prospectus and, accordingly, to the extent inconsistent, the information in this prospectus will be superseded by the information in the prospectus supplement. You should read this prospectus, any applicable prospectus supplement and the additional information incorporated by reference in this prospectus described below under Available Information and Incorporation of Certain Documents by Reference before making an investment in our securities.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of the documents referred to herein have been filed, or will be filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under Available Information.

**Neither the delivery of this prospectus nor any sale made under it implies that there has been no change in our affairs or that the information in this prospectus is correct as of any date after the date of this prospectus. You should not assume that the information in this prospectus, including any information incorporated in this prospectus by reference, the accompanying prospectus supplement or any free writing prospectus prepared by us, is accurate as of any date other than the date on the front of those documents. Our business, financial condition, results of operations and prospects may have changed since that date.**

We have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus, a prospectus supplement or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not making an offer to sell securities in any jurisdiction where the offer or sale of such securities is not permitted.

Unless otherwise stated or context otherwise requires, all references in this prospectus to:

K. Hovnanian are to K. Hovnanian Enterprises, Inc., a California corporation; and

Hovnanian, us, we, our or Company are to Hovnanian Enterprises, Inc., a Delaware corporation, together with its consolidated subsidiaries, including K. Hovnanian.

**FORWARD-LOOKING STATEMENTS**

All statements in this prospectus and the documents incorporated by reference that are not historical facts should be considered as Forward Looking Statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by,



**Table of Contents**

such forward-looking statements are reasonable, we can give no assurance that such plans, intentions, or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to:

Changes in general and local economic and industry and business conditions and impacts of the sustained homebuilding downturn;

Adverse weather and other environmental conditions and natural disasters;

Changes in market conditions and seasonality of the Company's business;

Changes in home prices and sales activity in the markets where the Company builds homes;

Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment;

Fluctuations in interest rates and the availability of mortgage financing;

Shortages in, and price fluctuations of, raw materials and labor;

The availability and cost of suitable land and improved lots;

Levels of competition;

Availability of financing to the Company;

Utility shortages and outages or rate fluctuations;

Levels of indebtedness and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;

The Company's sources of liquidity;

Changes in credit ratings;

Availability of net operating loss carryforwards;

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

Operations through joint ventures with third parties;

Product liability litigation, warranty claims and claims made by mortgage investors;

Successful identification and integration of acquisitions;

Changes in tax laws affecting the after-tax costs of owning a home;

Significant influence of the Company's controlling stockholders; and

Geopolitical risks, terrorist acts and other acts of war.

Certain risks, uncertainties, and other factors are incorporated herein by reference to our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q, along with the other information contained in this prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended (the Exchange Act). Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason, after the date of this prospectus.

### AVAILABLE INFORMATION

We are subject to the informational requirements of the Exchange Act, and file reports, proxy statements and other information with the Commission. We have also filed a registration statement on Form S-3 with the Commission. This prospectus, which forms part of the registration statement, does not have all of the information contained in the registration statement. You may read, free of charge, and copy, at the prescribed rates, any

## **Table of Contents**

reports, proxy statements and other information, including the registration statement, at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information concerning the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains a website that contains reports, proxy statements and other information, including the registration statement. The website address is: <http://www.sec.gov>. Hovnanian's Class A Common Stock is listed on the New York Stock Exchange, and reports, proxy statements and other information also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

This prospectus is part of a registration statement filed with the Commission. The Commission allows us to incorporate by reference selected documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the Commission will automatically update and supersede this information.

We incorporate by reference the documents listed below filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act. Information furnished under Item 2.02 or Item 7.01 of our Current Reports on Form 8-K is not incorporated by reference in this prospectus.

Hovnanian has filed the following documents with the Commission and these documents are incorporated herein by reference:

*Annual Report on Form 10-K for the fiscal year ended October 31, 2012, Registration File No. 1-8551;*

*The portions of Hovnanian's definitive proxy statement on Schedule 14A that were deemed filed with the Commission under the Exchange Act on January 28, 2013;*

*Quarterly Reports on Form 10-Q for the quarters ended January 31, 2013 and April 30, 2013, Registration File Nos. 1-8551;*

*Current Report on Form 8-K filed on March 15, 2013, Registration File No. 1-8551;*

*The description of the Company's Class A Common Stock contained in the Registration Statement on Form 8-A filed on March 13, 2001, including any amendment or reports filed for the purpose of updating such description, Registration File No. 1-8551; and*

*The description of the Company's Preferred Stock Purchase Rights contained in the Registration Statement on Form 8-A filed on August 14, 2008, Registration File No. 1-8551.*

All documents filed by Hovnanian pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this registration statement and prior to the effectiveness of this registration statement, and all such documents filed by Hovnanian subsequent to the date of this prospectus and prior to the termination of the offerings made by this prospectus are to be incorporated herein by reference. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement and this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Hovnanian makes available through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed with, or furnished to, the Commission. In addition, Hovnanian will provide without charge to each person, including any



## **Table of Contents**

beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the information incorporated by reference in this prospectus, other than exhibits to such information (unless such exhibits are specifically incorporated by reference into the information that this prospectus incorporates). Requests for such copies should be directed to Brad G. O Connor, Vice President, Chief Accounting Officer and Corporate Controller, Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701 (telephone: (732) 747-7800).

## **THE COMPANY**

### **Overview**

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, the Company was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 300,000 homes, including 5,356 homes in fiscal 2012. The Company consists of two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 177 communities in 37 markets in 16 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. We offer a variety of home styles at base prices ranging from \$68,652 (low income housing) to \$1,067,000 with an average sales price, including options, of \$301,000 nationwide in fiscal 2012.

### **Corporate Information**

Our principal executive offices are located at 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732)747-7800, and our Internet website address is [www.khov.com](http://www.khov.com). Information on or accessible through our website is not a part of this prospectus.

## **RISK FACTORS**

An investment in our securities involves a high degree of risk. Certain risks relating to us and our business are described under the headings "Business" and "Risk Factors" in our Annual Report on Form 10-K for the year ended October 31, 2012, filed with the Commission on December 20, 2012, which is incorporated by reference into this prospectus and which you should carefully review and consider, along with the other information contained in this prospectus or incorporated by reference herein, as updated by our subsequent filings under the Exchange Act, before making an investment in any of our securities. Additional risks, as well as updates or changes to the risks described in the documents incorporated by reference herein, may be included in any applicable prospectus supplement. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The market or trading price of our securities could decline due to any of these risks, and you may lose all or part of your investment. In addition, please read the section of this prospectus captioned "Forward-Looking Statements", in which we describe additional uncertainties associated with our business and the forward-looking statements included or incorporated by reference in this prospectus. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Investment in any securities offered pursuant to this prospectus involves risks and uncertainties. If one or more of the events discussed in the risk factors were to occur, our business, financial condition, results of operations or liquidity, as well as the value of an investment in our securities, could be materially adversely affected.

**Table of Contents**

**RATIOS OF EARNINGS TO FIXED CHARGES AND  
EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of earnings from continuing operations before income taxes and income or loss from equity investees, plus fixed charges and distributed income of equity investees, less interest capitalized. Fixed charges consist of all interest incurred, plus that portion of operating lease rental expense (33%) deemed to be representative of interest, plus the amortization of debt issuance costs and bond discounts. Combined fixed charges and preferred stock dividends consist of fixed charges and preferred stock dividends declared. Due to covenant restrictions, we have been prohibited from paying preferred stock dividends beginning with the first quarter of fiscal year 2008. The following table sets forth the ratios of earnings to fixed charges and the ratios of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated:

|   | Six Months Ended<br>April 30, 2013 | 2012 | Year Ended October 31, |      |      |      |
|---|------------------------------------|------|------------------------|------|------|------|
|   |                                    |      | 2011                   | 2010 | 2009 | 2008 |
| Ratio of earnings to fixed charges  | (a)                                | (a)  | (a)                    | (a)  | (a)  | (a)  |
| Ratio of earnings to combined fixed charges and preferred stock dividends | (b)                                | (b)  | (b)                    | (b)  | (b)  | (b)  |

- (a) Earnings for the six months ended April 30, 2013 and the years ended October 31, 2012, 2011, 2010, 2009 and 2008 were insufficient to cover fixed charges for such period by \$23.7 million, \$105.1 million, \$272.9 million, \$273.8 million, \$628.3 million and \$1,153.5 million, respectively.
- (b) Earnings for the six months ended April 30, 2013 and the years ended October 31, 2012, 2011, 2010, 2009 and 2008 were insufficient to cover fixed charges and preferred stock dividends for such period by \$23.7 million, \$105.1 million, \$272.9 million, \$273.8 million, \$628.3 million and 1,153.5 million, respectively. Due to restrictions in our indentures governing our senior secured and senior notes, we are currently prohibited from paying dividends on our preferred stock and did not make any dividend payments in the first half of fiscal 2013 or in fiscal 2012, 2011, 2010, 2009 and 2008.

**USE OF PROCEEDS**

Unless otherwise provided in the applicable prospectus supplement, the net proceeds from the sale of the securities offered by this prospectus and each prospectus supplement, the offered securities, will be used for general corporate purposes, which may include working capital needs, the refinancing or repayment of existing indebtedness, capital expenditures, expansion of the business and acquisitions. If any of the net proceeds from the offered securities will be used for acquisitions, we will identify the acquisition in the applicable prospectus supplement. The net proceeds may be invested temporarily in short-term securities or to repay short-term debt until they are used for their stated purpose.

Hovnanian will not receive any proceeds from the sale of any shares of Class A Common Stock offered by the selling shareholders.

**SELLING SHAREHOLDERS**

8,726,003 shares of Class A Common Stock of Hovnanian being offered pursuant to this prospectus may be offered by selling shareholders. Identification of any selling shareholders and the amount of shares to be sold for

**Table of Contents**

any particular transaction will be made in the applicable prospectus supplement. The potential selling shareholders include those listed in the table below.

The following table sets forth (1) as of June 27, 2013, the Class A Common Stock and Class B Common Stock of Hovnanian beneficially owned by each potential selling shareholder and (2) the number of shares of Class A Common Stock that may be offered by each potential selling shareholder and the amount and percentage of Class A Common Stock to be owned after completion of the offering by such potential selling shareholder. The amount and percentage of Class B Common Stock to be owned by each selling shareholder after completion of the offering is the same as the amount and percentage prior to the offering.

| Name of Selling Shareholder       | Class A Common Stock                            |                     | Class B Common Stock                         |                     | Number of Shares that may be Offered | Class A Common Stock Number of Shares Owned After Offering | Percent of Class After Offering |
|-----------------------------------|---|---------------------|--|---------------------|--------------------------------------|--|---------------------------------|
|                                   | Amount and Nature of Beneficial Ownership(1)(2) | Percent of Class(3) | Amount and Nature of Beneficial Ownership(1) | Percent of Class(3) |                                      |  |                                 |
|                                   | Ara K. Hovnanian (4)                            | 3,786,237           | 3.04%  | 2,231,314           |                                      |  |                                 |
| Sirwart Hovnanian (5)             | 440,000   | 0.35%               |  | 0.00%               | 185,269                              | 254,731  | 0.20%                           |
| Estate of Kevork S. Hovnanian (6) | 6,156,543                                       | 4.94%               | 3,255,251                                    | 22.21%              | 5,036,097                            | 1,120,446  | 0.90%                           |
| Hovnanian Family 2012 L.L.C.(7)   | 970,849   | 0.78%               | 3,883,395                                    | 26.50%              | 970,849                              | 0  | 0.00%                           |
| <b>Total</b>                      | <b>11,353,629</b>                               |                     | <b>9,369,960</b>                             |                     | <b>8,726,003</b>                     | <b>2,627,626</b>   |                                 |

(1) Beneficial ownership is determined in accordance with the rules of the Commission and generally attributes ownership to persons who have or share voting or investment power with respect to the relevant securities. Shares of Common Stock subject to options either currently exercisable or exercisable within 60 days are considered beneficially owned and are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person. Except as indicated by these footnotes, and subject to community property laws where applicable, the selling shareholders named in the table have sole voting and investment power with respect to all Common Stock shown as beneficially owned by them.

On July 29, 2008, the Company's Board of Directors declared a dividend of one Preferred Stock Purchase Right for each outstanding share of Class A Common Stock and Class B Common Stock. The dividend was paid to stockholders of record on August 15, 2008. Subject to the terms, provisions and conditions of the Rights Plan, if the Preferred Stock Purchase Rights become exercisable, each Preferred Stock Purchase Right would initially represent the right to purchase from the Company one ten-thousandth of a share of Series B Junior Preferred Stock for a purchase price of \$35.00 per share. However, prior to exercise, a Preferred Stock Purchase Right does not give its holder any rights as a stockholder, including without limitation, any dividend, voting or liquidation rights.

- (2) The figures in the table in respect of Class A Common Stock do not include the shares of Class B Common Stock beneficially owned by the specified selling shareholder, which shares of Class B Common Stock are convertible at any time on a share for a share basis to Class A Common Stock.
- (3) Based upon the number of shares outstanding plus, in the case of Class B Common Stock, options currently exercisable or exercisable within 60 days of June 27, 2013 for such selling shareholder.
- (4) Mr. A. Hovnanian is the President (appointed in 1988), Chief Executive Officer (since July 1997) and Chairman of the Board of Directors (since November 2009) of the Company. Includes 1,125,000 shares of Class B Common Stock subject to options currently exercisable or exercisable within 60 days of June 27, 2013, whether or not in-the-money. Also includes 372,116 shares of Class A Common Stock and 431,394 shares of Class B Common Stock held in family-related trusts as to which Mr. A. Hovnanian has shared voting power and shared investment power and 37,374 shares of Class A Common Stock and 195,274 shares of Class B Common Stock held by Mr. A. Hovnanian's wife and children. Mr. A. Hovnanian disclaims beneficial ownership of such shares, except to the extent of his potential pecuniary interest in such

---

**Table of Contents**

- other accounts and trusts. Of the shares of Class A Common Stock beneficially held by Mr. A. Hovnanian, 1,995,397 shares have been pledged as collateral for a loan with Deutsche Bank, and 1,337,505 shares have been pledged as collateral for a loan with Morgan Stanley, both of which loans remain outstanding. The designated address of Mr. A. Hovnanian is c/o Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.
- (5) Mrs. Hovnanian is the mother of Mr. A. Hovnanian and the wife of the Company's deceased Chairman, Kevork S. Hovnanian. The designated address of Mrs. Hovnanian is c/o Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.
- (6) Represents 6,156,543 shares of Class A Common Stock and 3,255,251 shares of Class B Common Stock held by the Executors of the Estate of Kevork S. Hovnanian, deceased (the Estate of Kevork S. Hovnanian). Ara K. Hovnanian is special purpose Executor with respect to investments in the Company, but the shares held by the Estate of Kevork S. Hovnanian are not included in Mr. A. Hovnanian's separate figures of beneficial ownership. The business address of each of the Executors is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.
- (7) Represents 970,849 shares of Class A Common Stock and 3,883,395 shares of Class B Common Stock held by the Hovnanian Family 2012 L.L.C. (the 2012 LLC). Ara K. Hovnanian is the special purpose manager with respect to investments in the Company, but the shares held by the 2012 LLC are not included in Mr. A. Hovnanian's separate figures of beneficial ownership. The business address of the 2012 LLC is 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701.

**DESCRIPTION OF DEBT SECURITIES**

The following description of the terms of the debt securities sets forth certain general terms that may apply to the debt securities that may be offered from time to time pursuant to this prospectus. The particular terms of any debt securities will be described in the prospectus supplement relating to those debt securities, except for the terms of K. Hovnanian's 6.25% Senior Notes due 2016, which are described under Description of 6.25% Senior Notes and K. Hovnanian's 8.625% Senior Notes due 2017, which are described under Description of 8.625% Senior Notes. Accordingly, for a description of the terms of a particular issue of debt securities (other than those specified above), reference must be made to both the prospectus supplement relating thereto and the following description. The specific terms of debt securities as described in the applicable prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this prospectus.

In this section, references to Hovnanian mean Hovnanian Enterprises, Inc. and do not include K. Hovnanian or any of its subsidiaries and references to K. Hovnanian mean K. Hovnanian Enterprises, Inc. and do not include any of its subsidiaries.

The debt securities issued by K. Hovnanian, which we refer to as the K. Hovnanian Debt Securities, may be convertible into, or exchangeable or exercisable for, Class A Common Stock issuable by Hovnanian referred to herein. The K. Hovnanian Debt Securities will be unsecured senior obligations, which we refer to as the K. Hovnanian Senior Debt Securities, unsecured senior subordinated obligations, which we refer to as the K. Hovnanian Senior Subordinated Debt Securities or unsecured subordinated obligations, which we refer to as the K. Hovnanian Subordinated Debt Securities, of K. Hovnanian. The K. Hovnanian Debt Securities will be guaranteed by Hovnanian, may be guaranteed by other subsidiaries of Hovnanian and will be issued:

in the case of K. Hovnanian Senior Debt Securities, under the Indenture, the K. Hovnanian Senior Debt Indenture, dated as of February 14, 2011, as supplemented by one or more supplemental indentures, among K. Hovnanian, Hovnanian and any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement;

in the case of K. Hovnanian Senior Subordinated Debt Securities, under the Indenture, the K. Hovnanian Senior Subordinated Debt Indenture, dated as of February 9, 2011, as supplemented by



---

**Table of Contents**

one or more supplemental indentures, among K. Hovnanian, Hovnanian and any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement; and

in the case of K. Hovnanian Subordinated Debt Securities, under a Subordinated Indenture, the K. Hovnanian Subordinated Debt Indenture , among K. Hovnanian, Hovnanian and any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement.

The K. Hovnanian Senior Debt Indenture, the K. Hovnanian Senior Subordinated Debt Indenture and the K. Hovnanian Subordinated Debt Indenture are sometimes referred to in this description individually as a K. Hovnanian Indenture and collectively as the K. Hovnanian Indentures .

The debt securities issued by Hovnanian, which we refer to as the Hovnanian Debt Securities may be convertible into, or exchangeable or exercisable for, any of the other securities referred to herein. The Hovnanian Debt Securities will either be unsecured senior obligations, which we refer to as the Hovnanian Senior Debt Securities and together with the K. Hovnanian Senior Debt Securities, the Senior Debt Securities , unsecured senior subordinated obligations, which we refer to as the Hovnanian Senior Subordinated Debt Securities and together with the K. Hovnanian Senior Subordinated Debt Securities , the Senior Subordinated Debt Securities , or unsecured subordinated obligations, which we refer to as the Hovnanian Subordinated Debt Securities and together with the K. Hovnanian Subordinated Debt Securities , the Subordinated Debt Securities , of Hovnanian. The Hovnanian Debt Securities may be guaranteed by subsidiaries of Hovnanian and will be issued:

in the case of Hovnanian Senior Debt Securities, under a Senior Indenture, the Hovnanian Senior Debt Indenture , among Hovnanian, any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement;

in the case of Hovnanian Senior Subordinated Debt Securities, under a Senior Subordinated Indenture, the Hovnanian Senior Subordinated Debt Indenture , among Hovnanian, any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement; and

in the case of Hovnanian Subordinated Debt Securities, under a Subordinated Indenture, the Hovnanian Subordinated Debt Indenture , among Hovnanian, any subsidiaries of Hovnanian, as guarantors, and the trustee specified in the applicable prospectus supplement.

The Hovnanian Senior Debt Indenture, the Hovnanian Senior Subordinated Debt Indenture and the Hovnanian Subordinated Debt Indenture are sometimes referred to in this description individually as a Hovnanian Indenture and collectively as the Hovnanian Indentures .

The K. Hovnanian Senior Indenture and the Hovnanian Senior Indenture are sometimes referred to in this description individually as a Senior Debt Indenture and collectively as the Senior Debt Indentures . The K. Hovnanian Senior Subordinated Debt Indenture and the Hovnanian Senior Subordinated Debt Indenture are sometimes referred to in this description individually as a Senior Subordinated Debt Indenture and collectively as the Senior Subordinated Debt Indentures . The K. Hovnanian Subordinated Debt Indenture and the Hovnanian Subordinated Debt Indenture are sometimes referred to individually as a Subordinated Debt Indenture and collectively as the Subordinated Debt Indentures . The K. Hovnanian Indentures and the Hovnanian Indentures are sometimes referred to in this description individually as an Indenture and collectively as the Indentures .

This summary of the terms and provisions of the debt securities and the Indentures is not complete, and we refer you to the copies of the Indentures, which are filed as exhibits to the registration statement of which this prospectus forms a part. Whenever we refer to particular defined terms of the Indentures in this section or in a prospectus supplement, we are incorporating these definitions into this prospectus or the prospectus supplement.

---

## **Table of Contents**

None of the Indentures limits the amount of debt securities that may be issued thereunder, and certain of the Indentures provide that the debt securities may be issued from time to time in one or more series, in which case the Indentures permit the appointment of a different trustee for each series of debt securities. Wherever particular sections or defined terms of the applicable Indenture are referred to, those sections or defined terms are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by the reference. For purposes of the summaries set forth below, issuer shall refer to K. Hovnanian in the case of the K. Hovnanian Debt Securities and the K. Hovnanian Indentures and to Hovnanian in the case of the Hovnanian Debt Securities and the Hovnanian Indentures. Obligors refers to Hovnanian and any subsidiaries of Hovnanian, as guarantors, the guarantors, in the case of the Hovnanian Debt Securities and the Hovnanian Indentures, and to K. Hovnanian and Hovnanian and any subsidiaries of Hovnanian, as guarantors, the guarantors, in the case of the K. Hovnanian Debt Securities and the K. Hovnanian Indentures.

### **Provisions Applicable to Senior, Senior Subordinated and Subordinated Debt Securities**

*General.* The Hovnanian Debt Securities will be unsecured senior, senior subordinated or subordinated obligations of Hovnanian and the K. Hovnanian Debt Securities will be unsecured senior, senior subordinated or subordinated obligations of K. Hovnanian, except that, under specified circumstances, K. Hovnanian may be released from these obligations. See Conditions for Release of K. Hovnanian. Unless otherwise specified in any prospectus supplement, the Senior Debt Securities will rank equally in right of payment with all of the other senior obligations of Hovnanian or K. Hovnanian, as applicable, and the Senior Subordinated Debt Securities and the Subordinated Debt Securities will have such terms with respect to rank and priority as described under Provisions Applicable Solely to Senior Subordinated Debt Securities and Subordinated Debt Securities Subordination. Except to the extent described in any prospectus supplement, the Indentures do not, and the debt securities will not, contain any covenants or other provisions that are intended to afford holders of the debt securities special protection in the event of either a change of control of Hovnanian or a highly leveraged transaction by Hovnanian.

We refer you to the applicable prospectus supplement for the following terms of, and information relating to, the debt securities being offered, the Offered Debt Securities, to the extent these terms are applicable to Offered Debt Securities:

the title of the Offered Debt Securities;

classification as K. Hovnanian Senior Debt Securities, K. Hovnanian Senior Subordinated Debt Securities, K. Hovnanian Subordinated Debt Securities, Hovnanian Senior Debt Securities, Hovnanian Senior Subordinated Debt Securities or Hovnanian Subordinated Debt Securities, aggregate principal amount, purchase price and denomination, and whether the Offered Debt Securities will be guaranteed by Hovnanian and/or by the subsidiary guarantors of Hovnanian as described under Description of Guarantees below;

the date or dates on which the principal of the Offered Debt Securities is payable;

the method by which amounts payable in respect of principal, premium, if any, or interest, if any, on or upon the redemption of the Offered Debt Securities may be calculated;

the interest rate or rates, or the method by which it will be determined, and the date or dates from which the interest, if any, will accrue;

the date or dates on which the interest, if any, will be payable;

the place or places where and the manner in which the principal of, premium, if any, and interest, if any, on the Offered Debt Securities will be payable and the place or places where the Offered Debt Securities may be presented for transfer;

Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

the right, if any, or obligation, if any, of Hovnanian or K. Hovnanian to redeem, repay or purchase the Offered Debt Securities pursuant to any sinking fund, amortization payments or analogous provisions,

**Table of Contents**

at the option of Hovnanian or K. Hovnanian or at the option of a holder thereof, and the period or periods within which, the price or prices or the method by which such price or prices will be determined, or both at which, the form or method of payment therefor if other than in cash and the terms and conditions upon which the Offered Debt Securities will be redeemed, repaid or purchased pursuant to the obligation;

the terms for conversion or exchange, if any, of the Offered Debt Securities;

any provision relating to the issuance of the Offered Debt Securities at an original issue discount;

if the amounts of payments of principal of, premium, if any, and interest, if any, on the Offered Debt Securities are to be determined with reference to an index, the manner in which those amounts will be determined;

any applicable United States federal income tax consequences;

the currency or currencies for which the Offered Debt Securities may be purchased and the currency or currencies in which principal, premium, if any, and interest, if any, may be payable;

whether the Offered Debt Securities will be issued as additional notes of any outstanding debt securities of K. Hovnanian or Hovnanian;

the trustee with respect to the series of Offered Debt Securities; and

any other specific terms of the Offered Debt Securities, including any deleted, modified or additional Events of Default or remedies or additional covenants provided with respect to the Offered Debt Securities, and any terms that may be required by or advisable under applicable laws or regulations.

Unless otherwise specified in any prospectus supplement, the debt securities will be issuable in registered form and in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. No service charge will be made for any transfer or exchange of any debt securities but the issuer or trustee may require payment of a sum sufficient to cover any tax or other governmental charge, payable in connection therewith.

Debt securities may bear interest at a fixed rate or a floating rate. Debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate may be issued at an initial offering price below their stated principal amount. Special United States federal income tax considerations applicable to discounted debt securities or to other debt securities that are treated as having been issued at a discount for United States federal income tax purposes will be described in the applicable prospectus supplement.

Unless otherwise specified in any prospectus supplement, in determining whether the holders of the requisite aggregate principal amount of outstanding debt securities of any series have given any request, demand, authorization, direction, notice, consent or waiver under the Indentures, the principal amount of any series of debt securities originally issued at a discount from their stated principal amount that will be deemed to be outstanding for such purposes will be the amount of the principal thereof that would be due and payable as of the date of the determination upon a declaration of acceleration of the maturity thereof.

*Description of Guarantees.* Hovnanian will fully and unconditionally guarantee, pursuant to the K. Hovnanian Indentures, the due and prompt payment of the principal of and premium, if any, and interest on the K. Hovnanian Debt Securities and all other obligations of K. Hovnanian to the holders of the K. Hovnanian Debt Securities and the trustee under the K. Hovnanian Indentures when and as the same shall become due and payable, whether at the stated maturity, by declaration of acceleration, call for redemption or otherwise. The release of Hovnanian from its guarantee will not be permitted by the terms of the K. Hovnanian Indentures. Any series of debt securities of Hovnanian may be guaranteed by, and any series of debt securities of K. Hovnanian may be further guaranteed by, certain subsidiaries of Hovnanian, the subsidiary guarantees, as

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

provided in the applicable prospectus supplement relating to such series. If debt securities are guaranteed by subsidiary guarantors, that subsidiary guarantee will be set forth in the applicable indenture or in a supplemental indenture.

---

**Table of Contents**

Any such guarantee will be full and unconditional and joint and several. K. Hovnanian Enterprises, Inc. and each of the subsidiary guarantors is directly or indirectly 100% owned by Hovnanian Enterprises, Inc.

Payments with respect to the guarantee by Hovnanian of the K. Hovnanian Senior Subordinated Debt Securities and K. Hovnanian Subordinated Debt Securities will be subordinated in right of payment to the prior payment in full of all Senior Indebtedness of Hovnanian to the same extent and manner that payments with respect to the K. Hovnanian Senior Subordinated Debt Securities and K. Hovnanian Subordinated Debt Securities are subordinated in right of payment to the prior payment in full of all Senior Indebtedness of K. Hovnanian as described under Provisions Applicable Solely to Senior Subordinated Debt Securities and Subordinated Debt Securities below. Likewise, payments with respect to subsidiary guarantees of Senior Subordinated Debt Securities and Subordinated Debt Securities will be subordinated in right of payment to the prior payment in full of all Senior Indebtedness of each such subsidiary guarantor to the same extent and manner that payments with respect to the Senior Subordinated Debt Securities and Subordinated Debt Securities are subordinated in right of payment to the prior payment in full of all Senior Indebtedness of the issuer of such debt securities as described under Provisions Applicable Solely to Senior Subordinated Debt Securities and Subordinated Debt Securities below.

*Global Securities.* The Offered Debt Securities may be issued in whole or in part in the form of one or more global securities, the global securities, that will be deposited with or on behalf of a depository, the depository, identified in the prospectus supplement relating to such series. Global securities may be issued only in fully registered form and in either temporary or permanent form. Unless and until it is exchanged in whole or in part for the individual debt securities represented thereby, a global security:

may not be transferred except as a whole; and

may only be transferred:

by the depository for the global security to its nominee,

by a nominee of the depository to the depository or another nominee of the depository, or

by the depository or any nominee to a successor depository or nominee of the successor depository.

The specific terms of the depository arrangement with respect to Offered Debt Securities will be described in the prospectus supplement relating to such series. Hovnanian and K. Hovnanian anticipate that the following provisions generally will apply to all depository arrangements.

Upon the issuance of a global security, the depository for that global security or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the individual debt securities represented by that global security to the accounts of persons that have accounts with such depository. Those accounts will be designated by the dealers, underwriters or agents with respect to those debt securities or by the issuer if the debt securities are offered and sold directly by the issuer. Ownership of beneficial interests in a global security will be limited to persons that have accounts with the applicable depository, participants, or persons that may hold interests through participants. Ownership of beneficial interests in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable depository or its nominee, with respect to interests of participants, and the records of participants, with respect to interests of persons other than participants. The laws of some states require that certain purchasers of securities take physical delivery of these securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in a global security.

As long as the depository for a global security or its nominee is the registered owner of the global security, the depository or its nominee, as the case may be, will be considered the sole owner or holder of the debt securities of the series represented by that global security for all purposes under the Indenture governing those

---

**Table of Contents**

debt securities. Except as provided below, owners of beneficial interests in a global security will not be entitled to have any of the individual debt securities of the series represented by the global security registered in their names, will not receive or be entitled to receive physical delivery of any of those debt securities in definitive form and will not be considered the owners or holders thereof under the Indenture governing those debt securities.

Payment of principal of, premium, if any, and interest, if any, on individual debt securities represented by a global security registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the global security representing the debt securities. Hovnanian and K. Hovnanian expect that the depository for a series of debt securities or its nominee, upon receipt of any payment of principal, premium, if any, and interest, if any, in respect of a global security representing any of those debt securities, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global security for those securities as shown on the records of such depository or its nominee. Hovnanian and K. Hovnanian also expect that payments by participants to owners of beneficial interests in the global security held through the participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name. These payments will be the responsibility of the participants. Neither Hovnanian, K. Hovnanian, the trustee for such debt securities, any paying agent nor the registrar for the debt securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the global security for the debt securities or for maintaining, supervising or reviewing any records relating to beneficial ownership interests.

If the depository for a series of debt securities is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the issuer within 90 days, the issuer will issue individual debt securities of the applicable series in exchange for the global security representing the applicable series of debt securities. In addition, an issuer may at any time and in its sole discretion, subject to any limitations described in the prospectus supplement relating to such debt securities, determine not to have any debt securities of a series represented by a global security and, in such event, will issue individual debt securities of the applicable series in exchange for the global security representing the applicable series of debt securities. Further, if an issuer so specifies with respect to the debt securities of a series, an owner of a beneficial interest in a global security representing debt securities of that series may, on terms acceptable to the issuer, the trustee and the depository for the global security, receive individual debt securities of the applicable series in exchange for beneficial interests, subject to any limitations described in the prospectus supplement relating to the debt securities. In this instance, an owner of a beneficial interest in a global security will be entitled to physical delivery of individual debt securities of the series represented by the applicable global security equal in principal amount to the beneficial interest and to have the debt securities registered in its name. Individual debt securities of the series so issued will be issued in registered form and in denominations, unless otherwise specified in the applicable prospectus supplement relating to that series of debt securities, of \$2,000 and integral multiples of \$1,000 in excess thereof.

*Events of Default.* Unless otherwise specified in the applicable prospectus supplement, an Event of Default is defined under each Indenture with respect to the debt securities of any series issued under the applicable Indenture as being:

default in the payment of principal of or premium, if any, with respect to debt securities of the applicable series when due;

default in the payment of any installment of interest on any of the debt securities of that series when due, continued for 30 days;

default in the payment or satisfaction of any sinking fund or other purchase obligation with respect to debt securities of that series when due;

default in the performance of any other covenant of any of the obligors applicable to debt securities of that series after written notice to the obligors by the trustee or to the obligors and the trustee, by the

---

**Table of Contents**

holders of at least 25% in aggregate principal amount of the debt securities of that series then outstanding requiring the same to be remedied and after giving effect to any applicable grace period; and

specified events of bankruptcy, insolvency or reorganization of the issuer.

If any Event of Default shall occur and be continuing, the trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of that series then outstanding, by notice in writing to Hovnanian or K. Hovnanian, as applicable, and to the trustee, if given by the holders, may declare the principal, or, in the case of any series of debt securities originally issued at a discount from their stated principal amount, the portion of the principal amount as may be specified in the terms of that series, of all of the debt securities of that series and the interest, if any, accrued thereon to be due and payable immediately. Subject to the conditions set forth in each Indenture, the declaration described in the preceding sentence may be rescinded by notice in writing to Hovnanian or K. Hovnanian, as applicable, and the trustee by holders of a majority in aggregate principal amount of the debt securities of the series then outstanding. This rescission will rescind and annul any declaration made pursuant to the first sentence of this paragraph and its consequences if all defaults under such Indenture are cured or waived.

Each Indenture provides that no holder of any series of debt securities then outstanding may institute any suit, action or proceeding with respect to, or otherwise attempt to enforce, that Indenture, unless:

the holder previously gave the trustee written notice of default and of the continuance thereof;

the holders of not less than 25% in aggregate principal amount of the applicable series of debt securities then outstanding made written request to the trustee to institute the suit, action or proceeding and offered to the trustee reasonable indemnity as it may require with respect thereto; and

the trustee, for 60 days after its receipt of the notice, request and offer of indemnity, neglected or refused to institute any action, suit or proceeding.

Subject to the subordination provisions applicable to the Senior Subordinated Debt Securities and the Subordinated Debt Securities, the right, described in the above bullet points, of any holder of any debt security to receive payment of the principal of, premium, if any, or interest, if any, on that debt security, on or after the respective due dates, or to institute suit for the enforcement of any payment shall not be impaired or affected without the consent of the holder.

The holders of a majority in aggregate principal amount of the debt securities of the series then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the debt securities of that series, provided that the trustee may decline to follow that direction if the trustee determines that the action or proceeding is unlawful or would involve the trustee in personal liability.

Hovnanian and/or K. Hovnanian, as applicable, are required to furnish annually to the trustee a certificate as to compliance by Hovnanian and/or K. Hovnanian, as applicable, with all conditions and covenants under each Indenture.

*Covenants.* The covenants, if any, that will apply to the particular Offered Debt Securities will be as described in the applicable prospectus supplement relating to such Offered Debt Securities. Except as described herein and as otherwise specified in the applicable prospectus supplement with respect to any Offered Debt Securities, Hovnanian and/or K. Hovnanian as applicable may remove or add covenants without the consent of holders of the debt securities.

*Discharge and Defeasance.* Unless otherwise specified in the applicable prospectus supplement, Hovnanian and/or K. Hovnanian, as applicable, can discharge or defease their respective obligations with respect to any series of debt securities as described below.



---

**Table of Contents**

Unless otherwise specified in any prospectus supplement, Hovnanian or K. Hovnanian, as applicable, may discharge all of its obligations, except those described below, to holders of any series of debt securities issued under any Indenture that have not already been delivered to the trustee for cancellation and that have either become due and payable, or are by their terms due and payable within one year or are to be called for redemption within one year, by irrevocably depositing with the trustee cash or U.S. Government Obligations, as defined in the Indenture, or a combination thereof, as trust funds in an amount to be sufficient to pay when due the principal of, premium, if any, and interest, if any, on all outstanding debt securities of that series and to make any mandatory sinking fund payments, if any, thereon when due.

Unless otherwise provided in the applicable prospectus supplement, Hovnanian or K. Hovnanian, as applicable, may also elect at any time to defease and be discharged from all of its obligations, except those described below, to holders of any series of debt securities issued under each Indenture, defeasance, or be released from all of their obligations with respect to specified covenants and certain Events of Default applicable to any series of debt securities issued under each Indenture, covenant defeasance, if, among other things:

Hovnanian or K. Hovnanian, as applicable, irrevocably deposit with the trustee cash or U.S. Government Obligations, or a combination thereof, as trust funds in an amount to be sufficient to pay when due the principal of, premium, if any, and interest, if any, on all outstanding debt securities of the applicable series and to make any mandatory sinking fund payments, if any, thereon when due;

the deposit will not result in a breach or violation of, or cause a default under, any material agreement or instrument (other than the Indenture) to which either Hovnanian or K. Hovnanian, as applicable, is a party or by which it is bound; and

Hovnanian or K. Hovnanian, as applicable, deliver to the trustee an opinion of counsel to the effect that the holders of the applicable series of debt securities will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance or covenant defeasance and that defeasance will not otherwise alter the United States federal income tax treatment of the holders' principal of and interest payments, if any, on that series of debt securities.

In the case of defeasance, the opinion must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of the Indenture relating to the debt securities of such series, because this result would not occur under current tax law.

Notwithstanding the foregoing, no discharge, defeasance or covenant defeasance described above will affect the following obligations to, or rights of, the holders of any series of debt securities:

rights of registration of transfer and exchange of debt securities of the applicable series;

rights of substitution of mutilated, defaced, destroyed, lost or stolen debt securities of the applicable series;

rights of holders of debt securities of the applicable series to receive payments of principal thereof, premium, if any, and interest, if any, thereon, upon the original due dates therefore, but not upon acceleration, and to receive mandatory sinking fund payments thereon when due, if any;

rights, obligations, duties and immunities of the trustee;

rights of holders of debt securities of a series as beneficiaries with respect to property so deposited with the trustee payable to all or any of them; and

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

obligations of Hovnanian or K. Hovnanian, as applicable, to maintain an office or agency in respect of debt securities of the series. Hovnanian or K. Hovnanian, as applicable, may exercise the defeasance option with respect to any series of debt securities notwithstanding the prior exercise of the covenant defeasance option with respect to any series of

**Table of Contents**

debt securities. If Hovnanian or K. Hovnanian, as applicable, exercises the defeasance option with respect to any series of debt securities, payment of that series of debt securities may not be accelerated because of an Event of Default with respect to that series of debt securities. If Hovnanian or K. Hovnanian, as applicable, exercises the covenant defeasance option with respect to any series of debt securities, payment of that series of debt securities may not be accelerated by reason of an Event of Default with respect to the covenants to which such covenant defeasance is applicable and certain other Events of Default. However, if acceleration were to occur by reason of another Event of Default, the realizable value at the acceleration date of the cash and U.S. Government Obligations in the defeasance trust could be less than the principal of, premium, if any, and interest, if any, and any mandatory sinking fund payments, if any, then due on the series of debt securities, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

*Modification of the Indenture.* Except as otherwise provided in the applicable prospectus supplement, each Indenture provides that the obligors and the trustee may enter into supplemental indentures without the consent of the holders of the debt securities to:

evidence the assumption by a successor entity of the obligations of any of the obligors under that Indenture, including in connection with a transaction described under Consolidation, Merger, Sale or Conveyance ;

add covenants or new Events of Default for the protection of the holders of the debt securities;

cure any ambiguity or defect or correct any inconsistency;

establish the form and terms of debt securities of any series, as applicable;

evidence the acceptance of appointment by a successor trustee;

secure, or add security for, the debt securities of the applicable series or provide for, or add, guarantees of the debt securities of any series and evidence the termination or discharge of any guarantee of or lien securing the debt securities of such series when permitted under the applicable Indenture;

designate a bank or trust company other than the trustee specified in the applicable prospectus supplement to act as trustee for a series of debt securities;

subject to the following paragraph, modify the existing covenants and Events of Default solely in respect of, or add new covenants and Events of Default that apply solely to, debt securities not yet issued and outstanding on the date of the supplemental indenture, if applicable;

provide for the issuance of debt securities of any series in uncertificated form in addition to or in place of certificated debt securities of any series and exchangeability of those debt securities for fully registered debt securities;

modify, eliminate or add to the provisions of the Indenture as necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939 and to add provisions expressly permitted by that Act;

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

modify the provisions to provide for the denomination of debt securities in foreign currencies that will not adversely affect the interests of the holders of the debt securities in any material respect;

to conform the text of the applicable Indenture, Offered Debt Securities or guarantees to this Description of Debt Securities or the comparable provisions in the applicable prospectus supplement to the extent this Description of Debt Securities or such comparable provision in a prospectus supplement was intended to be a verbatim recitation of a provision of such Indenture, Offered Debt Securities or guarantees;

to provide for or confirm the issuance of any additional notes, as applicable; and

make any other change with respect to the debt securities of any series that does not adversely affect the legal rights of holders of the debt securities of such series.

---

**Table of Contents**

Each Indenture also contains provisions permitting the obligors and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of debt securities of each series then outstanding and affected, to add any provisions to, or change in any manner or eliminate any of the provisions of, the applicable Indenture or any supplemental indenture or modify in any manner the rights of the holders of the debt securities of that series; provided that the obligors and the trustee may not, without the consent of the holder of each outstanding debt security affected thereby:

change the stated final maturity of any debt security, reduce the principal amount thereof, reduce the rate or extend the time of payment of interest (including default interest), if any, thereon, reduce or alter the method of computation of any amount payable on redemption, repayment or purchase by the issuer, change the coin or currency in which principal, premium, if any, and interest, if any, are payable, reduce the amount of the principal of any original issue discount security payable upon acceleration or provable in bankruptcy, waive certain defaults or Events of Default, impair or affect the right to institute suit for the enforcement of any payment or repayment thereof or, if applicable, adversely affect any right of prepayment at the option of the holder or make any change adverse to the interests of the holders in the terms and conditions of the guarantee by Hovnanian or by the subsidiary guarantors, release any guarantee otherwise than in accordance with the indenture or modify the ranking or priority of the debt securities of any series or any guarantees of the debt securities of such series; or

reduce the stated percentage in aggregate principal amount of debt securities of any series issued under the Indenture, the consent of which is required for any such amendment or waiver.

*Consolidation, Merger, Sale or Conveyance.* Except as otherwise provided in the applicable prospectus supplement, the K. Hovnanian Indentures provide that K. Hovnanian or Hovnanian may, and the Hovnanian Indentures provide that Hovnanian may, without the consent of the holders of debt securities, consolidate with, merge into or transfer, exchange or dispose of all of its properties to, any other corporation or partnership organized under the laws of the United States, any state thereof or the District of Columbia, provided that:

the successor corporation or partnership assumes all obligations of K. Hovnanian or Hovnanian, as the case may be, by supplemental indenture satisfactory in form to the applicable trustee executed and delivered to that trustee, under the applicable Indenture and debt securities;

immediately after giving effect to the consolidation, merger, exchange or other disposition, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, will have occurred and be continuing; and

certain other conditions are met.

*Conditions for Release of K. Hovnanian.* Except as otherwise provided in a prospectus supplement, each K. Hovnanian Indenture provides that K. Hovnanian may be released from its obligations under the K. Hovnanian Indenture and the K. Hovnanian Debt Securities, without the consent of the holders of the K. Hovnanian Debt Securities of any series, provided that:

Hovnanian or any successor to Hovnanian has assumed the obligations of K. Hovnanian under the K. Hovnanian Indenture and the K. Hovnanian Debt Securities by supplemental indenture satisfactory in form to the applicable trustee executed and delivered to that trustee;

Hovnanian delivers to the trustee an opinion of counsel to the effect that the holders of K. Hovnanian Debt Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of the release of K. Hovnanian from its obligations under the K. Hovnanian Indenture and the K. Hovnanian Debt Securities and that such release will not otherwise alter the United States federal income tax treatment of the holders of the K. Hovnanian Debt Securities; and

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

K. Hovnanian shall (w) become a guarantor subject to the provisions related to guarantees under the applicable K. Hovnanian Indenture, (y) execute a guarantee notation, (y) execute a supplemental indenture evidencing its guarantee and (z) deliver an opinion of counsel to the trustee to the effect that the supplemental indenture has been duly authorized, executed and delivered by K. Hovnanian and

---

**Table of Contents**

constitutes a valid and legally binding obligation of K. Hovnanian, enforceable against K. Hovnanian in accordance with its terms (subject to customary exceptions).

**Provisions Applicable Solely to Senior Subordinated Debt Securities and Subordinated Debt Securities**

**Subordination.** The Subordinated Debt Securities will be subordinate and junior in right of payment, to the extent described in the Subordinated Debt Indentures, to all Senior Indebtedness of the obligors. The Senior Subordinated Debt Securities will be subordinate and junior in right of payment, to the extent described in the Senior Subordinated Debt Indentures, to all Senior Indebtedness of the obligors. The Senior Subordinated Debt Securities will rank senior to all existing and future Indebtedness of the obligors that is neither Senior Indebtedness of the obligors nor Senior Subordinated Indebtedness and only Indebtedness of the obligors that is Senior Indebtedness of the obligors will rank senior to the Senior Subordinated Debt Securities in accordance with the subordination provisions of the Senior Subordinated Debt Indentures.

Except as otherwise provided in the applicable prospectus supplement:

Senior Indebtedness of the obligors is defined in the Subordinated Debt Indentures and the Senior Subordinated Debt Indentures as Indebtedness of the obligors outstanding at any time, other than the Indebtedness evidenced by such debt securities, except:

any Indebtedness as to which, by the terms of the instrument creating or evidencing the same, it is provided that the Indebtedness is not senior or prior in right of payment to such debt securities or is *pari passu* or subordinate by its terms in right of payment to such debt securities;

renewals, extensions and modifications of any such Indebtedness;

any Indebtedness of the obligors to a wholly-owned Subsidiary of the obligors;

any liability for federal, state or local taxes;

interest accruing after the filing of a petition initiating certain events of bankruptcy or insolvency unless that interest is an allowed claim enforceable against the obligor in a proceeding under federal or state bankruptcy laws; and

trade payables.

Senior Subordinated Indebtedness of Hovnanian or K. Hovnanian, as applicable, is defined in the Senior Subordinated Debt Indentures as the applicable Senior Subordinated Debt Securities and any other Indebtedness of Hovnanian or K. Hovnanian, as applicable, that ranks *pari passu* with such Senior Subordinated Debt Securities. Any Indebtedness of Hovnanian or K. Hovnanian, as applicable, that is subordinate or junior by its terms in right of payment to any other Indebtedness of Hovnanian or K. Hovnanian, as applicable, will be subordinate to Senior Subordinated Indebtedness of Hovnanian or K. Hovnanian, as applicable, unless the instrument creating or evidencing the same or pursuant to which the same is outstanding specifically provides that this Indebtedness is to rank *pari passu* with other Senior Subordinated Indebtedness of Hovnanian or K. Hovnanian, as applicable, and is not subordinated by its terms to any Indebtedness of Hovnanian that is not Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable.

Senior Subordinated Indebtedness of Hovnanian as a guarantor of K. Hovnanian Senior Subordinated Debt Securities or of a subsidiary guarantor will have a similar meaning.

Except as otherwise provided in the applicable prospectus supplement, the following subordination provisions will apply to the Senior Subordinated Debt Securities and the Subordinated Debt Securities:

If:

Hovnanian or K. Hovnanian, as applicable, should default in the payment of any principal of, premium, if any, or interest, if any, on any Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration of acceleration or otherwise, or



---

**Table of Contents**

any other default with respect to Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, occurs and the maturity of the Senior Indebtedness has been accelerated in accordance with its terms, then, upon written notice of the default to Hovnanian or K. Hovnanian, as applicable, by the holders of the Senior Indebtedness or any trustee therefor, unless and until the default is cured or waived or has ceased to exist or the acceleration has been rescinded, no direct or indirect payment, in cash, property or securities, by set-off or otherwise, will be made or agreed to be made for principal of, premium, if any, or interest, if any, on any of the Senior Subordinated Debt Securities or the Subordinated Debt Securities, or in respect of any redemption, retirement, purchase or other acquisition of the Senior Subordinated Debt Securities or the Subordinated Debt Securities other than those made in capital stock of Hovnanian, or cash in lieu of fractional shares thereof.

If any default, other than a default described in the bullet points directly above, occurs under the Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, pursuant to which the maturity thereof may be accelerated immediately or the expiration of any applicable grace periods occurs, a Senior Nonmonetary Default, then, upon the receipt by Hovnanian or K. Hovnanian, as applicable, and the trustee of written notice thereof, a payment notice, from or on behalf of holders of 25% or more of the aggregate principal amount of Senior Indebtedness specifying an election to prohibit the payment and other action by Hovnanian or K. Hovnanian, as applicable, in accordance with the following provisions of this paragraph Hovnanian or K. Hovnanian, as applicable, may not make any payment or take any other action that would be prohibited by the bullet points directly above during the period, the payment blockage period commencing on the date of receipt of the payment notice and ending on the earlier of:

the date, if any, on which the holders of such Senior Indebtedness or their representative notify the trustee that the Senior Nonmonetary Default is cured, waived or ceases to exist or the Senior Indebtedness to which the Senior Nonmonetary Default relates is discharged, or

the 120th day after the date of receipt of the payment notice.

Notwithstanding the provisions described in the immediately preceding bullet points, Hovnanian or K. Hovnanian, as applicable, may resume payments on the Senior Subordinated Debt Securities and the Subordinated Debt Securities after the payment blockage period. After the expiration of the initial payment blockage period, no subsequent payment blockage period may be commenced on the basis of a Senior Nonmonetary Default which existed or was continuing on the date of the commencement of the initial payment blockage period until at least 270 consecutive days have elapsed from the last day of the initial payment blockage period.

If:

without the consent of Hovnanian or K. Hovnanian, as applicable, a receiver, conservator, liquidator or trustee of Hovnanian or K. Hovnanian, as applicable, or of any of its property is appointed by the order or decree of any court or agency or supervisory authority having jurisdiction, and the decree or order remains in effect for more than 60 days, Hovnanian or K. Hovnanian, as applicable, is adjudicated bankrupt or insolvent, any of its property is sequestered by court order and that order remains in effect for more than 60 days, or a petition is filed against Hovnanian or K. Hovnanian, as applicable, under any state or federal bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or receivership law of any jurisdiction whether now or hereafter in effect, and is not dismissed within 60 days after such filing;

Hovnanian or K. Hovnanian, as applicable:

commences a voluntary case or other proceeding seeking liquidation, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or other relief with respect to itself or its debt or other liabilities under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property;

---

**Table of Contents**

consents to any such relief or to the appointment of or taking possession by any of the above officials in an involuntary case or other proceeding commenced against it;

fails generally to, or cannot, pay its debts generally as they become due;

takes any corporate action to authorize or effect any of the foregoing; or

any Subsidiary of the obligor takes, suffers or permits to exist any of the events or conditions referred to in any of the above bullet points,

then all Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, including any interest thereon accruing after the commencement of any proceedings, will first be paid in full before any payment or distribution, whether in cash, securities or other property, is made by the obligor to any holder of Senior Subordinated Debt Securities or Subordinated Debt Securities on account of the principal of, premium, if any, or interest, if any, on the Senior Subordinated Debt Securities or Subordinated Debt Securities, as the case may be.

Any payment or distribution, whether in cash, securities or other property, other than securities of Hovnanian or K. Hovnanian, as applicable, or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in the subordination provisions with respect to the indebtedness evidenced by the Senior Subordinated Debt Securities or the Subordinated Debt Securities, to the payment of all Senior Indebtedness of the obligor then outstanding and to any securities issued in respect thereof under a plan of reorganization or readjustment, that would otherwise, but for the subordination provisions, be payable or deliverable in respect of the Senior Subordinated Debt Securities or the Subordinated Debt Securities of any series will be paid or delivered directly to the holders of Senior Indebtedness of the obligor in accordance with the priorities then existing among such holders until all Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, including any interest thereon accruing after the commencement of proceedings, has been paid in full. In the event of any proceeding, after payment in full of all sums owing with respect to Senior Indebtedness of the obligor, the holders of Senior Subordinated Debt Securities, together with the holders of any obligations of the obligor ranking on a parity with the Senior Subordinated Debt Securities, will be entitled to be repaid from the remaining assets of Hovnanian or K. Hovnanian, as applicable, the amounts at that time due and owing on account of unpaid principal of, premium, if any, or interest, if any, on the Senior Subordinated Debt Securities and such other obligations before any payment or other distribution, whether in cash, property or otherwise, shall be made on account of any capital stock or obligations of the obligor ranking junior to the Senior Subordinated Debt Securities, including the Subordinated Debt Securities, and such other obligations.

If any payment or distribution of any character, whether in cash, securities or other property, other than securities of Hovnanian or K. Hovnanian, as applicable, or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in the subordination provisions with respect to the Senior Subordinated Debt Securities or the Subordinated Debt Securities, to the payment of all Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, then outstanding and to any securities issued in respect thereof under the plan of reorganization or readjustment, will be received by the trustee, or any holder of any Senior Subordinated Debt Securities or Subordinated Debt Securities in contravention of any of the terms of the Senior Subordinated Debt Indenture or the Subordinated Debt Indenture, as the case may be, such payment or distribution of securities will be received in trust for the benefit of, and will be paid over or delivered and transferred to, the holders of the Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, then outstanding in accordance with the priorities then existing among the holders for application to the payment of all Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, remaining unpaid to the extent necessary to pay all the Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, in full.

By reason of the subordination, in the event of the insolvency of Hovnanian or K. Hovnanian, as applicable, holders of Senior Indebtedness of Hovnanian or K. Hovnanian, as applicable, may receive more, ratably, than

---

## **Table of Contents**

holders of the Senior Subordinated Debt Securities or Subordinated Debt Securities of Hovnanian or K. Hovnanian, as applicable. Subordination will not prevent the occurrence of any Event of Default, as defined in the Indentures, or limit the right of acceleration in respect of the Senior Subordinated Debt Securities or Subordinated Debt Securities.

### **Concerning the Trustee**

Information concerning the trustee for the Offered Debt Securities will be set forth in the prospectus supplement relating to that series of debt securities. Hovnanian, K. Hovnanian and certain of Hovnanian's other subsidiaries may maintain bank accounts, borrow money and have other commercial banking, investment banking and other business relationships with the trustee under an Indenture and its affiliates in the ordinary course of business. The trustee under an Indenture or its affiliates may participate as underwriters, agents or dealers in any offering of K. Hovnanian debt securities and/or Hovnanian debt securities.

### **DESCRIPTION OF 6.25% SENIOR NOTES**

In this section, references to the *Company* mean Hovnanian Enterprises, Inc. and do not include K. Hovnanian Enterprises, Inc. or any of its subsidiaries and references to the *Issuer* mean K. Hovnanian Enterprises, Inc. and do not include any of its subsidiaries.

The debt securities offered from time to time pursuant to this prospectus may be issued as additional notes (the *6.25% Senior Notes*) under the Indenture dated as of August 8, 2005, among the Issuer, the Company, the other guarantors party thereto and Deutsche Bank National Trust Company, as successor trustee (the *6.25% Senior Notes Trustee*), relating to the Issuer's 6.25% Senior Notes due 2016 (as amended or supplemented as of the date hereof, the *6.25% Senior Notes Indenture*).

All such additional 6.25% Senior Notes will vote together, including, without limitation, with respect to waivers, amendments, redemption and offers to purchase and will be treated as a single class for all purposes of the 6.25% Senior Notes Indenture. Any offering of additional notes under the 6.25% Senior Notes Indenture is subject to the covenant described below under the caption *Certain covenants Limitations on indebtedness*. The following is a summary of the material terms and provisions of the 6.25% Senior Notes. The terms of the 6.25% Senior Notes include those stated in the 6.25% Senior Notes Indenture and those made part of the 6.25% Senior Notes Indenture by reference to the Trust Indenture Act of 1939, as amended (the *Trust Indenture Act*), as in effect on the date of the 6.25% Senior Notes Indenture. The 6.25% Senior Notes are subject to all such terms, and prospective purchasers of the 6.25% Senior Notes are referred to the 6.25% Senior Notes Indenture and the Trust Indenture Act for a statement of such terms.

This description of the 6.25% Senior Notes contains definitions of terms, including those defined under the caption *Definitions of certain terms used in the 6.25% Senior Notes Indenture*. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the 6.25% Senior Notes Indenture.

*General.* Interest will be payable semi-annually on January 15 and July 15 of each year to Holders of record at the close of business on January 1 or July 1, as the case may be, immediately preceding each such interest payment date. The 6.25% Senior Notes will mature on January 15, 2016, and will be issued in denominations of \$1,000 and integral multiples thereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The 6.25% Senior Notes will be guaranteed by the Company and each of the 6.25% Senior Notes Guarantors (together, the *6.25% Senior Notes Guarantors*) pursuant to the 6.25% Senior Notes Guarantees (the *6.25% Senior Notes Guarantees*) described below.

*Ranking.* The 6.25% Senior Notes will be general unsecured obligations of the Issuer and rank senior in right of payment to all future Indebtedness of the Issuer that is, by its terms, expressly subordinated in right of

---

**Table of Contents**

payment to the 6.25% Senior Notes and *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Issuer that is not so subordinated. Under specified circumstances, the Issuer may be released from its obligations under the 6.25% Senior Notes and the 6.25% Senior Notes Indenture. See Condition for release of K. Hovnanian. The 6.25% Senior Notes Guarantees of the 6.25% Senior Notes will be general unsecured obligations of the 6.25% Senior Notes Guarantors and will rank senior in right of payment to all existing and future Indebtedness of the 6.25% Senior Notes Guarantors that is, by its terms, expressly subordinated in right of payment to the 6.25% Senior Notes Guarantees and will rank *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Company and the 6.25% Senior Notes Guarantors that is not so subordinated.

Secured creditors of the Company, the Issuer and the other 6.25% Senior Notes Guarantors have a claim on the assets which secure the obligations of the Company and the 6.25% Senior Notes Guarantors to such creditors prior to claims of Holders of the 6.25% Senior Notes against those assets.

*The 6.25% Senior Notes Guarantees.* The Company and each of the 6.25% Senior Notes Guarantors will (so long, in the case of a Restricted Subsidiary, as it remains a Restricted Subsidiary) fully and unconditionally guarantee on a joint and several basis all of the obligations of the Issuer under the 6.25% Senior Notes, including the Issuer's obligations to pay principal, premium, if any, and interest with respect to the 6.25% Senior Notes. The Issuer and each of the 6.25% Senior Notes Guarantors is 100% owned by the Company. The 6.25% Senior Notes Guarantees will be general unsecured obligations of the Company and the 6.25% Senior Notes Guarantors and will rank *pari passu* with all existing and future unsecured Indebtedness of the 6.25% Senior Notes Guarantors that is not, by its terms, expressly subordinated in right of payment to the 6.25% Senior Notes Guarantees. The obligations of each 6.25% Senior Notes Guarantor other than the Company are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such 6.25% Senior Notes Guarantor and after giving effect to any collections from or payments made by or on behalf of any other 6.25% Senior Notes Guarantor in respect of the obligations of such other 6.25% Senior Notes Guarantor under its 6.25% Senior Notes Guarantee or pursuant to its contribution obligations under the 6.25% Senior Notes Indenture, will result in the obligations of such 6.25% Senior Notes Guarantor under its 6.25% Senior Notes Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each 6.25% Senior Notes Guarantor other than the Company that makes a payment or distribution under a 6.25% Senior Notes Guarantee shall be entitled to a contribution from each other 6.25% Senior Notes Guarantor in an amount *pro rata*, based on the net assets of each 6.25% Senior Notes Guarantor, determined in accordance with GAAP. Except as provided in Certain covenants below, the Company is not restricted from selling or otherwise disposing of any of the 6.25% Senior Notes Guarantors.

The 6.25% Senior Notes Indenture requires that each existing and future Restricted Subsidiary of the Company other than the Issuer (for so long as it remains the Issuer) be a 6.25% Senior Notes Guarantor. The Company is permitted to cause any Unrestricted Subsidiary to be a 6.25% Senior Notes Guarantor.

The 6.25% Senior Notes Indenture provides that if all or substantially all of the assets of any 6.25% Senior Notes Guarantor other than the Company or all of the Capital Stock of any 6.25% Senior Notes Guarantor other than the Company is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any 6.25% Senior Notes Guarantor other than the Company is designated an Unrestricted Subsidiary in accordance with the terms of the 6.25% Senior Notes Indenture, then such 6.25% Senior Notes Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such 6.25% Senior Notes Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the assets of such 6.25% Senior Notes Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the 6.25% Senior Notes Indenture without any further action on the part of the 6.25% Senior Notes Trustee or any Holder of the 6.25% Senior Notes.

---

**Table of Contents**

Upon the release of a guarantee by a 6.25% Senior Notes Guarantor other than the Company under all then outstanding Applicable Debt, at any time after the suspension of certain covenants as provided below under the caption **Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade**, the 6.25% Senior Notes Guarantee of such 6.25% Senior Notes Guarantor under the 6.25% Senior Notes Indenture will be released and discharged at such time and no Restricted Subsidiary thereafter acquired or created will be required to be a 6.25% Senior Notes Guarantor; *provided* that the foregoing shall not apply to any release of any 6.25% Senior Notes Guarantor done in contemplation of, or in connection with, any cessation of the 6.25% Senior Notes being rated Investment Grade. In the event that (1) any such released 6.25% Senior Notes Guarantor thereafter guarantees any Applicable Debt (or if any released guarantee under any Applicable Debt is reinstated or renewed) or (2) the Extinguished Covenants cease to be suspended as described under **Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade** then any such released 6.25% Senior Notes Guarantor and any other Restricted Subsidiary of the Company then existing (other than the Restricted Subsidiaries named in the second preceding paragraph) will guarantee the 6.25% Senior Notes on the terms and conditions set forth in the 6.25% Senior Notes Indenture.

**Applicable Debt** means all Indebtedness of the Company or any of its Restricted Subsidiaries (i) under Credit Facilities or (ii) that is publicly traded (including in the Rule 144A market). For purposes of the above provision, Applicable Debt secured by a Lien on such Restricted Subsidiary's Property or issued by such Restricted Subsidiary shall be deemed guaranteed by such Restricted Subsidiary.

An Unrestricted Subsidiary that is a 6.25% Senior Notes Guarantor shall be deemed automatically and unconditionally released and discharged from all obligations under its 6.25% Senior Notes Guarantee upon notice from the Company to the 6.25% Senior Notes Trustee to such effect, without any further action required on the part of the 6.25% Senior Notes Trustee or any Holder.

A sale of assets or Capital Stock of a 6.25% Senior Notes Guarantor may constitute an Asset Disposition subject to the **Limitations on dispositions of assets** covenant.

**Redemption.** The 6.25% Senior Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (1) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, if any; *plus*
- (2) the Make-Whole Amount.

The term **Make-Whole Amount** shall mean, in connection with any optional redemption of any 6.25% Senior Note, the excess, if any, of:

- (1) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the business day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over
- (2) the principal amount of the 6.25% Senior Note being redeemed.

**Treasury Rate** means, in connection with the calculation of any Make-Whole Amount with respect to any 6.25% Senior Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then

---

## **Table of Contents**

remaining maturity of the 6.25% Senior Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

There is no sinking fund for, or mandatory redemption of, the 6.25% Senior Notes.

*Selection and Notice.* If less than all of the 6.25% Senior Notes are to be redeemed at any time, the 6.25% Senior Notes Trustee will select 6.25% Senior Notes for redemption on a *pro rata* basis, by lot or by such other method as the 6.25% Senior Notes Trustee in its sole discretion shall deem appropriate and fair.

No 6.25% Senior Notes of \$1,000 in original principal amount or less shall be redeemed in part. Notices of redemption may not be conditional.

If any 6.25% Senior Note is to be redeemed in part only, the notice of redemption that relates to that 6.25% Senior Note shall state the portion of the principal amount thereof to be redeemed. A new 6.25% Senior Note in principal amount equal to the unredeemed portion of the original 6.25% Senior Note will be issued in the name of the Holder thereof upon cancellation of the original 6.25% Senior Note. 6.25% Senior Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on 6.25% Senior Notes or portions of them called for redemption.

*Certain covenants.* The following is a summary of certain covenants that are contained in the 6.25% Senior Notes Indenture. Such covenants are applicable (unless waived or amended as permitted by the 6.25% Senior Notes Indenture or their application is suspended as set forth under the caption *Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade* ) so long as any of the 6.25% Senior Notes are outstanding or until the 6.25% Senior Notes are defeased pursuant to provisions described under *Discharge and defeasance of 6.25% Senior Notes Indenture*.

*Repurchase of 6.25% Senior Notes upon Change of Control.*

In the event that there shall occur a Change of Control, each Holder of 6.25% Senior Notes shall have the right, at such Holder's option, to require the Issuer to purchase all or any part of such Holder's 6.25% Senior Notes on a date (the *Repurchase Date* ) that is no later than 90 days after notice of the Change of Control, at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the *Repurchase Date*.

On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail or cause to be mailed, to all Holders of record of 6.25% Senior Notes, a notice regarding the Change of Control and the repurchase right. The notice shall state the *Repurchase Date*, the date by which the repurchase right must be exercised, the price for the 6.25% Senior Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, The City of New York. To exercise such right, the Holder of such 6.25% Senior Note must deliver, at least ten days prior to the *Repurchase Date*, written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder's exercise of such right, together with the 6.25% Senior Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the *Repurchase Date* than may be specified by the Issuer.

The Issuer will comply with applicable law, including Section 14(e) of the Exchange Act and Rule 14e-1 thereunder, if applicable, if the Issuer is required to give a notice of a right of repurchase as a result of a Change of Control.

With respect to any disposition of assets, the phrase *all or substantially all* as used in the 6.25% Senior Notes Indenture (including as set forth under *Certain covenants Limitations on mergers, consolidations and*

## **Table of Contents**

sales of assets (below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the 6.25% Senior Notes Indenture) and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of all or substantially all of the assets of the Company, and therefore it may be unclear as to whether a Change of Control has occurred and whether the Holders have the right to require the Issuer to repurchase 6.25% Senior Notes.

None of the provisions relating to a repurchase upon a Change of Control is waivable by the Board of Directors of the Issuer or the Company. The Company could, in the future, enter into certain transactions, including certain recapitalizations of the Company, that would not result in a Change of Control, but would increase the amount of Indebtedness outstanding at such time.

The 6.25% Senior Notes Indenture requires the payment of money for 6.25% Senior Notes or portions thereof validly tendered to, and accepted for payment by, the Issuer pursuant to a Change of Control offer. In the event that a Change of Control has occurred under the 6.25% Senior Notes Indenture, a change of control will also have occurred under the indentures governing the Issuer's other outstanding notes. If a Change of Control were to occur, there can be no assurance that the Issuer would have sufficient funds to pay the purchase price for all the 6.25% Senior Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay or that the Company or the other 6.25% Senior Notes Guarantors would be able to make such payments. In the event that the Issuer were required to purchase outstanding 6.25% Senior Notes pursuant to a Change of Control offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to enable the Issuer to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

Failure by the Issuer to purchase the 6.25% Senior Notes when required upon a Change of Control will result in an Event of Default with respect to the 6.25% Senior Notes.

These provisions could have the effect of deterring hostile or friendly acquisitions of the Company where the Person attempting the acquisition views itself as unable to finance the purchase of the principal amount of 6.25% Senior Notes which may be tendered to the Issuer upon the occurrence of a Change of Control.

### *Limitations on indebtedness.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary, directly or indirectly, to create, incur, assume, become liable for or guarantee the payment of (collectively, an "incurrence") any Indebtedness (including Acquired Indebtedness) unless, after giving effect thereto and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio on the date thereof would be at least 2.0 to 1.0.

Notwithstanding the foregoing, the provisions of the 6.25% Senior Notes Indenture will not prevent the incurrence of:

- (1) Permitted Indebtedness,
- (2) Refinancing Indebtedness,
- (3) Non-Recourse Indebtedness,
- (4) any 6.25% Senior Notes Guarantee of Indebtedness represented by the 6.25% Senior Notes, and
- (5) any guarantee of Indebtedness incurred under Credit Facilities in compliance with the 6.25% Senior Notes Indenture.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness may be incurred through the first paragraph of this covenant or by meeting the criteria of one or more of the types of

---

**Table of Contents**

Indebtedness described in the second paragraph of this covenant (or the definitions of the terms used therein), the Company, in its sole discretion,

- (1) may classify such item of Indebtedness under and comply with either of such paragraphs (or any of such definitions), as applicable,
- (2) may classify and divide such item of Indebtedness into more than one of such paragraphs (or definitions), as applicable, and
- (3) may elect to comply with such paragraphs (or definitions), as applicable, in any order.

The Company and the Issuer will not, and will not cause or permit any 6.25% Senior Notes Guarantor to, directly or indirectly, in any event incur any Indebtedness that purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated to any other Indebtedness of the Company or of such 6.25% Senior Notes Guarantor, as the case may be, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinated to the 6.25% Senior Notes or the 6.25% Senior Notes Guarantee of such 6.25% Senior Notes Guarantor, as the case may be, to the same extent and in the same manner as such Indebtedness is subordinated to such other Indebtedness of the Company or such 6.25% Senior Notes Guarantor, as the case may be.

*Limitations on restricted payments.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;
- (2) immediately after giving effect to such Restricted Payment, the Company could incur at least \$1.00 of Indebtedness pursuant to the first paragraph of the *Limitations on indebtedness* covenant; and
- (3) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made after May 4, 1999 does not exceed the sum of:
  - (a) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including February 1, 1999 and ending on the last day of the Company's fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, *minus* 100% of such deficit), *plus*
  - (b) 100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after February 1, 1999 or any issue or sale after February 1, 1999 of Qualified Stock (other than to any Subsidiary of the Company) and (2) the issue or sale after February 1, 1999 of any Indebtedness or other securities of the Company convertible into or exercisable for Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*
  - (c) in the case of the disposition or repayment of any Investment constituting a Restricted Payment made after May 4, 1999, an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (a)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (a)), *plus*
  - (d) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after May 4, 1999, in accordance with the definition of Unrestricted Subsidiary (so long as the designation of such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after the Issue



---

**Table of Contents**

Date, and only to the extent not included in the calculation of Consolidated Net Income referred to in (a)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value thereof, over (II) the total liabilities of such Subsidiary, determined in accordance with GAAP, and (y) the Designation Amount at the time of such Subsidiary's designation as an Unrestricted Subsidiary, *plus*

(e) \$17 million, *minus*

(f) the aggregate amount of all Restricted Payments (other than Restricted Payments referred to in clause (C) of the immediately succeeding paragraph) made after February 1, 1999 through May 4, 1999.

The foregoing clauses (2) and (3) will not prohibit:

(A) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the 6.25% Senior Notes Indenture;

(B) the repurchase, redemption or retirement of any shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, other shares of Qualified Stock; and

(C) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed \$10 million in the aggregate since May 4, 1999;

*provided, however*, that each Restricted Payment described in clauses (A) and (B) of this sentence shall be taken into account for purposes of computing the aggregate amount of all Restricted Payments pursuant to clause (3) of the immediately preceding paragraph.

For purposes of determining the aggregate and permitted amounts of Restricted Payments made, the amount of any guarantee of any Investment in any Person that was initially treated as a Restricted Payment and which was subsequently terminated or expired, net of any amounts paid by the Company or any Restricted Subsidiary in respect of such guarantee, shall be deducted.

In determining the Fair Market Value of Property for purposes of clause (3) of the first paragraph of this covenant, Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the equity value of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq National Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than \$10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

*Limitations on transactions with affiliates.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the benefit of, or sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or

## **Table of Contents**

purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company's Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or series of related transactions (each, an Affiliate Transaction), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company's Subsidiaries.

In addition, the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, enter into an Affiliate Transaction unless:

(1) with respect to any such Affiliate Transaction involving or having a value of more than \$1 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) either obtained the approval of a majority of the Company's disinterested directors or obtained an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view, and

(2) with respect to any such Affiliate Transaction involving or having a value of more than \$10 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) delivered to the 6.25% Senior Notes Trustee an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view.

The 6.25% Senior Notes Indenture also provides that notwithstanding the foregoing, an Affiliate Transaction will not include:

(1) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,

(2) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,

(3) any Restricted Payment otherwise permitted under the Limitations on restricted payments covenant,

(4) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (*provided, however*, no such transaction shall involve any other Affiliate of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by the 6.25% Senior Notes Indenture)),

(5) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously divided, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,

(6) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and

(7) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

---

## **Table of Contents**

### *Limitations on dispositions of assets.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any Asset Disposition unless:

(a) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and

(b) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities.

The amount of (i) any Indebtedness (other than any Indebtedness subordinated to the 6.25% Senior Notes) of the Company or any Restricted Subsidiary that is actually assumed by the transferee in such Asset Disposition and (ii) the fair market value (as determined in good faith by the Board of Directors of the Company) of any property or assets received that are used or useful in a Real Estate Business, shall be deemed to be consideration required by clause (b) above for purposes of determining the percentage of such consideration received by the Company or the Restricted Subsidiaries.

The Net Cash Proceeds of an Asset Disposition shall, within one year, at the Company's election, (a) be used by the Company or a Restricted Subsidiary in the business of the construction and sale of homes conducted by the Company and the Restricted Subsidiaries or any other business of the Company or a Restricted Subsidiary existing at the time of such Asset Disposition or (b) to the extent not so used, be applied to make an Offer to Purchase 6.25% Senior Notes and, if the Company or a Restricted Subsidiary elects or is required to do so repay, purchase or redeem any other unsubordinated Indebtedness (on a *pro rata* basis if the amount available for such repayment, purchase or redemption is less than the aggregate amount of (i) the principal amount of the 6.25% Senior Notes tendered in such Offer to Purchase and (ii) the lesser of the principal amount, or accreted value, of such other unsubordinated Indebtedness, plus, in each case accrued interest to the date of repayment, purchase or redemption) at 100% of the principal amount or accreted value thereof, as the case may be, plus accrued and unpaid interest, if any, to the date of repurchase or repayment.

Notwithstanding the foregoing, (A) the Company will not be required to apply such Net Cash Proceeds to the repurchase of 6.25% Senior Notes in accordance with clause (b) of the preceding sentence except to the extent that such Net Cash Proceeds, together with the aggregate Net Cash Proceeds of prior Asset Dispositions (other than those so used) which have not been applied in accordance with this provision and as to which no prior Offer to Purchase shall have been made, exceed 5% of Consolidated Tangible Assets and (B) in connection with an Asset Disposition, the Company and the Restricted Subsidiaries will not be required to comply with the requirements of clause (b) of the first sentence of the first paragraph of this covenant to the extent that the non-cash consideration received in connection with such Asset Disposition, together with the sum of all non-cash consideration received in connection with all prior Asset Dispositions that has not yet been converted into cash, does not exceed 5% of Consolidated Tangible Assets; *provided, however*, that when any non-cash consideration is converted into cash, such cash shall constitute Net Cash Proceeds and be subject to the preceding sentence.

### *Limitations on liens.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its Property, or on any shares of Capital Stock or Indebtedness of any Restricted Subsidiary, unless contemporaneously therewith or prior thereto all payments due under the 6.25% Senior Notes Indenture and the 6.25% Senior Notes are secured on an equal and ratable basis with the obligation or liability so secured until such time as such indebtedness is no longer secured by a Lien.

### *Limitations on restrictions affecting restricted subsidiaries.*

The 6.25% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, assume or otherwise cause or suffer to exist or become effective any

**Table of Contents**

consensual encumbrance or restriction (other than encumbrances or restrictions imposed by law or by judicial or regulatory action or by provisions of agreements that restrict the assignability thereof) on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,

(2) make loans or advances to the Company or any other Restricted Subsidiary, or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary, except for:

(a) encumbrances or restrictions existing under or by reason of applicable law,

(b) contractual encumbrances or restrictions in effect on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof, *provided* that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect on the Issue Date,

(c) any restrictions or encumbrances arising under Acquired Indebtedness; *provided*, that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,

(d) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided, however*, that any restrictions and encumbrances of the type described in this clause (d) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,

(e) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the 6.25% Senior Notes Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,

(f) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the 6.25% Senior Notes Indenture,

(g) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

(h) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition,

(i) encumbrances or restrictions existing under or by reason of the 6.25% Senior Notes Indenture, the 6.25% Senior Notes or the 6.25% Senior Notes Guarantees,

(j) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph,

(k) Liens permitted under the 6.25% Senior Notes Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,

(l) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,

(m) customary provisions of any franchise, distribution or similar agreements,



---

**Table of Contents**

- (n) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and
- (o) any encumbrance or restrictions of the type referred to in clauses (1), (2) or (3) the first paragraph of this section imposed by any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (n) of this covenant, *provided*, that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company's Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

*Limitations on mergers, consolidations and sales of assets.*

The 6.25% Senior Notes Indenture provides that neither the Issuer nor any 6.25% Senior Notes Guarantor will consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including, without limitation, by way of liquidation or dissolution), or assign any of its obligations under the 6.25% Senior Notes, the 6.25% Senior Notes Guarantees or the 6.25% Senior Notes Indenture (as an entirety or substantially as an entirety in one transaction or in a series of related transactions), to any Person (in each case other than in a transaction in which the Company, the Issuer or a Restricted Subsidiary is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

- (1) the Person formed by or surviving such consolidation or merger (if other than the Company, the Issuer or the 6.25% Senior Notes Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition or assignment will be made (collectively, the *Successor*), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the 6.25% Senior Notes Trustee all of the obligations of the Company, the Issuer or the 6.25% Senior Notes Guarantor, as the case may be, under the 6.25% Senior Notes or a 6.25% Senior Notes Guarantee, as the case may be, and the 6.25% Senior Notes Indenture,
- (2) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing, and
- (3) immediately after giving effect to such transaction, the Company (or its Successor) could incur at least \$1.00 of Indebtedness pursuant to the first paragraph of the *Limitations on indebtedness* covenant.

The foregoing provisions shall not apply to:

- (a) a transaction involving the sale or disposition of Capital Stock of a 6.25% Senior Notes Guarantor, or the consolidation or merger of a 6.25% Senior Notes Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a 6.25% Senior Notes Guarantor, that in any such case results in such 6.25% Senior Notes Guarantor being released from its 6.25% Senior Notes Guarantee as provided under *The 6.25% Senior Notes Guarantees* above, or
- (b) a transaction the purpose of which is to change the state of incorporation of the Company, the Issuer or any 6.25% Senior Notes Guarantor.

*Reports to holders of 6.25% Senior Notes.*

The Company shall file with the Commission the annual reports and the information, documents and other reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. The Company shall file with the 6.25% Senior Notes Trustee and mail to each Holder of record of 6.25% Senior Notes such reports, information and documents within 15 days after it files them with the Commission. In the event that the Company is no longer subject to these periodic requirements of the Exchange Act, it will nonetheless continue to file reports

---

## **Table of Contents**

with the Commission and the 6.25% Senior Notes Trustee and mail such reports to each Holder of 6.25% Senior Notes as if it were subject to such reporting requirements. Regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the Exchange Act, the Company will cause its consolidated financial statements and a Management's Discussion and Analysis of Results of Operations and Financial Condition written report, similar to those that would have been required to appear in annual or quarterly reports, to be delivered to Holders of 6.25% Senior Notes.

### *Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade*

Notwithstanding the foregoing, the Issuer, the Company and its Restricted Subsidiaries' obligations to comply with the provisions of the 6.25% Senior Notes Indenture described above under the caption "Certain covenants" (except for the covenants described under "Repurchase of 6.25% Senior Notes upon Change of Control," "Limitations on liens," "Limitations on mergers, consolidations and sales of assets" (other than clause (3) of the first paragraph thereof) and "Reports to holders of 6.25% Senior Notes") will terminate (such terminated covenants, the "Extinguished Covenants") and cease to have any further effect from and after the first date when the 6.25% Senior Notes issued under the 6.25% Senior Notes Indenture are rated Investment Grade; *provided*, that if the 6.25% Senior Notes subsequently cease to be rated Investment Grade, then, from and after the time the 6.25% Senior Notes cease to be rated Investment Grade, the Issuer, the Company and its Restricted Subsidiaries' obligation to comply with the Extinguished Covenants shall be reinstated.

In addition, following the achievement of such Investment Grade ratings, (1) the 6.25% Senior Notes Guarantees of the 6.25% Senior Notes Guarantors will be released at the time of the release of the guarantees under all outstanding Applicable Debt subject to the reinstatement of 6.25% Senior Notes Guarantees if released 6.25% Senior Notes Guarantors thereafter guarantee any Applicable Debt or the 6.25% Senior Notes cease to be rated Investment Grade and (2) no Restricted Subsidiary thereafter acquired or created will be required to be a 6.25% Senior Notes Guarantor unless released 6.25% Senior Notes Guarantors thereafter guarantee any Applicable Debt or the 6.25% Senior Notes cease to be rated Investment Grade, in each case as more fully described under the caption "The 6.25% Senior Notes Guarantees."

Notwithstanding the foregoing, in the event of any such reinstatement, no action taken or omitted to be taken by the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the 6.25% Senior Notes Indenture upon reinstatement; *provided* that with respect to Restricted Payments made after any such reinstatement, the amount of Restricted Payments made after May 4, 1999 will be calculated as though the "Limitations on restricted payments" covenant had been in effect during the entire period after such date.

*Condition for Release of K. Hovnanian.* The 6.25% Senior Notes Indenture provides that the Issuer may be released from its obligations under the 6.25% Senior Notes Indenture and the 6.25% Senior Notes, without the consent of the holders of the 6.25% Senior Notes, if (1) the Company or any successor to the Company has assumed the obligations of the Issuer under the 6.25% Senior Notes Indenture and the 6.25% Senior Notes, (2) the Company delivers an opinion of counsel to the 6.25% Senior Notes Trustee to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the release and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise and (3) the Issuer becomes a 6.25% Senior Notes Guarantor of the 6.25% Senior Notes at such time, until such time, if any, as such 6.25% Senior Notes Guarantee may be released as described above under the captions "Limitation of applicability of certain covenants if 6.25% Senior Notes rated Investment Grade" and "The 6.25% Senior Notes Guarantees."

*Events of default.* The following are Events of Default under the 6.25% Senior Notes Indenture:

(1) the failure by the Company, the Issuer and the 6.25% Senior Notes Guarantors to pay interest on any 6.25% Senior Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days;

---

**Table of Contents**

- (2) the failure by the Company, the Issuer and the 6.25% Senior Notes Guarantors to pay the principal or premium of any 6.25% Senior Note when the same becomes due and payable at maturity, upon acceleration or otherwise;
- (3) the failure by the Company, the Issuer or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the 6.25% Senior Notes, the 6.25% Senior Notes Guarantees or the 6.25% Senior Notes Indenture and such failure continues for the period and after the notice specified below (except in the case of a default under covenants described under Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control and Certain covenants Limitations on mergers, consolidations and sales of assets, which will constitute Events of Default with notice but without passage of time);
- (4) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company, the Issuer or any Restricted Subsidiary that has an outstanding principal amount of \$10 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;
- (5) the failure by the Company, the Issuer or any Restricted Subsidiary to make any principal or interest payment in an amount of \$10 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Restricted Subsidiary within 30 days of such principal or interest becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);
- (6) a final judgment or judgments that exceed \$10 million or more, individually or in the aggregate, for the payment of money having been entered by a court or courts of competent jurisdiction against the Company, the Issuer or any of its Restricted Subsidiaries and such judgment or judgments is not satisfied, stayed, annulled or rescinded within 60 days of being entered;
- (7) the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:
- (a) commences a voluntary case,
  - (b) consents to the entry of an order for relief against it in an involuntary case,
  - (c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or
  - (d) makes a general assignment for the benefit of creditors;
- (8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:
- (a) is for relief against the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,
  - (b) appoints a Custodian of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary or a Custodian for all or substantially all of the property of the Company or any Restricted Subsidiary that is a Significant Subsidiary, or
  - (c) orders the liquidation of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary,
- and the order or decree remains unstayed and in effect for 60 days; or
- (9) any 6.25% Senior Notes Guarantee of a 6.25% Senior Notes Guarantor which is a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such 6.25% Senior Notes Guarantee and the 6.25% Senior Notes Indenture) or is declared null and void and unenforceable or found to be invalid or any 6.25% Senior Notes Guarantor denies its liability under its 6.25% Senior Notes Guarantee (other than by reason of release of a 6.25% Senior Notes Guarantor from its Guarantee in accordance with the terms of the 6.25% Senior Notes Indenture and the 6.25% Senior Notes Guarantee).



---

## **Table of Contents**

A Default as described in subclause (3) above will not be deemed an Event of Default until the 6.25% Senior Notes Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding 6.25% Senior Notes notify the Company and the 6.25% Senior Notes Trustee, of the Default and (except in the case of a default with respect to covenants described under Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control and Certain covenants Limitations on mergers, consolidations and sales of assets ) the Company does not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a Notice of Default. If such a Default is cured within such time period, it ceases.

If an Event of Default (other than an Event of Default with respect to the Company or the Issuer resulting from subclauses (7) or (8) above), shall have occurred and be continuing under the 6.25% Senior Notes Indenture, the 6.25% Senior Notes Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the 6.25% Senior Notes then outstanding by notice to the Company and the 6.25% Senior Notes Trustee, may declare all 6.25% Senior Notes to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on the 6.25% Senior Notes will be due and payable immediately. If an Event of Default with respect to the Company or the Issuer specified in subclauses (7) or (8) above occurs, such an amount will ipso facto become and be immediately due and payable without any declaration, notice or other act on the part of the 6.25% Senior Notes Trustee and the Company or any Holder.

The Holders of a majority in principal amount of the 6.25% Senior Notes then outstanding by written notice to the 6.25% Senior Notes Trustee and the Company may waive any Default or Event of Default (other than any Default or Event of Default in payment of principal or interest) on the 6.25% Senior Notes under the 6.25% Senior Notes Indenture. Holders of a majority in principal amount of the then outstanding 6.25% Senior Notes may rescind an acceleration and its consequence (except an acceleration due to nonpayment of principal or interest on the 6.25% Senior Notes) if the rescission would not conflict with any judgment or decree and if all existing Events of Default (other than the non-payment of accelerated principal) have been cured or waived.

The Holders may not enforce the provisions of the 6.25% Senior Notes Indenture, the 6.25% Senior Notes or the 6.25% Senior Notes Guarantees except as provided in the 6.25% Senior Notes Indenture. Subject to certain limitations, Holders of a majority in principal amount of the 6.25% Senior Notes then outstanding may direct the 6.25% Senior Notes Trustee in its exercise of any trust or power, *provided, however*, that such direction does not conflict with the terms of the 6.25% Senior Notes Indenture. The 6.25% Senior Notes Trustee may withhold from the Holders notice of any continuing Default or Event of Default (except any Default or Event of Default in payment of principal or interest on the 6.25% Senior Notes or that resulted from the failure to comply with the covenant entitled Repurchase of 6.25% Senior Notes upon Change of Control ) if the 6.25% Senior Notes Trustee determines that withholding such notice is in the Holders interest.

The Company is required to deliver to the 6.25% Senior Notes Trustee an annual statement regarding compliance with the 6.25% Senior Notes Indenture and include in such statement if any officer of the Company is aware of any Default or Event of Default, a statement specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto. In addition, the Company is required to deliver to the 6.25% Senior Notes Trustee prompt written notice of the occurrence of any Default or Event of Default.

*Discharge and defeasance of 6.25% Senior Notes Indenture.* The Company, the Issuer and the 6.25% Senior Notes Guarantors may discharge their obligations under the 6.25% Senior Notes, the 6.25% Senior Notes Guarantees and the 6.25% Senior Notes Indenture by irrevocably depositing in trust with the 6.25% Senior Notes Trustee money or U.S. Government Obligations sufficient to pay principal of, premium and interest, if any, on the 6.25% Senior Notes to maturity or redemption and the 6.25% Senior Notes mature or are to be called for redemption within one year, subject to meeting certain other conditions.

The 6.25% Senior Notes Indenture permits the Company, the Issuer and the 6.25% Senior Notes Guarantors to terminate all of their respective obligations under the 6.25% Senior Notes Indenture with respect to the 6.25%

---

**Table of Contents**

Senior Notes and the 6.25% Senior Notes Guarantees, other than the obligation to pay interest on and the principal of the 6.25% Senior Notes and certain other obligations ( legal defeasance ), at any time by:

(1) depositing in trust with the 6.25% Senior Notes Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and premium and interest, if any, on the 6.25% Senior Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the 6.25% Senior Notes Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise, which opinion of counsel is based upon a change in the applicable federal tax law since the date of the 6.25% Senior Notes Indenture.

In addition, the 6.25% Senior Notes Indenture permits the Company, the Issuer and the 6.25% Senior Notes Guarantors to terminate all of their obligations under the 6.25% Senior Notes Indenture with respect to certain covenants and Events of Default specified in the 6.25% Senior Notes Indenture, and the 6.25% Senior Notes Guarantors will be released ( covenant defeasance ), at any time by:

(1) depositing in trust with the 6.25% Senior Notes Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of, premium and interest, if any, on the 6.25% Senior Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the 6.25% Senior Notes Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

Notwithstanding the foregoing, no discharge, legal defeasance or covenant defeasance described above will affect the following obligations to, or rights of, the Holders of the 6.25% Senior Notes:

rights of registration of transfer and exchange of 6.25% Senior Notes;

rights of substitution of mutilated, defaced, destroyed, lost or stolen 6.25% Senior Notes;

rights of Holders of the 6.25% Senior Notes to receive payments of principal thereof, premium, if any, and interest, if any, thereon, upon the original due dates therefor, but not upon acceleration;

rights, obligations, duties and immunities of the 6.25% Senior Notes Trustee;

rights of Holders of 6.25% Senior Notes beneficiaries with respect to property so deposited with the 6.25% Senior Notes Trustee payable to all or any of them; and

obligations of the Company, the Issuer or the 6.25% Senior Notes Guarantors to maintain an office or agency in respect of the 6.25% Senior Notes.

The Company, the Issuer or the 6.25% Senior Notes Guarantors may exercise the legal defeasance option with respect to the 6.25% Senior Notes notwithstanding the prior exercise of the covenant defeasance option with respect to the 6.25% Senior Notes. If the Company, the Issuer or the 6.25% Senior Notes Guarantors exercise the legal defeasance option with respect to the 6.25% Senior Notes, payment of the 6.25% Senior Notes may not be accelerated due to an Event of Default with respect to the 6.25% Senior Notes. If the Company, the Issuer or the 6.25% Senior Notes

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

Guarantors exercise the covenant defeasance option with respect to the 6.25% Senior Notes, payment of the 6.25% Senior Notes may not be accelerated due to an Event of Default with respect to the covenants to which such covenant defeasance is applicable. However, if acceleration were to occur by reason of another Event of Default, the realizable value at the acceleration date of the cash and U.S. Government Obligations in the defeasance trust could be less than the principal of, premium, if any, and interest, if any, then

---

**Table of Contents**

due on the 6.25% Senior Notes, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

*Transfer and exchange.* A Holder may transfer or exchange 6.25% Senior Notes only in accordance with the provisions of the 6.25% Senior Notes Indenture. The 6.25% Senior Notes Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the 6.25% Senior Notes Indenture.

*Amendment, supplement and waiver.* Subject to certain exceptions, the 6.25% Senior Notes Indenture or the 6.25% Senior Notes may be amended or supplemented with the consent (which may include written consents obtained in connection with a tender offer or exchange offer for 6.25% Senior Notes) of the Holders of at least a majority in principal amount of the 6.25% Senior Notes then outstanding, and future compliance with any provision of the 6.25% Senior Notes Indenture or the 6.25% Senior Notes may be waived (other than any continuing Default or Event of Default in the payment of interest on or the principal of the 6.25% Senior Notes) with the consent (which may include waivers obtained in connection with a tender offer or exchange offer for 6.25% Senior Notes) of the Holders of a majority in principal amount of the 6.25% Senior Notes then outstanding. Without the consent of any Holder, the Company, the Issuer, the 6.25% Senior Notes Guarantors and the 6.25% Senior Notes Trustee may amend or supplement the 6.25% Senior Notes Indenture or the 6.25% Senior Notes to cure any ambiguity, defect or inconsistency; to comply with the Limitations on mergers, consolidations and sales of assets covenant set forth in the 6.25% Senior Notes Indenture; to comply with any requirements of the Commission in connection with the qualification of the 6.25% Senior Notes Indenture under the Trust Indenture Act; to evidence and provide for the acceptance of appointment under the 6.25% Senior Notes Indenture by a successor 6.25% Senior Notes Trustee; to provide for uncertificated 6.25% Senior Notes in addition to or in place of certificated 6.25% Senior Notes; to provide for any 6.25% Senior Notes Guarantee of the 6.25% Senior Notes; to secure the 6.25% Senior Notes or to confirm and evidence the release, termination or discharge of any 6.25% Senior Notes Guarantee of or Lien securing the 6.25% Senior Notes when such release, termination or discharge is permitted by the 6.25% Senior Notes Indenture; to make any change that does not adversely affect the legal rights of any Holder; to evidence the assumption by the Company (or its successor entity) or a successor entity of the Issuer of the obligations of the Issuer under the 6.25% Senior Notes Indenture and the 6.25% Senior Notes; to add covenants or new events of default for the protection of the Holders of the 6.25% Senior Notes; or to designate a bank or trust company other than the 6.25% Senior Notes Trustee to act as trustee.

Without the consent of each Holder affected, the Company, the Issuer, the 6.25% Senior Notes Guarantors and the 6.25% Senior Notes Trustee may not:

- (1) reduce the amount of 6.25% Senior Notes whose Holders must consent to an amendment, supplement or waiver,
- (2) reduce the rate of or extend the time for payment of interest, including default interest, on any 6.25% Senior Note,
- (3) reduce the principal of or change the fixed maturity of any 6.25% Senior Note or alter the provisions (including related definitions) with respect to redemptions described under Redemption or with respect to mandatory offers to repurchase 6.25% Senior Notes described under Certain covenants Limitations on dispositions of assets or Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control,
- (4) make any 6.25% Senior Note payable in money other than that stated in the 6.25% Senior Note,
- (5) make any change in the Waivers of Defaults by Majority of Holders or the Proceedings by Holders sections set forth in the 6.25% Senior Notes Indenture,
- (6) modify the ranking or priority of the 6.25% Senior Notes or any 6.25% Senior Notes Guarantee,
- (7) release any 6.25% Senior Notes Guarantor from any of its obligations under its 6.25% Senior Notes Guarantee or the 6.25% Senior Notes Indenture otherwise than in accordance with the 6.25% Senior Notes Indenture, or

---

**Table of Contents**

(8) waive a continuing Default or Event of Default in the payment of principal of or interest on the 6.25% Senior Notes.

The right of any Holder to participate in any consent required or sought pursuant to any provision of the 6.25% Senior Notes Indenture (and the Issuer's obligation to obtain any such consent otherwise required from such Holder) may be subject to the requirement that such Holder shall have been the Holder of record of any 6.25% Senior Notes with respect to which such consent is required or sought as of a date identified by the 6.25% Senior Notes Trustee in a notice furnished to Holders in accordance with the terms of the 6.25% Senior Notes Indenture.

*Governing law.* The 6.25% Senior Notes Indenture, the 6.25% Senior Notes and the 6.25% Senior Notes Guarantees are governed by the laws of the State of New York.

*Definitions of certain terms used in the 6.25% Senior Notes Indenture.* Set forth below is a summary of certain of the defined terms used in the 6.25% Senior Notes Indenture. Reference is made to the 6.25% Senior Notes Indenture for the full definition of all terms used in the 6.25% Senior Notes Indenture.

*6.25% Senior Notes Guarantee* means the guarantee of the 6.25% Senior Notes by the Company and each other 6.25% Senior Notes Guarantor under the 6.25% Senior Notes Indenture.

*6.25% Senior Notes Guarantors* means (i) the Company and each of the Company's Restricted Subsidiaries that was in existence on the Issue Date, other than the Issuer, and (ii) each of the Company's Subsidiaries which becomes a 6.25% Senior Notes Guarantor subsequent to the Issue Date pursuant to the provisions of the 6.25% Senior Notes Indenture, and their successors, in each case until released from its respective 6.25% Senior Notes Guarantee pursuant to the 6.25% Senior Notes Indenture.

*6.25% Senior Notes Trustee* means the party named as such above until a successor replaces such party in accordance with the applicable provisions of the 6.25% Senior Notes Indenture and thereafter means the successor serving as trustee under the 6.25% Senior Notes Indenture in respect of the 6.25% Senior Notes.

*Acquired Indebtedness* means (1) with respect to any Person that becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) after the Issue Date, Indebtedness of such Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary (or being merged into the Company, the Issuer or any Restricted Subsidiary) and (2) with respect to the Company, the Issuer or any Restricted Subsidiary, any Indebtedness expressly assumed by the Company, the Issuer or any Restricted Subsidiary in connection with the acquisition of any assets from another Person (other than the Company, the Issuer or any Restricted Subsidiary), which Indebtedness was not incurred by such other Person in connection with or in contemplation of such acquisition. Indebtedness incurred in connection with or in contemplation of any transaction described in clause (1) or (2) of the preceding sentence shall be deemed to have been incurred by the Company or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) in the case of clause (1) or at the time of the acquisition of such assets in the case of clause (2), but shall not be deemed Acquired Indebtedness.

*Affiliate* means, when used with reference to a specified Person, any Person directly or indirectly controlling, or controlled by or under direct or indirect common control with the Person specified.

*Asset Acquisition* means (1) an Investment by the Company, the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary or shall be consolidated or merged with or into the Company, the Issuer or any Restricted Subsidiary or (2) the acquisition by the Company, the Issuer or any Restricted Subsidiary of the assets of any Person, which constitute all or substantially all of the assets of or an operating unit or line of business of such Person or which is otherwise outside the ordinary course of business.

---

**Table of Contents**

*Asset Disposition* means any sale, transfer, conveyance, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback or sale of shares of Capital Stock in any Subsidiary) (each, a transaction ) by the Company, the Issuer or any Restricted Subsidiary to any Person of any Property having a Fair Market Value in any transaction or series of related transactions of at least \$5 million. The term *Asset Disposition* shall not include:

- (1) a transaction between the Company, the Issuer and any Restricted Subsidiary or a transaction between Restricted Subsidiaries,
- (2) a transaction in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to governmental authorities, leases and sales and leasebacks of (A) homes, improved land and unimproved land and (B) real estate (including related amenities and improvements),
- (3) a transaction involving the sale of Capital Stock of, or the disposition of assets in, an Unrestricted Subsidiary,
- (4) any exchange or swap of assets of the Company, the Issuer or any Restricted Subsidiary for assets that (x) are to be used by the Company, the Issuer or any Restricted Subsidiary in the ordinary course of its Real Estate Business and (y) have a Fair Market Value not less than the Fair Market Value of the assets exchanged or swapped,
- (5) any sale, transfer, conveyance, lease or other disposition of assets and properties that is governed by the provisions relating to Limitations on mergers, consolidation and sales of assets, or
- (6) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business.

*Attributable Debt* means, with respect to any Capitalized Lease Obligations, the capitalized amount thereof determined in accordance with GAAP.

*Bankruptcy Law* means title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

*Capital Stock* means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person's capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Disqualified Stock and Preferred Stock.

*Capitalized Lease Obligations* of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

*Cash Equivalents* means

- (1) U.S. dollars;
- (2) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any domestic commercial bank having capital and surplus in excess of \$500 million;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) entered into with any financial institution meeting the qualifications specified in clause (3) above;

---

**Table of Contents**

(5) commercial paper rated P-1, A-1 or the equivalent thereof by Moody's or S&P, respectively, and in each case maturing within six months after the date of acquisition; and

(6) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (1) through (5).

*Change of Control* means

(1) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); *provided, however*, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;

(2) a person or group (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders)) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;

(3) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;

(4) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however*, that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (1) above shall not constitute a Change of Control; or

(5) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

*Common Equity* of any Person means Capital Stock of such Person that is generally entitled to (1) vote in the election of directors of such Person or (2) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

*Consolidated Adjusted Tangible Assets* of the Company as of any date means the Consolidated Tangible Assets of the Company, the Issuer and the Restricted Subsidiaries at the end of the fiscal quarter immediately preceding the date less any assets securing any Non-Recourse Indebtedness, as determined in accordance with GAAP.

*Consolidated Cash Flow Available for Fixed Charges* means, for any period, Consolidated Net Income for such period plus (each to the extent deducted in calculating such Consolidated Net Income and determined in accordance with GAAP) the sum for such period, without duplication, of:

(1) income taxes,

(2) Consolidated Interest Expense,

(3) depreciation and amortization expenses and other non-cash charges to earnings, and

(4) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

all other non-cash items (other than the receipt of notes receivable) increasing such Consolidated Net Income.

*Consolidated Fixed Charge Coverage Ratio* means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the Four Quarter

---

**Table of Contents**

Period ) for which financial results have been reported immediately preceding the determination date (the Transaction Date ), to (y) the aggregate Consolidated Interest Incurred for the Four Quarter Period. For purposes of this definition, Consolidated Cash Flow Available for Fixed Charges and Consolidated Interest Incurred shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

(1) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, repayment ) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the Four Quarter Period (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

(2) any Asset Disposition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Company, the Issuer or any Restricted Subsidiary (including any Person that becomes a Restricted Subsidiary as a result of any such Asset Acquisition) incurring Acquired Indebtedness at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date), as if such Asset Disposition or Asset Acquisition (including the incurrence or repayment of any such Indebtedness) and the inclusion, notwithstanding clause (2) of the definition of Consolidated Net Income, of any Consolidated Cash Flow Available for Fixed Charges associated with such Asset Acquisition as if it occurred on the first day of the Four Quarter Period; *provided, however,* that the Consolidated Cash Flow Available for Fixed Charges associated with any Asset Acquisition shall not be included to the extent the net income so associated would be excluded pursuant to the definition of Consolidated Net Income, other than clause (2) thereof, as if it applied to the Person or assets involved before they were acquired; and

(3) the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Interest Incurred attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded.

Furthermore, in calculating Consolidated Cash Flow Available for Fixed Charges for purposes of determining the denominator (but not the numerator) of this Consolidated Fixed Charge Coverage Ratio,

(a) interest on Indebtedness in respect of which a *pro forma* calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate *per annum* equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and

(b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate *per annum* resulting after giving effect to the operation of such agreements.

*Consolidated Interest Expense* of the Company for any period means the Interest Expense of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

*Consolidated Interest Incurred* for any period means the Interest Incurred of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.



---

**Table of Contents**

*Consolidated Net Income* for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; *provided*, that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

(1) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company's, the Issuer's or such Restricted Subsidiary's (as applicable) *pro rata* share of such Unrestricted Subsidiary's or such other Person's net income earned during such period,

(2) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such redesignation) or (b) the assets of such Person are acquired by the Company or any Restricted Subsidiary,

(3) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,

(4) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (a) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (b) any Asset Disposition by the Company or any Restricted Subsidiary,

(5) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary, and

(6) any non-recurring expense recorded by the Company, the Issuer or any Restricted Subsidiary in connection with a merger accounted for as a pooling-of-interests transaction;

*provided, further*, that for purposes of calculating Consolidated Net Income solely as it relates to clause (3) of the first paragraph of the Limitations on restricted payments covenant, clause (4)(b) above shall not be applicable.

*Consolidated Tangible Assets* of the Company as of any date means the total amount of assets of the Company, the Issuer and the Restricted Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less (1) Intangible Assets and (2) appropriate adjustments on account of minority interests of other Persons holding equity investments in Restricted Subsidiaries.

*Continuing Director* means a director who either was a member of the Board of Directors of the Company on the date of the 6.25% Senior Notes Indenture or who became a director of the Company subsequent to such date and whose election or nomination for election by the Company's stockholders, was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

*control* when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms *controlling* and *controlled* have meanings correlative to the foregoing.

---

**Table of Contents**

*Credit Facilities* means, collectively, each of the credit facilities and lines of credit of the Company or one or more Restricted Subsidiaries in existence on the Issue Date and one or more other facilities and lines of credit among or between the Company or one or more Restricted Subsidiaries and one or more lenders pursuant to which the Company or one or more Restricted Subsidiaries may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit.

*Currency Agreement* of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

*Custodian* means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

*Default* means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

*Designation Amount* has the meaning provided in the definition of Unrestricted Subsidiary.

*Disqualified Stock* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (1) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the 6.25% Senior Notes or (2) is convertible into or exchangeable or exercisable for (whether at the option of the issuer or the holder thereof) (a) debt securities or (b) any Capital Stock referred to in (1) above, in each case, at any time prior to the final maturity date of the 6.25% Senior Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Capital Stock is convertible, exchangeable or exercisable) the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change in control occurring prior to the final maturity date of the 6.25% Senior Notes shall not constitute Disqualified Stock if the change in control provision applicable to such Capital Stock are no more favorable to such holders than the provisions described under the caption *Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control* and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company's repurchase of the 6.25% Senior Notes as are required pursuant to the provisions described under the caption *Certain covenants Repurchase of 6.25% Senior Notes upon Change of Control*.

*Event of Default* has the meaning set forth in *Events of Default*.

*Fair Market Value* means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm's-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Company or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

*GAAP* means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on May 4, 1999.

---

## **Table of Contents**

*guarantee* means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; *provided* that the term *guarantee* does not include endorsements for collection or deposit in the ordinary course of business. The term *guarantee* used as a verb has a corresponding meaning.

*Holder* or *Holder of 6.25% Senior Notes* means the Person in whose name a 6.25% Senior Note is registered in the books of the Registrar for the 6.25% Senior Notes.

*Indebtedness* of any Person means, without duplication,

(1) any liability of such Person (a) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than standby letters of credit or similar instruments issued for the benefit of, or surety, performance, completion or payment bonds, earnest money notes or similar purpose undertakings or indemnifications issued by, such Person in the ordinary course of business), (b) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with capital expenditures (other than any obligation to pay a contingent purchase price which, as of the date of incurrence thereof, is not required to be recorded as a liability in accordance with GAAP), or (c) in respect of Capitalized Lease Obligations (to the extent of the Attributable Debt in respect thereof),

(2) any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided, however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to the *Limitations on restricted payments* covenant,

(3) to the extent not otherwise included, the obligations of such Person under Currency Agreements or Interest Protection Agreements to the extent recorded as liabilities not constituting Interest Incurred, net of amounts recorded as assets in respect of such agreements, in accordance with GAAP, and

(4) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

*provided*, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be (a) the outstanding balance at such date of all unconditional obligations as described above, net of any unamortized discount to be accounted for as Interest Expense, in accordance with GAAP, (b) the maximum liability of such Person for any contingent obligations under clause (1) above at such date, net of an unamortized discount to be accounted for as Interest Expense in accordance with GAAP, and (c) in the case of clause (4) above, the lesser of (x) the fair market value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (y) the amount of the Indebtedness secured.

*Intangible Assets* of the Company means all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with GAAP) and all other items which would be treated as

---

**Table of Contents**

intangible on the consolidated balance sheet of the Company, the Issuer and the Restricted Subsidiaries prepared in accordance with GAAP.

*Interest Expense* of any Person for any period means, without duplication, the aggregate amount of (i) interest which, in conformity with GAAP, would be set opposite the caption *interest expense* or any like caption on an income statement for such Person (including, without limitation, imputed interest included in Capitalized Lease Obligations, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing, the net costs (but reduced by net gains) associated with Currency Agreements and Interest Protection Agreements, amortization of other financing fees and expenses, the interest portion of any deferred payment obligation, amortization of discount or premium, if any, and all other noncash interest expense (other than interest and other charges amortized to cost of sales)), and (ii) all interest actually paid by the Company or a Restricted Subsidiary under any guarantee of Indebtedness (including, without limitation, a guarantee of principal, interest or any combination thereof) of any Person other than the Company, the Issuer or any Restricted Subsidiary during such period; *provided*, that Interest Expense shall exclude any expense associated with the complete write-off of financing fees and expenses in connection with the repayment of any Indebtedness.

*Interest Incurred* of any Person for any period means, without duplication, the aggregate amount of (1) Interest Expense and (2) all capitalized interest and amortized debt issuance costs.

*Interest Protection Agreement* of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Debt permitted to be incurred under the 6.25% Senior Notes Indenture.

*Investment Grade* means, with respect to a debt rating of the 6.25% Senior Notes, a rating of Baa3 or higher by Moody's together with a rating of BBB- or higher by S&P or, in the event S&P or Moody's or both shall cease rating the 6.25% Senior Notes (for reasons outside the control of the Company or the Issuer) and the Company shall select any other Rating Agency, the equivalent of such ratings by such other Rating Agency.

*Investments* of any Person means (i) all investments by such Person in any other Person in the form of loans, advances or capital contributions, (ii) all guarantees of Indebtedness or other obligations of any other Person by such Person, (iii) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Capital Stock or other securities of any other Person and (iv) all other items that would be classified as investments in any other Person (including, without limitation, purchases of assets outside the ordinary course of business) on a balance sheet of such Person prepared in accordance with GAAP.

*Issue Date* means, solely for purposes of this Description of 6.25% Senior Notes, August 8, 2005.

*Lien* means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

*Marketable Securities* means (a) equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or The Nasdaq National Market and (b) debt securities that are rated by a nationally recognized rating agency, listed on the New York Stock Exchange or the American Stock Exchange or covered by at least two reputable market makers.

*Moody's* means Moody's Investors Service, Inc. or any successor to its debt rating business.

*Mortgage Subsidiary* means any Subsidiary of the Company substantially all of whose operations consist of the mortgage lending business.

---

**Table of Contents**

*Net Cash Proceeds* means with respect to an Asset Disposition, cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise (including any cash received upon sale or disposition of such note or receivable), but only as and when received), excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the Property disposed of in such Asset Disposition or received in any other non-cash form unless and until such non-cash consideration is converted into cash therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, and in each case net of a reasonable reserve for the after-tax cost of any indemnification or other payments (fixed and contingent) attributable to the seller's indemnities or other obligations to the purchaser undertaken by the Company, the Issuer or any of its Restricted Subsidiaries in connection with such Asset Disposition, and net of all payments made on any Indebtedness which is secured by or relates to such Property, in accordance with the terms of any Lien or agreement upon or with respect to such Property or which must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all contractually required distributions and payments made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition.

*Non-Recourse Indebtedness* with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 90 days after the acquisition of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (a) environmental warranties and indemnities, or (b) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics liens.

*Permitted Hovnanian Holders* means, collectively, Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any *bona fide* trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof, or any entity of which any of the foregoing, individually or collectively, beneficially own more than 50% of the Common Equity.

*Permitted Indebtedness* means

- (1) Indebtedness under Credit Facilities which does not exceed \$1.0 billion principal amount outstanding at any one time;
- (2) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;
- (3) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; *provided, however*, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of the first paragraph of the covenant described under *Limitations on indebtedness* at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;
- (4) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related

**Table of Contents**

Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;

(5) Purchase Money Indebtedness;

(6) Capitalized Lease Obligations;

(7) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;

(8) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed \$10 million aggregate principal amount outstanding at any one time;

(9) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and

(10) Indebtedness of the Company or any Restricted Subsidiary which, together with all other Indebtedness under this clause (10), does not exceed \$50 million aggregate principal amount outstanding at any one time.

*Permitted Investment* means

(1) Cash Equivalents;

(2) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;

(3) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the 6.25% Senior Notes Indenture;

(4) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the 6.25% Senior Notes Indenture;

(5) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness;

(6) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; *provided, however*, that any such loan or advance exceeding \$1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;

(7) Investments in joint ventures in a Real Estate Business with unaffiliated third parties in an aggregate amount at any time outstanding not to exceed 10% of Consolidated Tangible Assets at such time;

(8) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;

(9) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and

---

**Table of Contents**

(10) Investments in an aggregate amount outstanding not to exceed \$10 million.

*Permitted Liens* means

(1) Liens for taxes, assessments or governmental or quasi-government charges or claims that (a) are not yet delinquent, (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required, or (c) encumber solely property abandoned or in the process of being abandoned,

(2) statutory Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the extent applicable, either (a) are not yet delinquent or (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

(3) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security,

(4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contracts, utility services, developer's or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (1)(a) of the definition of "Indebtedness"), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(5) attachment or judgment Liens not giving rise to a Default or an Event of Default,

(6) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(7) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(8) Liens securing Indebtedness incurred pursuant to clause (8) or (9) of the definition of Permitted Indebtedness,

(9) Liens securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary permitted to be incurred under the 6.25% Senior Notes Indenture; provided, that the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (9) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof),

(10) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; provided, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,

(11) Liens securing Purchase Money Indebtedness; *provided*, that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,

**Table of Contents**

- (12) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries,
- (13) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,
- (14) purchase money security interests (including, without limitation, Capitalized Lease Obligations); *provided*, that such Liens apply only to the Property acquired and the related Indebtedness is incurred within 90 days after the acquisition of such Property,
- (15) any right of first refusal, right of first offer, option, contract or other agreement to sell an asset; *provided* that such sale is not otherwise prohibited under the 6.25% Senior Notes Indenture,
- (16) any right of a lender or lenders to which the Company, the Issuer or a Restricted Subsidiary may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company, the Issuer or a Restricted Subsidiary with or held by such lender or lenders or its Affiliates,
- (17) any pledge or deposit of cash or property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or similar purpose undertakings or indemnifications in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (18) Liens for homeowner and property owner association developments and assessments,
- (19) Liens securing Refinancing Indebtedness; *provided*, that such Liens extend only to the assets securing the Indebtedness being refinanced,
- (20) Liens incurred in the ordinary course of business as security for the obligations of the Company, the Issuer and the Restricted Subsidiaries with respect to indemnification in respect of title insurance providers,
- (21) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or becomes a Subsidiary of the Company; *provided*, that such Liens were in existence prior to the contemplation of such merger or consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with the Company or the Subsidiary or acquired by the Company or its Subsidiaries,
- (22) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company, *provided*, that such Liens were in existence prior to the contemplation of such acquisition,
- (23) Liens existing on the Issue Date and any extensions, renewals or replacements thereof, and
- (24) Liens on specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods.

*Person* means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*Preferred Stock* of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.



## **Table of Contents**

*Property* of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

*Purchase Money Indebtedness* means Indebtedness of the Company, the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company, the Issuer and the Restricted Subsidiaries; *provided, however*, that (1) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred no later than 90 days after the acquisition of such property or completion of such construction or improvement.

*Qualified Stock* means Capital Stock of the Company other than Disqualified Stock.

*Rating Agency* means a statistical rating agency or agencies, as the case may be, nationally recognized in the United States and selected by the Company (as certified by a resolution of the Board of Directors of the Company) which shall be substituted for S&P or Moody's, or both, as the case may be.

*Real Estate Business* means homebuilding, housing construction, real estate development or construction and related real estate activities, including the provision of mortgage financing or title insurance.

*Refinancing Indebtedness* means Indebtedness (to the extent not Permitted Indebtedness) that refunds, refinances or extends any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (to the extent not Permitted Indebtedness) outstanding on the Issue Date or other Indebtedness (to the extent not Permitted Indebtedness) permitted to be incurred by the Company, the Issuer or any Restricted Subsidiary pursuant to the terms of the 6.25% Senior Notes Indenture, but only to the extent that:

- (1) the Refinancing Indebtedness is subordinated, if at all, to the 6.25% Senior Notes or the 6.25% Senior Notes Guarantees, as the case may be, to the same extent as the Indebtedness being refunded, refinanced or extended,
- (2) the Refinancing Indebtedness is scheduled to mature either (a) no earlier than the Indebtedness being refunded, refinanced or extended or (b) after the maturity date of the 6.25% Senior Notes,
- (3) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the 6.25% Senior Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Indebtedness being refunded, refinanced or extended that is scheduled to mature on or prior to the maturity date of the 6.25% Senior Notes, and
- (4) such Refinancing Indebtedness is in an aggregate principal amount that is equal to or less than the aggregate principal amount then outstanding under the Indebtedness being refunded, refinanced or extended.

*Restricted Payment* means any of the following:

- (1) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company, the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than (a) dividends or distributions payable solely in Qualified Stock and (b) in the case of the Issuer or Restricted Subsidiaries, dividends or distributions payable to the Company, the Issuer or a Restricted Subsidiary);
- (2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary); and

---

**Table of Contents**

(3) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (2) of the definition of Indebtedness.

*Restricted Subsidiary* means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

*S&P* means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., a New York corporation, or any successor to its debt rating business.

*Significant Subsidiary* means any Subsidiary of the Company which would constitute a significant subsidiary as defined in Rule 1-02(w)(1) or (2) of Regulation S-X under the Securities Act and the Exchange Act as in effect on the Issue Date.

*Subsidiary* of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the Board of Directors or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

*Unrestricted Subsidiary* means any Subsidiary of the Company so designated by a resolution adopted by the Board of Directors of the Company or a duly authorized committee thereof as provided below; *provided* that (a) the holders of Indebtedness thereof do not have direct or indirect recourse against the Company, the Issuer or any Restricted Subsidiary, and neither the Company, the Issuer nor any Restricted Subsidiary otherwise has liability for, any payment obligations in respect of such Indebtedness (including any undertaking, agreement or instrument evidencing such Indebtedness), except, in each case, to the extent that the amount thereof constitutes a Restricted Payment permitted by the 6.25% Senior Notes Indenture, in the case of Non-Recourse Indebtedness, to the extent such recourse or liability is for the matters discussed in the last sentence of the definition of Non-Recourse Indebtedness, or to the extent such Indebtedness is a guarantee by such Subsidiary of Indebtedness of the Company, the Issuer or a Restricted Subsidiary and (b) no holder of any Indebtedness of such Subsidiary shall have a right to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity as a result of a default on any Indebtedness of the Company, the Issuer or any Restricted Subsidiary. As of the date of this prospectus, the Issuer's home mortgage subsidiaries, certain title insurance subsidiaries, joint ventures, subsidiaries holding interests in joint ventures and the foreign subsidiary are designated as Unrestricted Subsidiaries under the 6.25% Senior Notes Indenture.

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided, however*, that (1) the net amount (the Designation Amount) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under the Limitations on restricted payments covenant set forth in the 6.25% Senior Notes Indenture, to the extent provided therein, (2) the Company must be permitted under the Limitations on restricted payments covenant set forth in the 6.25% Senior Notes Indenture to make the Restricted Payment deemed to have been made pursuant to clause (1), and (3) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person's merger with the Company or any Restricted Subsidiary (but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that (1) the Indebtedness of such Unrestricted Subsidiary as of the date of such redesignation could then be incurred under the Limitations on indebtedness covenant and (2) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur \$1.00 of additional Indebtedness under the first paragraph of the Limitations on indebtedness covenant. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the 6.25%

---

## **Table of Contents**

Senior Notes Trustee by the filing with the 6.25% Senior Notes Trustee of a certified copy of the resolution of the Board of Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided, however*, that the ownership of the general partnership interest (or a similar member's interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

*Weighted Average Life to Maturity* means, when applied to any Indebtedness or portion thereof at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including, without limitation, payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (ii) the sum of all such payments described in clause (i)(a) above.

### **DESCRIPTION OF 8.625% SENIOR NOTES**

In this section, references to the Company mean Hovnanian Enterprises, Inc. and do not include K. Hovnanian Enterprises, Inc. or any of its subsidiaries and references to the Issuer mean K. Hovnanian Enterprises, Inc. and do not include any of its subsidiaries

The debt securities offered from time to time pursuant to this prospectus may be issued as additional notes (the 8.625% Senior Notes ) under the Indenture dated as of November 3, 2003 (the 8.625% Senior Notes Base Indenture ), among the Issuer, the Company, the other guarantors party thereto and Deutsche Bank National Trust Company, as successor trustee (the 8.625% Senior Notes Trustee), as supplemented by the Seventh Supplemental Indenture relating to the Issuer's 8.625% Senior Notes due 2017, dated as of June 12, 2006 (the Seventh Supplemental Indenture and, together with the 8.625% Senior Notes Base Indenture, as further amended or supplemented as of the date hereof, the 8.625% Senior Notes Indenture ).

All such additional 8.625% Senior Notes will vote together, including, without limitation, with respect to waivers, amendments, redemption and offers to purchase and will be treated as a single class for all purposes of the 8.625% Senior Notes Indenture. The following is a summary of the material terms and provisions of the 8.625% Senior Notes. Any offering of Additional Notes under the 8.625% Senior Notes Indenture is subject to the covenant described below under the caption Certain covenants Limitations on indebtedness. The terms of the 8.625% Senior Notes include those stated in the 8.625% Senior Notes Indenture and those made part of the 8.625% Senior Notes Indenture by reference to the Trust Indenture Act as in effect on the date of the 8.625% Senior Notes Indenture. The 8.625% Senior Notes are subject to all such terms, and prospective purchasers of the 8.625% Senior Notes are referred to the 8.625% Senior Notes Indenture and the Trust Indenture Act for a statement of such terms.

This description of the 8.625% Senior Notes contains definitions of terms, including those defined under the caption Definitions of certain terms used in the 8.625% Senior Notes Indenture. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the 8.625% Senior Notes Indenture.

*General.* The 8.625% Senior Notes will bear interest at the rate per annum of 8.625%, payable semi-annually on January 15 and July 15 of each year, to Holders of record at the close of business on January 1 or July 1, as the case may be, immediately preceding each such interest payment date. The 8.625% Senior Notes will mature on January 15, 2017, and will be issued in denominations of \$1,000 and integral multiples thereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The 8.625% Senior Notes will be guaranteed by the Company and each of the 8.625% Senior Notes Guarantors (together, the 8.625% Senior Notes Guarantors ) pursuant to the 8.625% Senior Notes Guarantees (the 8.625% Senior Notes Guarantees ) described below.

---

## **Table of Contents**

*Ranking.* The 8.625% Senior Notes will be general unsecured obligations of the Issuer and rank senior in right of payment to all future Indebtedness of the Issuer that is, by its terms, expressly subordinated in right of payment to the 8.625% Senior Notes and *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Issuer that is not so subordinated. Under specified circumstances, the Issuer may be released from its obligations under the 8.625% Senior Notes and the 8.625% Senior Notes Indenture. See Condition for release of K. Hovnanian. The 8.625% Senior Notes Guarantees will be general unsecured obligations of the 8.625% Senior Notes Guarantors and will rank senior in right of payment to all future Indebtedness of the 8.625% Senior Notes Guarantors that is, by its terms, expressly subordinated in right of payment to the 8.625% Senior Notes Guarantees and will rank *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Company and the 8.625% Senior Notes Guarantors that is not so subordinated.

Secured creditors of the Company, the Issuer and the other 8.625% Senior Notes Guarantors have a claim on the assets which secure the obligations of the Company and the 8.625% Senior Notes Guarantors to such creditors prior to claims of Holders of the 8.625% Senior Notes against those assets.

*The 8.625% Senior Notes Guarantees.* The Company and each of the 8.625% Senior Notes Guarantors will (so long, in the case of a Restricted Subsidiary, as it remains a Restricted Subsidiary) fully and unconditionally guarantee on a joint and several basis all of the obligations of the Issuer under the 8.625% Senior Notes, including the Issuer's obligations to pay principal, premium, if any, and interest with respect to the 8.625% Senior Notes. The Issuer and each of the 8.625% Senior Notes Guarantors is 100% owned by the Company. The 8.625% Senior Notes Guarantees will be general unsecured obligations of the Company and the 8.625% Senior Notes Guarantors and will rank *pari passu* with all existing and future unsecured Indebtedness of the 8.625% Senior Notes Guarantors that is not, by its terms, expressly subordinated in right of payment to the 8.625% Senior Notes Guarantees. The obligations of each 8.625% Senior Notes Guarantor other than the Company are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such 8.625% Senior Notes Guarantor and after giving effect to any collections from or payments made by or on behalf of any other 8.625% Senior Notes Guarantor in respect of the obligations of such other 8.625% Senior Notes Guarantor under its 8.625% Senior Notes Guarantee or pursuant to its contribution obligations under the 8.625% Senior Notes Indenture, will result in the obligations of such 8.625% Senior Notes Guarantor under its 8.625% Senior Notes Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each 8.625% Senior Notes Guarantor other than the Company that makes a payment or distribution under a 8.625% Senior Notes Guarantee shall be entitled to a contribution from each other 8.625% Senior Notes Guarantor in an amount pro rata, based on the net assets of each 8.625% Senior Notes Guarantor, determined in accordance with GAAP. Except as provided in Certain covenants below, the Company is not restricted from selling or otherwise disposing of any of the 8.625% Senior Notes Guarantors.

The 8.625% Senior Notes Indenture requires that each existing and future Restricted Subsidiary of the Company other than, the Issuer (for so long as it remains the Issuer) be a 8.625% Senior Notes Guarantor. The Company is permitted to cause any Unrestricted Subsidiary to be a 8.625% Senior Notes Guarantor.

The 8.625% Senior Notes Indenture provides that if all or substantially all of the assets of any 8.625% Senior Notes Guarantor other than the Company or all of the Capital Stock of any 8.625% Senior Notes Guarantor other than the Company is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any 8.625% Senior Notes Guarantor other than the Company is designated an Unrestricted Subsidiary in accordance with the terms of the 8.625% Senior Notes Indenture, then such 8.625% Senior Notes Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such 8.625% Senior Notes Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the assets of such 8.625% Senior Notes Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the 8.625% Senior Notes Indenture without any further action on the part of the 8.625% Senior Notes Trustee or any Holder of the 8.625% Senior Notes.

---

**Table of Contents**

Upon the release of a guarantee by a 8.625% Senior Notes Guarantor other than the Company under all then outstanding Applicable Debt, at any time after the suspension of certain covenants as provided below under the caption **Limitation of applicability of certain covenants if 8.625% Senior Notes rated Investment Grade**, the 8.625% Senior Notes Guarantee of such 8.625% Senior Notes Guarantor under the 8.625% Senior Notes Indenture will be released and discharged at such time and no Restricted Subsidiary thereafter acquired or created will be required to be a 8.625% Senior Notes Guarantor; *provided* that the foregoing shall not apply to any release of any 8.625% Senior Notes Guarantor done in contemplation of, or in connection with, any cessation of the 8.625% Senior Notes being rated Investment Grade. In the event that (1) any such released 8.625% Senior Notes Guarantor thereafter guarantees any Applicable Debt (or if any released guarantee under any Applicable Debt is reinstated or renewed) or (2) the Extinguished Covenants cease to be suspended as described under **Limitation of applicability of certain covenants if 8.625% Senior Notes rated Investment Grade** then any such released 8.625% Senior Notes Guarantor and any other Restricted Subsidiary of the Company then existing (other than the Restricted Subsidiaries named in the second preceding paragraph) will guarantee the 8.625% Senior Notes on the terms and conditions set forth in the 8.625% Senior Notes Indenture.

**Applicable Debt** means all Indebtedness of the Company or any of its Restricted Subsidiaries (i) under Credit Facilities or (ii) that is publicly traded (including in the Rule 144A market). For purposes of the above provision, Applicable Debt secured by a Lien on such Restricted Subsidiary's Property or issued by such Restricted Subsidiary shall be deemed guaranteed by such Restricted Subsidiary.

An Unrestricted Subsidiary that is a 8.625% Senior Notes Guarantor shall be deemed automatically and unconditionally released and discharged from all obligations under its 8.625% Senior Notes Guarantee upon notice from the Company to the 8.625% Senior Notes Trustee to such effect, without any further action required on the part of the 8.625% Senior Notes Trustee or any Holder.

A sale of assets or Capital Stock of a 8.625% Senior Notes Guarantor may constitute an Asset Disposition subject to the **Limitations on dispositions of assets** covenant.

**Redemption.** The 8.625% Senior Notes will be redeemable, in whole, at any time, or in part, from time to time, at the option of the Issuer upon not less than 30 nor more than 60 days' notice at a redemption price equal to the sum of:

- (1) 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, if any; *plus*
- (2) the Make-Whole Amount.

The term **Make-Whole Amount** shall mean, in connection with any optional redemption of any 8.625% Senior Note, the excess, if any, of:

- (1) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the business day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over
- (2) the principal amount of the 8.625% Senior Note being redeemed.

**Treasury Rate** means, in connection with the calculation of any Make-Whole Amount with respect to any 8.625% Senior Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such

## **Table of Contents**

Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the 8.625% Senior Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

There is no sinking fund for, or mandatory redemption of, the 8.625% Senior Notes.

*Selection and notice.* If less than all of the 8.625% Senior Notes are to be redeemed at any time, the 8.625% Senior Notes Trustee will select 8.625% Senior Notes for redemption on a pro rata basis, by lot or by such other method as the 8.625% Senior Notes Trustee in its sole discretion shall deem appropriate and fair.

No 8.625% Senior Notes of \$1,000 in original principal amount or less shall be redeemed in part. Notices of redemption may not be conditional.

If any 8.625% Senior Note is to be redeemed in part only, the notice of redemption that relates to that 8.625% Senior Note shall state the portion of the principal amount thereof to be redeemed. A new 8.625% Senior Note in principal amount equal to the unredeemed portion of the original 8.625% Senior Note will be issued in the name of the Holder thereof upon cancellation of the original 8.625% Senior Note. 8.625% Senior Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on 8.625% Senior Notes or portions of them called for redemption.

*Certain covenants.* The following is a summary of certain covenants that are contained in the 8.625% Senior Notes Indenture. Such covenants are applicable (unless waived or amended as permitted by the 8.625% Senior Notes Indenture or their application is suspended as set forth under the caption *Limitation of applicability of certain covenants if 8.625% Senior Notes rated Investment Grade* ) so long as any of the 8.625% Senior Notes are outstanding or until the 8.625% Senior Notes are defeased pursuant to provisions described under *Defeasance of Indenture*.

### *Repurchase of 8.625% Senior Notes upon Change of Control.*

In the event that there shall occur a Change of Control, each Holder of 8.625% Senior Notes shall have the right, at such Holder's option, to require the Issuer to purchase all or any part of such Holder's 8.625% Senior Notes on a date (the *Repurchase Date* ) that is no later than 90 days after notice of the Change of Control, at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Repurchase Date.

On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail or cause to be mailed, to all Holders of record of 8.625% Senior Notes, a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the 8.625% Senior Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, The City of New York. To exercise such right, the Holder of such 8.625% Senior Note must deliver, at least ten days prior to the Repurchase Date, written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder's exercise of such right, together with the 8.625% Senior Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Issuer.

The Issuer will comply with applicable law, including Section 14(e) of the Exchange Act and Rule 14e-1 thereunder, if applicable, if the Issuer is required to give a notice of a right of repurchase as a result of a Change of Control.

---

**Table of Contents**

With respect to any disposition of assets, the phrase "all or substantially all" as used in the 8.625% Senior Notes Indenture (including as set forth under "Certain covenants - Limitations on mergers, consolidations and sales of assets" below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the 8.625% Senior Notes Indenture) and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company, and therefore it may be unclear as to whether a Change of Control has occurred and whether the Holders have the right to require the Issuer to repurchase 8.625% Senior Notes.

None of the provisions relating to a repurchase upon a Change of Control is waivable by the Board of Directors of the Issuer or the Company. The Company could, in the future, enter into certain transactions, including certain recapitalizations of the Company, that would not result in a Change of Control, but would increase the amount of Indebtedness outstanding at such time.

The 8.625% Senior Notes Indenture requires the payment of money for 8.625% Senior Notes or portions thereof validly tendered to, and accepted for payment by, the Issuer pursuant to a Change of Control offer. In the event that a Change of Control has occurred under the 8.625% Senior Notes Indenture, a change of control will also have occurred under the indentures governing the Issuer's other outstanding notes. If a Change of Control were to occur, there can be no assurance that the Issuer would have sufficient funds to pay the purchase price for all 8.625% Senior Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay or that the Company or the other 8.625% Senior Notes Guarantors would be able to make such payments. In the event that the Issuer were required to purchase outstanding 8.625% Senior Notes pursuant to a Change of Control offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to enable the Issuer to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

Failure by the Issuer to purchase the 8.625% Senior Notes when required upon a Change of Control will result in an Event of Default with respect to the 8.625% Senior Notes.

These provisions could have the effect of deterring hostile or friendly acquisitions of the Company where the Person attempting the acquisition views itself as unable to finance the purchase of the principal amount of 8.625% Senior Notes which may be tendered to the Issuer upon the occurrence of a Change of Control.

*Limitations on indebtedness.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary, directly or indirectly, to create, incur, assume, become liable for or guarantee the payment of (collectively, an "incurrence") any Indebtedness (including Acquired Indebtedness) unless, after giving effect thereto and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio on the date thereof would be at least 2.0 to 1.0.

Notwithstanding the foregoing, the provisions of the 8.625% Senior Notes Indenture will not prevent the incurrence of:

- (1) Permitted Indebtedness,
- (2) Refinancing Indebtedness,
- (3) Non-Recourse Indebtedness,
- (4) any 8.625% Senior Notes Guarantee of Indebtedness represented by the 8.625% Senior Notes, and
- (5) any guarantee of Indebtedness incurred under Credit Facilities in compliance with the 8.625% Senior Notes Indenture.

---

## Table of Contents

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness may be incurred through the first paragraph of this covenant or by meeting the criteria of one or more of the types of Indebtedness described in the second paragraph of this covenant (or the definitions of the terms used therein), the Company, in its sole discretion,

- (1) may classify such item of Indebtedness under and comply with either of such paragraphs (or any of such definitions), as applicable,
- (2) may classify and divide such item of Indebtedness into more than one of such paragraphs (or definitions), as applicable, and
- (3) may elect to comply with such paragraphs (or definitions), as applicable, in any order.

The Company and the Issuer will not, and will not cause or permit any 8.625% Senior Notes Guarantor to, directly or indirectly, in any event incur any Indebtedness that purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated to any other Indebtedness of the Company or of such 8.625% Senior Notes Guarantor, as the case may be, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinated to the 8.625% Senior Notes or the 8.625% Senior Notes Guarantee of such 8.625% Senior Notes Guarantor, as the case may be, to the same extent and in the same manner as such Indebtedness is subordinated to such other Indebtedness of the Company or such 8.625% Senior Notes Guarantor, as the case may be.

### *Limitations on restricted payments.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;
- (2) immediately after giving effect to such Restricted Payment, the Company could incur at least \$1.00 of Indebtedness pursuant to the first paragraph of the Limitations on indebtedness covenant; and
- (3) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made after May 4, 1999 does not exceed the sum of:
  - (a) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including February 1, 1999 and ending on the last day of the Company's fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, *minus* 100% of such deficit), *plus*
  - (b) 100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after February 1, 1999 or any issue or sale after February 1, 1999 of Qualified Stock (other than to any Subsidiary of the Company) and (2) the issue or sale after February 1, 1999 of any Indebtedness or other securities of the Company convertible into or exercisable for Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*
  - (c) in the case of the disposition or repayment of any Investment constituting a Restricted Payment made after May 4, 1999, an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (a)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (a)), *plus*
  - (d) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after May 4, 1999, in accordance with the definition of Unrestricted Subsidiary (so long as the designation of



---

**Table of Contents**

such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after the Issue Date, and only to the extent not included in the calculation of Consolidated Net Income referred to in (a)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value thereof, over (II) the total liabilities of such Subsidiary, determined in accordance with GAAP, and (y) the Designation Amount at the time of such Subsidiary's designation as an Unrestricted Subsidiary, *plus*

(e) \$17 million, *minus*

(f) the aggregate amount of all Restricted Payments (other than Restricted Payments referred to in clause (C) of the immediately succeeding paragraph) made after February 1, 1999 through May 4, 1999.

The foregoing clauses (2) and (3) will not prohibit:

(A) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the 8.625% Senior Notes Indenture;

(B) the repurchase, redemption or retirement of any shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, other shares of Qualified Stock; and

(C) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed \$10 million in the aggregate since May 4, 1999;

*provided, however*, that each Restricted Payment described in clauses (A) and (B) of this sentence shall be taken into account for purposes of computing the aggregate amount of all Restricted Payments pursuant to clause (3) of the immediately preceding paragraph.

For purposes of determining the aggregate and permitted amounts of Restricted Payments made, the amount of any guarantee of any Investment in any Person that was initially treated as a Restricted Payment and which was subsequently terminated or expired, net of any amounts paid by the Company or any Restricted Subsidiary in respect of such guarantee, shall be deducted.

In determining the Fair Market Value of Property for purposes of clause (3) of the first paragraph of this covenant, Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the equity value of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq National Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than \$10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

*Limitations on transactions with affiliates.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the

---

**Table of Contents**

benefit of, or sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company's Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or series of related transactions (each, an Affiliate Transaction), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company's Subsidiaries.

In addition, the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, enter into an Affiliate Transaction unless:

(1) with respect to any such Affiliate Transaction involving or having a value of more than \$1 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) either obtained the approval of a majority of the Company's disinterested directors or obtained an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view, and

(2) with respect to any such Affiliate Transaction involving or having a value of more than \$10 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) delivered to the 8.625% Senior Notes Trustee an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view.

The 8.625% Senior Notes Indenture also provides that notwithstanding the foregoing, an Affiliate Transaction will not include:

(1) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,

(2) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,

(3) any Restricted Payment otherwise permitted under the Limitations on restricted payments covenant,

(4) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (*provided, however*, no such transaction shall involve any other Affiliate of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by the 8.625% Senior Notes Indenture)),

(5) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously dividended, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,

(6) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and

(7) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

## **Table of Contents**

### *Limitations on dispositions of assets.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any Asset Disposition unless:

(a) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and

(b) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities.

The amount of (i) any Indebtedness (other than any Indebtedness subordinated to the 8.625% Senior Notes) of the Company or any Restricted Subsidiary that is actually assumed by the transferee in such Asset Disposition and (ii) the fair market value (as determined in good faith by the Board of Directors of the Company) of any property or assets received that are used or useful in a Real Estate Business, shall be deemed to be consideration required by clause (b) above for purposes of determining the percentage of such consideration received by the Company or the Restricted Subsidiaries.

The Net Cash Proceeds of an Asset Disposition shall, within one year, at the Company's election, (a) be used by the Company or a Restricted Subsidiary in the business of the construction and sale of homes conducted by the Company and the Restricted Subsidiaries or any other business of the Company or a Restricted Subsidiary existing at the time of such Asset Disposition or (b) to the extent not so used, be applied to make an Offer to Purchase 8.625% Senior Notes and, if the Company or a Restricted Subsidiary elects or is required to do so repay, purchase or redeem any other unsubordinated Indebtedness (on a *pro rata* basis if the amount available for such repayment, purchase or redemption is less than the aggregate amount of (i) the principal amount of the 8.625% Senior Notes tendered in such Offer to Purchase and (ii) the lesser of the principal amount, or accreted value, of such other unsubordinated Indebtedness, plus, in each case accrued interest to the date of repayment, purchase or redemption) at 100% of the principal amount or accreted value thereof, as the case may be, plus accrued and unpaid interest, if any, to the date of repurchase or repayment.

Notwithstanding the foregoing, (A) the Company will not be required to apply such Net Cash Proceeds to the repurchase of 8.625% Senior Notes in accordance with clause (b) of the preceding sentence except to the extent that such Net Cash Proceeds, together with the aggregate Net Cash Proceeds of prior Asset Dispositions (other than those so used) which have not been applied in accordance with this provision and as to which no prior Offer to Purchase shall have been made, exceed 5% of Consolidated Tangible Assets and (B) in connection with an Asset Disposition, the Company and the Restricted Subsidiaries will not be required to comply with the requirements of clause (b) of the first sentence of the first paragraph of this covenant to the extent that the non-cash consideration received in connection with such Asset Disposition, together with the sum of all non-cash consideration received in connection with all prior Asset Dispositions that has not yet been converted into cash, does not exceed 5% of Consolidated Tangible Assets; *provided, however*, that when any non-cash consideration is converted into cash, such cash shall constitute Net Cash Proceeds and be subject to the preceding sentence.

### *Limitations on liens.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its Property, or on any shares of Capital Stock or Indebtedness of any Restricted Subsidiary, unless contemporaneously therewith or prior thereto all payments due under the 8.625% Senior Notes Indenture and the 8.625% Senior Notes are secured on an equal and ratable basis with the obligation or liability so secured until such time as such indebtedness is no longer secured by a Lien.

---

**Table of Contents**

*Limitations on restrictions affecting restricted subsidiaries.*

The 8.625% Senior Notes Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, assume or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction (other than encumbrances or restrictions imposed by law or by judicial or regulatory action or by provisions of agreements that restrict the assignability thereof) on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,

(2) make loans or advances to the Company or any other Restricted Subsidiary, or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary, except for:

(a) encumbrances or restrictions existing under or by reason of applicable law,

(b) contractual encumbrances or restrictions in effect on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof, *provided* that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect on the Issue Date,

(c) any restrictions or encumbrances arising under Acquired Indebtedness; *provided*, that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,

(d) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided, however*, that any restrictions and encumbrances of the type described in this clause (d) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,

(e) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the 8.625% Senior Notes Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,

(f) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the 8.625% Senior Notes Indenture,

(g) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

(h) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition,

(i) encumbrances or restrictions existing under or by reason of the 8.625% Senior Notes Indenture or the 8.625% Senior Notes,

(j) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph,

(k) Liens permitted under the 8.625% Senior Notes Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,

---

**Table of Contents**

(l) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,

(m) customary provisions of any franchise, distribution or similar agreements,

(n) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and

(o) any encumbrance or restrictions of the type referred to in clauses (1), (2) or (3) of the first paragraph of this section imposed by any amendments, modifications, restatements, renewals, supplements, refinancings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (n) of this paragraph, *provided* that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company's Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

*Limitations on mergers, consolidations and sales of assets.*

The 8.625% Senior Notes Indenture provides that neither the Issuer nor any 8.625% Senior Notes Guarantor will consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including, without limitation, by way of liquidation or dissolution), or assign any of its obligations under the 8.625% Senior Notes, the 8.625% Senior Notes Guarantees or the 8.625% Senior Notes Indenture (as an entirety or substantially as an entirety in one transaction or in a series of related transactions), to any Person (in each case other than in a transaction in which the Company, the Issuer or a Restricted Subsidiary is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

(1) the Person formed by or surviving such consolidation or merger (if other than the Company, the Issuer or the 8.625% Senior Notes Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition or assignment will be made (collectively, the Successor), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the 8.625% Senior Notes Trustee all of the obligations of the Company, the Issuer or the 8.625% Senior Notes Guarantor, as the case may be, under the 8.625% Senior Notes or a 8.625% Senior Notes Guarantee, as the case may be, and the 8.625% Senior Notes Indenture,

(2) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing, and

(3) immediately after giving effect to such transaction, the Company (or its Successor) could incur at least \$1.00 of Indebtedness pursuant to the first paragraph of the Limitation on indebtedness covenant.

The foregoing provisions shall not apply to:

(a) a transaction involving the sale or disposition of Capital Stock of a 8.625% Senior Notes Guarantor, or the consolidation or merger of a 8.625% Senior Notes Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a 8.625% Senior Notes Guarantor, that in any such case results in such 8.625% Senior Notes Guarantor being released from its 8.625% Senior Notes Guarantee as provided under The 8.625% Senior Notes Guarantees above, or

(b) a transaction the purpose of which is to change the state of incorporation of the Company, the Issuer or any 8.625% Senior Notes Guarantor.

**Table of Contents**

*Reports to holders of 8.625% Senior Notes.*

The Company shall file with the Commission the annual reports and the information, documents and other reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. The Company shall file with the 8.625% Senior Notes Trustee and mail to each Holder of record of 8.625% Senior Notes such reports, information and documents within 15 days after it files them with the Commission. In the event that the Company is no longer subject to these periodic requirements of the Exchange Act, it will nonetheless continue to file reports with the Commission and the 8.625% Senior Notes Trustee and mail such reports to each Holder of 8.625% Senior Notes as if it were subject to such reporting requirements. Regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the Exchange Act, the Company will cause its consolidated financial statements and a Management's Discussion and Analysis of Results of Operations and Financial Condition written report, similar to those that would have been required to appear in annual or quarterly reports, to be delivered to Holders of 8.625% Senior Notes.

*Limitation of applicability of certain covenants if 8.625% Senior Notes rated Investment Grade*

Notwithstanding the foregoing, the Issuer's, the Company's and its Restricted Subsidiaries' obligations to comply with the provisions of the 8.625% Senior Notes Indenture described above under the caption Certain covenants (except for the covenants described under Repurchase of 8.625% Senior Notes upon Change of Control, Limitations on liens, Limitations on mergers, consolidations and sales of assets (other than clause (3) of the first paragraph thereof) and Reports to Holders of 8.625% Senior Notes ) will terminate (such terminated covenants, the Extinguished Covenants ) and cease to have any further effect from and after the first date when the 8.625% Senior Notes issued under the 8.625% Senior Notes Indenture are rated Investment Grade; *provided* , that if the 8.625% Senior Notes subsequently cease to be rated Investment Grade, then, from and after the time the 8.625% Senior Notes cease to be rated Investment Grade, the Issuer's, the Company's and its Restricted Subsidiaries' obligation to comply with the Extinguished Covenants shall be reinstated.

In addition, following the achievement of such Investment Grade ratings, (1) the 8.625% Senior Notes Guarantees of the 8.625% Senior Notes Guarantors will be released at the time of the release of the guarantees under all outstanding Applicable Debt subject to the reinstatement of 8.625% Senior Notes Guarantees if released 8.625% Senior Notes Guarantors thereafter guarantee any Applicable Debt or the 8.625% Senior Notes cease to be rated Investment Grade and (2) no Restricted Subsidiary thereafter acquired or created will be required to be a 8.625% Senior Notes Guarantor unless released 8.625% Senior Notes Guarantors thereafter guarantee any Applicable Debt or the 8.625% Senior Notes cease to be rated Investment Grade, in each case as more fully described under the caption The 8.625% Senior Notes Guarantees.

Notwithstanding the foregoing, in the event of any such reinstatement, no action taken or omitted to be taken by the Company or any of its Subsidiaries prior to such reinstatement shall give rise to a Default or Event of Default under the 8.625% Senior Notes Indenture upon reinstatement; *provided* that with respect to Restricted Payments made after any such reinstatement, the amount of Restricted Payments made after May 4, 1999 will be calculated as though the Limitations on restricted payments covenant had been in effect during the entire period after such date.

*Condition for Release of K. Hovnanian.* The 8.625% Senior Notes Indenture provides that the Issuer may be released from its obligations under the 8.625% Senior Notes Indenture and the 8.625% Senior Notes, without the consent of the holders of the 8.625% Senior Notes, if (1) the Company or any successor to the Company has assumed the obligations of the Issuer under the 8.625% Senior Notes Indenture and the 8.625% Senior Notes, (2) the Company delivers an opinion of counsel to the 8.625% Senior Notes Trustee to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the release and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise and (3) the Issuer becomes a 8.625% Senior Notes Guarantor of the 8.625% Senior Notes at such time, until such time, if any, as such 8.625% Senior Notes Guarantee may be released as described above under the captions Limitation of applicability of certain covenants if 8.625% Senior Notes rated Investment Grade and The 8.625% Senior Notes Guarantees.

---

**Table of Contents**

*Events of default.* The following are Events of Default under the 8.625% Senior Notes Indenture:

- (1) the failure by the Company, the Issuer and the 8.625% Senior Notes Guarantors to pay interest on any 8.625% Senior Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days;
- (2) the failure by the Company, the Issuer and the 8.625% Senior Notes Guarantors to pay the principal or premium of any 8.625% Senior Note when the same becomes due and payable at maturity, upon acceleration or otherwise;
- (3) the failure by the Company, the Issuer or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the 8.625% Senior Notes, the 8.625% Senior Notes Guarantees or the 8.625% Senior Notes Indenture and such failure continues for the period and after the notice specified below (except in the case of a default under covenants described under **Certain covenants** **Repurchase of 8.625% Senior Notes upon Change of Control** and **Certain covenants** **Limitations on mergers, consolidations and sales of assets**, which will constitute Events of Default with notice but without passage of time);
- (4) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company, the Issuer or any Restricted Subsidiary that has an outstanding principal amount of \$10 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;
- (5) the failure by the Company, the Issuer or any Restricted Subsidiary to make any principal or interest payment in an amount of \$10 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Restricted Subsidiary within 30 days of such principal or interest becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);
- (6) a final judgment or judgments that exceed \$10 million or more, individually or in the aggregate, for the payment of money having been entered by a court or courts of competent jurisdiction against the Company, the Issuer or any of its Restricted Subsidiaries and such judgment or judgments is not satisfied, stayed, annulled or rescinded within 60 days of being entered;
- (7) the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:
  - (a) commences a voluntary case,
  - (b) consents to the entry of an order for relief against it in an involuntary case,
  - (c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or
  - (d) makes a general assignment for the benefit of creditors;
- (8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:
  - (a) is for relief against the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,
  - (b) appoints a Custodian of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary or a Custodian for all or substantially all of the property of the Company or any Restricted Subsidiary that is a Significant Subsidiary, or
  - (c) orders the liquidation of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary,and the order or decree remains unstayed and in effect for 60 days, or

---

**Table of Contents**

(9) any 8.625% Senior Notes Guarantee of a 8.625% Senior Notes Guarantor which is a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such 8.625% Senior Notes Guarantee and the 8.625% Senior Notes Indenture) or is declared null and void and unenforceable or found to be invalid or any 8.625% Senior Notes Guarantor denies its liability under its 8.625% Senior Notes Guarantee (other than by reason of release of a 8.625% Senior Notes Guarantor from its 8.625% Senior Notes Guarantee in accordance with the terms of the 8.625% Senior Notes Indenture and the 8.625% Senior Notes Guarantee).

A Default as described in subclause (3) above will not be deemed an Event of Default until the 8.625% Senior Notes Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding 8.625% Senior Notes notify the Company and the 8.625% Senior Notes Trustee, of the Default and (except in the case of a default with respect to covenants described under Certain covenants Repurchase of 8.625% Senior Notes upon Change of Control and Certain covenants Limitations on mergers, consolidations and sales of assets ) the Company does not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a Notice of Default. If such a Default is cured within such time period, it ceases.

If an Event of Default (other than an Event of Default with respect to the Company or the Issuer resulting from subclauses (7) or (8) above), shall have occurred and be continuing under the 8.625% Senior Notes Indenture, the 8.625% Senior Notes Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the 8.625% Senior Notes then outstanding by notice to the Company and the 8.625% Senior Notes Trustee, may declare all Notes to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on the 8.625% Senior Notes will be due and payable immediately. If an Event of Default with respect to the Company or the Issuer specified in subclauses (7) or (8) above occurs, such an amount will *ipso facto* become and be immediately due and payable without any declaration, notice or other act on the part of the 8.625% Senior Notes Trustee and the Company or any Holder.

The Holders of a majority in principal amount of the 8.625% Senior Notes then outstanding by written notice to the 8.625% Senior Notes Trustee and the Company may waive any Default or Event of Default (other than any Default or Event of Default in payment of principal or interest) on the 8.625% Senior Notes under the 8.625% Senior Notes Indenture. Holders of a majority in principal amount of the then outstanding 8.625% Senior Notes may rescind an acceleration and its consequence (except an acceleration due to nonpayment of principal or interest on the 8.625% Senior Notes) if the rescission would not conflict with any judgment or decree and if all existing Events of Default (other than the non-payment of accelerated principal) have been cured or waived.

The Holders may not enforce the provisions of the 8.625% Senior Notes Indenture, the 8.625% Senior Notes or the 8.625% Senior Notes Guarantees except as provided in the 8.625% Senior Notes Indenture. Subject to certain limitations, Holders of a majority in principal amount of the 8.625% Senior Notes then outstanding may direct the 8.625% Senior Notes Trustee in its exercise of any trust or power, *provided, however*, that such direction does not conflict with the terms of the 8.625% Senior Notes Indenture. The 8.625% Senior Notes Trustee may withhold from the Holders notice of any continuing Default or Event of Default (except any Default or Event of Default in payment of principal or interest on the 8.625% Senior Notes or that resulted from the failure to comply with the covenant entitled Repurchase of 8.625% Senior Notes upon Change of Control ) if the 8.625% Senior Notes Trustee determines that withholding such notice is in the Holders' interest.

The Company is required to deliver to the 8.625% Senior Notes Trustee an annual statement regarding compliance with the 8.625% Senior Notes Indenture and include in such statement if any officer of the Company is aware of any Default or Event of Default, a statement specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto. In addition, the Company is required to deliver to the 8.625% Senior Notes Trustee prompt written notice of the occurrence of any Default or Event of Default.

*Discharge and defeasance of senior indenture.* The Company, the Issuer and the 8.625% Senior Notes Guarantors may discharge their obligations under the 8.625% Senior Notes, the 8.625% Senior Notes Guarantees



---

**Table of Contents**

and the 8.625% Senior Notes Indenture by irrevocably depositing in trust with the 8.625% Senior Notes Trustee money or U.S. Government Obligations sufficient to pay principal of, premium and interest on the 8.625% Senior Notes to maturity or redemption and the 8.625% Senior Notes mature or are to be called for redemption within one year, subject to meeting certain other conditions.

The 8.625% Senior Notes Indenture will permit the Company, the Issuer and the 8.625% Senior Notes Guarantors to terminate all of their respective obligations under the 8.625% Senior Notes Indenture with respect to the 8.625% Senior Notes and the 8.625% Senior Notes Guarantees, other than the obligation to pay interest on and the principal of the 8.625% Senior Notes and certain other obligations ( legal defeasance ), at any time by

(1) depositing in trust with the 8.625% Senior Notes Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and premium and interest on the 8.625% Senior Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the 8.625% Senior Notes Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise, which opinion of counsel is based upon a change in the applicable federal tax law since the Issue Date.

In addition, the 8.625% Senior Notes Indenture will permit the Company, the Issuer and the 8.625% Senior Notes Guarantors to terminate all of their obligations under the 8.625% Senior Notes Indenture with respect to certain covenants and events of default specified in the 8.625% Senior Notes Indenture, and the 8.625% Senior Notes Guarantors will be released ( covenant defeasance ), at any time by

(1) depositing in trust with the 8.625% Senior Notes Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of, premium and interest on the 8.625% Senior Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the 8.625% Senior Notes Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

Notwithstanding the foregoing, no discharge, legal defeasance or covenant defeasance described above will affect the following obligations to, or rights of, the Holders of the 8.625% Senior Notes:

rights of registration of transfer and exchange of 8.625% Senior Notes;

rights of substitution of mutilated, defaced, destroyed, lost or stolen 8.625% Senior Notes;

rights of Holders of the 8.625% Senior Notes to receive payments of principal thereof, premium, if any, and interest thereon, upon the original due dates therefor, but not upon acceleration;

rights, obligations, duties and immunities of the 8.625% Senior Notes Trustee;

rights of Holders of 8.625% Senior Notes that are beneficiaries with respect to property so deposited with the 8.625% Senior Notes Trustee payable to all or any of them; and

## Edgar Filing: K. Hovnanian at Fresno, LLC - Form 424B5

obligations of the Company, the Issuer or the 8.625% Senior Notes Guarantors to maintain an office or agency in respect of the 8.625% Senior Notes.

The Company, the Issuer or the 8.625% Senior Notes Guarantors may exercise the legal defeasance option with respect to the 8.625% Senior Notes notwithstanding the prior exercise of the covenant defeasance option

---

**Table of Contents**

with respect to the 8.625% Senior Notes. If the Company, the Issuer or the 8.625% Senior Notes Guarantors exercise the legal defeasance option with respect to the 8.625% Senior Notes, payment of the 8.625% Senior Notes may not be accelerated due to an Event of Default with respect to the 8.625% Senior Notes. If the Company, the Issuer or the 8.625% Senior Notes Guarantors exercise the covenant defeasance option with respect to the 8.625% Senior Notes, payment of the 8.625% Senior Notes may not be accelerated due to an Event of Default with respect to the covenants to which such covenant defeasance is applicable. However, if acceleration were to occur by reason of another Event of Default, the realizable value at the acceleration date of the cash and U.S. Government Obligations in the defeasance trust could be less than the principal of, premium, if any, and interest then due on the 8.625% Senior Notes, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

*Transfer and exchange.* A Holder may transfer or exchange 8.625% Senior Notes only in accordance with the provisions of the 8.625% Senior Notes Indenture. The 8.625% Senior Notes Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the 8.625% Senior Notes Indenture.

*Amendment, supplement and waiver.* Subject to certain exceptions, the 8.625% Senior Notes Indenture or the 8.625% Senior Notes may be amended or supplemented with the consent (which may include written consents obtained in connection with a tender offer or exchange offer for 8.625% Senior Notes) of the Holders of at least a majority in principal amount of the 8.625% Senior Notes then outstanding, and future compliance with any provision of the 8.625% Senior Notes Indenture or the 8.625% Senior Notes may be waived (other than any continuing Default or Event of Default in the payment of interest on or the principal of the 8.625% Senior Notes) with the consent (which may include waivers obtained in connection with a tender offer or exchange offer for 8.625% Senior Notes) of the Holders of a majority in principal amount of the 8.625% Senior Notes then outstanding. Without the consent of any Holder, the Company, the Issuer, the 8.625% Senior Notes Guarantors and the 8.625% Senior Notes Trustee may amend or supplement the 8.625% Senior Notes Indenture or the 8.625% Senior Notes to cure any ambiguity, defect or inconsistency; to comply with the Limitations on mergers, consolidations and sales of assets covenant set forth in the 8.625% Senior Notes Indenture; to comply with any requirements of the Commission in connection with the qualification of the 8.625% Senior Notes Indenture under the Trust Indenture Act; to evidence and provide for the acceptance of appointment under the 8.625% Senior Notes Indenture by a successor 8.625% Senior Notes Trustee; to provide for uncertificated 8.625% Senior Notes in addition to or in place of certificated 8.625% Senior Notes; to provide for any 8.625% Senior Notes Guarantee of the 8.625% Senior Notes; to secure the 8.625% Senior Notes or to confirm and evidence the release, termination or discharge of any 8.625% Senior Notes Guarantee of or Lien securing the 8.625% Senior Notes when such release, termination or discharge is permitted by the 8.625% Senior Notes Indenture; to make any change that does not adversely affect the legal rights of any Holder; to evidence the assumption by the Company (or its successor entity) or a successor entity of the Issuer of the obligations of the Issuer under the 8.625% Senior Notes Indenture and the 8.625% Senior Notes; to add covenants or new events of default for the protection of the Holders of the 8.625% Senior Notes; to designate a bank or trust company other than the 8.625% Senior Notes Trustee to act as trustee; or to modify the existing covenants and events of default solely in respect of, or add new covenants and events of default that apply solely to, debt securities not yet issued and outstanding as of the Issue Date.

Without the consent of each Holder affected, the Company, the Issuer, the 8.625% Senior Notes Guarantors and the 8.625% Senior Notes Trustee may not:

- (1) reduce the amount of 8.625% Senior Notes whose Holders must consent to an amendment, supplement or waiver,
- (2) reduce the rate of or extend the time for payment of interest, including default interest, on any 8.625% Senior Note,

---

**Table of Contents**

- (3) reduce the principal of or change the fixed maturity of any 8.625% Senior Note or alter the provisions (including related definitions) with respect to redemptions described under Redemption or with respect to mandatory offers to repurchase Notes described under Certain covenants Limitations on dispositions of assets or Certain covenants Repurchase of 8.625% Senior Notes upon Change of Control,
- (4) make any 8.625% Senior Note payable in money other than that stated in the 8.625% Senior Note,
- (5) make any change in the Waivers of Defaults by Majority of Holders or the Proceedings by Holders sections set forth in the 8.625% Senior Notes Indenture,
- (6) modify the ranking or priority of the 8.625% Senior Notes or any 8.625% Senior Notes Guarantee,
- (7) release any 8.625% Senior Notes Guarantor from any of its obligations under its 8.625% Senior Notes Guarantee or the 8.625% Senior Notes Indenture otherwise than in accordance with the 8.625% Senior Notes Indenture, or
- (8) waive a continuing Default or Event of Default in the payment of principal of or interest on the 8.625% Senior Notes.

The right of any Holder to participate in any consent required or sought pursuant to any provision of the 8.625% Senior Notes Indenture (and the Issuer's obligation to obtain any such consent otherwise required from such Holder) may be subject to the requirement that such Holder shall have been the Holder of record of any 8.625% Senior Notes with respect to which such consent is required or sought as of a date identified by the 8.625% Senior Notes Trustee in a notice furnished to Holders in accordance with the terms of the 8.625% Senior Notes Indenture.

*Governing law.* The 8.625% Senior Notes Indenture, the 8.625% Senior Notes and the 8.625% Senior Notes Guarantees will be governed by the laws of the State of New York.

*Definitions of certain terms used in the 8.625% Senior Notes Indenture.* Set forth below is a summary of certain of the defined terms used in the 8.625% Senior Notes Indenture. Reference is made to the 8.625% Senior Notes Indenture for the full definition of all terms used in the 8.625% Senior Notes Indenture.

*8.625% Senior Notes Guarantees* means the senior guarantee of the 8.625% Senior Notes by the Company and each other 8.625% Senior Notes Guarantor under the 8.625% Senior Notes Indenture.

*8.625% Senior Notes Guarantors* means (i) initially, the Company and each of the Company's Restricted Subsidiaries in existence on the Issue Date, other than the Issuer, and (ii) each of the Company's Subsidiaries which becomes a 8.625% Senior Notes Guarantor subsequent to the Issue Date pursuant to the provisions of the 8.625% Senior Notes Indenture, and their successors, in each case until released from its respective 8.625% Senior Notes Guarantee pursuant to the 8.625% Senior Notes Indenture.

*8.625% Senior Notes* or *Notes* means the 8.625% Senior Notes due 2017.

*8.625% Senior Notes Trustee* means the party named as such above until a successor replaces such party in accordance with the applicable provisions of the 8.625% Senior Notes Indenture and thereafter means the successor serving as trustee under the 8.625% Senior Notes Indenture in respect of the 8.625% Senior Notes.

*Acquired Indebtedness* means (1) with respect to any Person that becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) after the Issue Date, Indebtedness of such Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary (or being merged into the Company, the Issuer

---

**Table of Contents**

or any Restricted Subsidiary) and (2) with respect to the Company, the Issuer or any Restricted Subsidiary, any Indebtedness expressly assumed by the Company, the Issuer or any Restricted Subsidiary in connection with the acquisition of any assets from another Person (other than the Company, the Issuer or any Restricted Subsidiary), which Indebtedness was not incurred by such other Person in connection with or in contemplation of such acquisition. Indebtedness incurred in connection with or in contemplation of any transaction described in clause (1) or (2) of the preceding sentence shall be deemed to have been incurred by the Company or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) in the case of clause (1) or at the time of the acquisition of such assets in the case of clause (2), but shall not be deemed Acquired Indebtedness.

*Affiliate* means, when used with reference to a specified Person, any Person directly or indirectly controlling, or controlled by or under direct or indirect common control with the Person specified.

*Asset Acquisition* means (1) an Investment by the Company, the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary or shall be consolidated or merged with or into the Company, the Issuer or any Restricted Subsidiary or (2) the acquisition by the Company, the Issuer or any Restricted Subsidiary of the assets of any Person, which constitute all or substantially all of the assets of or an operating unit or line of business of such Person or which is otherwise outside the ordinary course of business.

*Asset Disposition* means any sale, transfer, conveyance, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback or sale of shares of Capital Stock in any Subsidiary) (each, a transaction ) by the Company, the Issuer or any Restricted Subsidiary to any Person of any Property having a Fair Market Value in any transaction or series of related transactions of at least \$5 million. The term Asset Disposition shall not include:

- (1) a transaction between the Company, the Issuer and any Restricted Subsidiary or a transaction between Restricted Subsidiaries,
- (2) a transaction in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to governmental authorities, leases and sales and leasebacks of (A) homes, improved land and unimproved land and (B) real estate (including related amenities and improvements),
- (3) a transaction involving the sale of Capital Stock of, or the disposition of assets in, an Unrestricted Subsidiary,
- (4) any exchange or swap of assets of the Company, the Issuer or any Restricted Subsidiary for assets that (x) are to be used by the Company, the Issuer or any Restricted Subsidiary in the ordinary course of its Real Estate Business and (y) have a Fair Market Value not less than the Fair Market Value of the assets exchanged or swapped,
- (5) any sale, transfer, conveyance, lease or other disposition of assets and properties that is governed by the provisions relating to Limitations on mergers, consolidation and sales of assets, or
- (6) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business.

*Attributable Debt* means, with respect to any Capitalized Lease Obligations, the capitalized amount thereof determined in accordance with GAAP.

*Bankruptcy Law* means title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

## **Table of Contents**

*Capital Stock* means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person's capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Disqualified Stock and Preferred Stock.

*Capitalized Lease Obligations* of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

*Cash Equivalents* means

- (1) U.S. dollars;
- (2) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any domestic commercial bank having capital and surplus in excess of \$500 million;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper rated P-1, A-1 or the equivalent thereof by Moody's or S&P, respectively, and in each case maturing within six months after the date of acquisition; and
- (6) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (1) through (5).

*Change of Control* means

- (1) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); *provided, however*, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;
- (2) a person or group (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders)) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;
- (3) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;
- (4) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however*, that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (1) above shall not constitute a Change of Control; or
- (5) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

---

**Table of Contents**

*Common Equity* of any Person means Capital Stock of such Person that is generally entitled to (1) vote in the election of directors of such Person or (2) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

*Consolidated Adjusted Tangible Assets* of the Company as of any date means the Consolidated Tangible Assets of the Company, the Issuer and the Restricted Subsidiaries at the end of the fiscal quarter immediately preceding the date less any assets securing any Non-Recourse Indebtedness, as determined in accordance with GAAP.

*Consolidated Cash Flow Available for Fixed Charges* means, for any period, Consolidated Net Income for such period plus (each to the extent deducted in calculating such Consolidated Net Income and determined in accordance with GAAP) the sum for such period, without duplication, of:

- (1) income taxes,
- (2) Consolidated Interest Expense,
- (3) depreciation and amortization expenses and other non-cash charges to earnings, and
- (4) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

all other non-cash items (other than the receipt of notes receivable) increasing such Consolidated Net Income.

*Consolidated Fixed Charge Coverage Ratio* means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the *Four Quarter Period*) for which financial results have been reported immediately preceding the determination date (the *Transaction Date*), to (y) the aggregate Consolidated Interest Incurred for the *Four Quarter Period*. For purposes of this definition, *Consolidated Cash Flow Available for Fixed Charges* and *Consolidated Interest Incurred* shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

(1) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, *repayment*) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the first day of the *Four Quarter Period* and on or prior to the *Transaction Date*, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the *Four Quarter Period*, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the *Four Quarter Period* (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

(2) any Asset Disposition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Company, the Issuer or any Restricted Subsidiary (including any Person that becomes a Restricted Subsidiary as a result of any such Asset Acquisition) incurring Acquired Indebtedness at any time on or after the first day of the *Four Quarter Period* and on or prior to the *Transaction Date*), as if such Asset Disposition or Asset Acquisition (including the incurrence or repayment of any such Indebtedness) and the inclusion, notwithstanding clause (2) of the definition of *Consolidated Net Income*, of any Consolidated Cash Flow Available for Fixed Charges associated with such Asset Acquisition as if it occurred on the first day of the *Four Quarter Period*; *provided, however*, that the Consolidated Cash Flow Available for Fixed Charges associated with any Asset Acquisition shall not be included to the extent the net income so associated would be excluded pursuant to the definition of *Consolidated Net Income*, other than clause (2) thereof, as if it applied to the Person or assets involved before they were acquired; and

---

**Table of Contents**

(3) the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Interest Incurred attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded.

Furthermore, in calculating Consolidated Cash Flow Available for Fixed Charges for purposes of determining the denominator (but not the numerator) of this Consolidated Fixed Charge Coverage Ratio,

(a) interest on Indebtedness in respect of which a *pro forma* calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and

(b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate *per annum* resulting after giving effect to the operation of such agreements.

*Consolidated Interest Expense* of the Company for any period means the Interest Expense of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

*Consolidated Interest Incurred* for any period means the Interest Incurred of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

*Consolidated Net Income* for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; *provided*, that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

(1) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company's, the Issuer's or such Restricted Subsidiary's (as applicable) *pro rata* share of such Unrestricted Subsidiary's or such other Person's net income earned during such period,

(2) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such redesignation) or (b) the assets of such Person are acquired by the Company or any Restricted Subsidiary,

(3) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,

(4) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (a) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (b) any Asset Disposition by the Company or any Restricted Subsidiary,

(5) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary, and



---

**Table of Contents**

(6) any non-recurring expense recorded by the Company, the Issuer or any Restricted Subsidiary in connection with a merger accounted for as a pooling-of-interests transaction;

*provided, further*, that for purposes of calculating Consolidated Net Income solely as it relates to clause (3) of the first paragraph of the Limitations on restricted payments covenant, clause (4)(b) above shall not be applicable.

*Consolidated Tangible Assets* of the Company as of any date means the total amount of assets of the Company, the Issuer and the Restricted Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less (1) Intangible Assets and (2) appropriate adjustments on account of minority interests of other Persons holding equity investments in Restricted Subsidiaries.

*Continuing Director* means a director who either was a member of the Board of Directors of the Company on the Issue Date or who became a director of the Company subsequent to such date and whose election or nomination for election by the Company's stockholders, was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

*control* when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms *controlling* and *controlled* have meanings correlative to the foregoing.

*Credit Facilities* means, collectively, each of the credit facilities and lines of credit of the Company or one or more Restricted Subsidiaries in existence on the Issue Date and one or more other facilities and lines of credit among or between the Company or one or more Restricted Subsidiaries and one or more lenders pursuant to which the Company or one or more Restricted Subsidiaries may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit.

*Currency Agreement* of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

*Custodian* means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

*Default* means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

*Designation Amount* has the meaning provided in the definition of Unrestricted Subsidiary.

*Disqualified Stock* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (1) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the 8.625% Senior Notes or (2) is convertible into or exchangeable or exercisable for (whether at the option of the issuer or the holder thereof) (a) debt securities or (b) any Capital Stock referred to in (1) above, in each case, at any time prior to the final maturity date of the 8.625% Senior Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof (or the holders of any security into or for

---

**Table of Contents**

which such Capital Stock is convertible, exchangeable or exercisable) the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change in control occurring prior to the final maturity date of the 8.625% Senior Notes shall not constitute Disqualified Stock if the change in control provision applicable to such Capital Stock are no more favorable to such holders than the provisions described under the caption *Certain covenants Repurchase of 8.625% Senior Notes upon Change of Control* and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company's repurchase of the 8.625% Senior Notes as are required pursuant to the provisions described under the caption *Certain covenants Repurchase of 8.625% Senior Notes upon Change of Control*.

*Event of Default* has the meaning set forth in *Events of Default*.

*Fair Market Value* means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm's-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Company or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

*GAAP* means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on May 4, 1999.

*guarantee* means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; *provided* that the term *guarantee* does not include endorsements for collection or deposit in the ordinary course of business. The term *guarantee* used as a verb has a corresponding meaning.

*Holder* or *Holder of 8.625% Senior Notes* means the Person in whose name a 8.625% Senior Note is registered in the books of the Registrar for the 8.625% Senior Notes.

*Indebtedness* of any Person means, without duplication,

(1) any liability of such Person (a) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than standby letters of credit or similar instrument issued for the benefit of, or surety, performance, completion or payment bonds, earnest money notes or similar purpose undertakings or indemnifications issued by, such Person in the ordinary course of business), (b) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with capital expenditures (other than any obligation to pay a contingent purchase price which, as of the date of incurrence thereof, is not required to be recorded as a liability in accordance with GAAP), or (c) in respect of Capitalized Lease Obligations (to the extent of the Attributable Debt in respect thereof),

(2) any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided, however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the

---

**Table of Contents**

Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to the Limitations on restricted payments covenant,

(3) to the extent not otherwise included, the obligations of such Person under Currency Agreements or Interest Protection Agreements to the extent recorded as liabilities not constituting Interest Incurred, net of amounts recorded as assets in respect of such agreements, in accordance with GAAP, and

(4) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided*, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be (a) the outstanding balance at such date of all unconditional obligations as described above, net of any unamortized discount to be accounted for as Interest Expense, in accordance with GAAP, (b) the maximum liability of such Person for any contingent obligations under clause (1) above at such date, net of an unamortized discount to be accounted for as Interest Expense in accordance with GAAP, and (c) in the case of clause (4) above, the lesser of (x) the fair market value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (y) the amount of the Indebtedness secured.

*Intangible Assets* of the Company means all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with GAAP) and all other items which would be treated as intangible on the consolidated balance sheet of the Company, the Issuer and the Restricted Subsidiaries prepared in accordance with GAAP.

*Interest Expense* of any Person for any period means, without duplication, the aggregate amount of (i) interest which, in conformity with GAAP, would be set opposite the caption interest expense or any like caption on an income statement for such Person (including, without limitation, imputed interest included in Capitalized Lease Obligations, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing, the net costs (but reduced by net gains) associated with Currency Agreements and Interest Protection Agreements, amortization of other financing fees and expenses, the interest portion of any deferred payment obligation, amortization of discount or premium, if any, and all other noncash interest expense (other than interest and other charges amortized to cost of sales)), and (ii) all interest actually paid by the Company or a Restricted Subsidiary under any guarantee of Indebtedness (including, without limitation, a guarantee of principal, interest or any combination thereof) of any Person other than the Company, the Issuer or any Restricted Subsidiary during such period; *provided*, that Interest Expense shall exclude any expense associated with the complete write-off of financing fees and expenses in connection with the repayment of any Indebtedness.

*Interest Incurred* of any Person for any period means, without duplication, the aggregate amount of (1) Interest Expense and (2) all capitalized interest and amortized debt issuance costs.

*Interest Protection Agreement* of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Debt permitted to be incurred under the 8.625% Senior Notes Indenture.

*Investment Grade* means, with respect to a debt rating of the 8.625% Senior Notes, a rating of Baa3 or higher by Moody's together with a rating of BBB- or higher by S&P or, in the event S&P or Moody's or both

---

**Table of Contents**

shall cease rating the 8.625% Senior Notes (for reasons outside the control of the Company or the Issuer) and the Company shall select any other Rating Agency, the equivalent of such ratings by such other Rating Agency.

*Investments* of any Person means (i) all investments by such Person in any other Person in the form of loans, advances or capital contributions, (ii) all guarantees of Indebtedness or other obligations of any other Person by such Person, (iii) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Capital Stock or other securities of any other Person and (iv) all other items that would be classified as investments in any other Person (including, without limitation, purchases of assets outside the ordinary course of business) on a balance sheet of such Person prepared in accordance with GAAP.

*Issue Date* means solely for purposes of this Description of 8.625% Senior Notes, June 12, 2006.

*Lien* means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

*Marketable Securities* means (a) equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or The Nasdaq National Market and (b) debt securities that are rated by a nationally recognized rating agency, listed on the New York Stock Exchange or the American Stock Exchange or covered by at least two reputable market makers.

*Moody's* means Moody's Investors Service, Inc. or any successor to its debt rating business.

*Mortgage Subsidiary* means any Subsidiary of the Company substantially all of whose operations consist of the mortgage lending business.

*Net Cash Proceeds* means with respect to an Asset Disposition, cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise (including any cash received upon sale or disposition of such note or receivable), but only as and when received), excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the Property disposed of in such Asset Disposition or received in any other non-cash form unless and until such non-cash consideration is converted into cash therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, and in each case net of a reasonable reserve for the after-tax cost of any indemnification or other payments (fixed and contingent) attributable to the seller's indemnities or other obligations to the purchaser undertaken by the Company, the Issuer or any of its Restricted Subsidiaries in connection with such Asset Disposition, and net of all payments made on any Indebtedness which is secured by or relates to such Property, in accordance with the terms of any Lien or agreement upon or with respect to such Property or which must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all contractually required distributions and payments made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition.

*Non-Recourse Indebtedness* with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 90 days after the acquisition of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (a) environmental warranties and indemnities, or (b) indemnities for and liabilities arising from fraud,

## **Table of Contents**

misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics liens.

*Permitted Hovnanian Holders* means, collectively, Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any *bona fide* trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof, or any entity of which any of the foregoing, individually or collectively, beneficially own more than 50% of the Common Equity.

*Permitted Indebtedness* means

- (1) Indebtedness under Credit Facilities which does not exceed \$1.5 billion principal amount outstanding at any one time;
- (2) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;
- (3) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; *provided, however*, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of the first paragraph of the covenant described under *Limitations on indebtedness* at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;
- (4) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;
- (5) Purchase Money Indebtedness;
- (6) Capitalized Lease Obligations;
- (7) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;
- (8) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed \$10 million aggregate principal amount outstanding at any one time;
- (9) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and
- (10) Indebtedness of the Company or any Restricted Subsidiary which, together with all other Indebtedness under this clause (10), does not exceed \$50 million aggregate principal amount outstanding at any one time.

*Permitted Investment* means

- (1) Cash Equivalents;
- (2) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all

---

**Table of Contents**

or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;

(3) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the 8.625% Senior Notes Indenture;

(4) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the 8.625% Senior Notes Indenture;

(5) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness;

(6) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; *provided, however*, that any such loan or advance exceeding \$1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;

(7) Investments in joint ventures in a Real Estate Business with unaffiliated third parties in an aggregate amount at any time outstanding not to exceed 10% of Consolidated Tangible Assets at such time;

(8) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;

(9) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and

(10) Investments in an aggregate amount outstanding not to exceed \$10 million.

*Permitted Liens* means

(1) Liens for taxes, assessments or governmental or quasi-government charges or claims that (a) are not yet delinquent, (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required, or (c) encumber solely property abandoned or in the process of being abandoned,

(2) statutory Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the extent applicable, either (a) are not yet delinquent or (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

(3) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security,

(4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contracts, utility services, developer's or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (1)(a) of the definition of Indebtedness), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

**Table of Contents**

- (5) attachment or judgment Liens not giving rise to a Default or an Event of Default,
- (6) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (7) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (8) Liens securing Indebtedness incurred pursuant to clause (8) or (9) of the definition of Permitted Indebtedness,
- (9) Liens securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary permitted to be incurred under the 8.625% Senior Notes Indenture; *provided*, that the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (9) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof),
- (10) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; *provided*, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,
- (11) Liens securing Purchase Money Indebtedness; *provided*, that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,
- (12) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries,
- (13) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,
- (14) purchase money security interests (including, without limitation, Capitalized Lease Obligations); *provided*, that such Liens apply only to the Property acquired and the related Indebtedness is incurred within 90 days after the acquisition of such Property,
- (15) any right of first refusal, right of first offer, option, contract or other agreement to sell an asset; *provided* that such sale is not otherwise prohibited under the 8.625% Senior Notes Indenture,
- (16) any right of a lender or lenders to which the Company, the Issuer or a Restricted Subsidiary may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company, the Issuer or a Restricted Subsidiary with or held by such lender or lenders or its Affiliates,
- (17) any pledge or deposit of cash or property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or similar purpose undertakings or indemnifications in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

**Table of Contents**

- (18) Liens for homeowner and property owner association developments and assessments,
- (19) Liens securing Refinancing Indebtedness; *provided*, that such Liens extend only to the assets securing the Indebtedness being refinanced,
- (20) Liens incurred in the ordinary course of business as security for the obligations of the Company, the Issuer and the Restricted Subsidiaries with respect to indemnification in respect of title insurance providers,
- (21) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or becomes a Subsidiary of the Company; *provided*, that such Liens were in existence prior to the contemplation of such merger or consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with the Company or the Subsidiary or acquired by the Company or its Subsidiaries,
- (22) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company, *provided*, that such Liens were in existence prior to the contemplation of such acquisition,
- (23) Liens existing on the Issue Date and any extensions, renewals or replacements thereof, and
- (24) Liens on specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods.

*Person* means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*Preferred Stock* of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

*Property* of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

*Purchase Money Indebtedness* means Indebtedness of the Company, the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company, the Issuer and the Restricted Subsidiaries; *provided, however*, that (1) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred no later than 90 days after the acquisition of such property or completion of such construction or improvement.

*Qualified Stock* means Capital Stock of the Company other than Disqualified Stock.

*Rating Agency* means a statistical rating agency or agencies, as the case may be, nationally recognized in the United States and selected by the Company (as certified by a resolution of the Board of Directors of the Company) which shall be substituted for S&P or Moody's, or both, as the case may be.

*Real Estate Business* means homebuilding, housing construction, real estate development or construction and related real estate activities, including the provision of mortgage financing or title insurance.

*Refinancing Indebtedness* means Indebtedness (to the extent not Permitted Indebtedness) that refunds, refinances or extends any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (to the extent not Permitted Indebtedness) outstanding on the Issue Date or other Indebtedness (to the extent not Permitted



## **Table of Contents**

Indebtedness) permitted to be incurred by the Company, the Issuer or any Restricted Subsidiary pursuant to the terms of the 8.625% Senior Notes Indenture, but only to the extent that:

- (1) the Refinancing Indebtedness is subordinated, if at all, to the 8.625% Senior Notes or the 8.625% Senior Notes Guarantees, as the case may be, to the same extent as the Indebtedness being refunded, refinanced or extended,
- (2) the Refinancing Indebtedness is scheduled to mature either (a) no earlier than the Indebtedness being refunded, refinanced or extended or (b) after the maturity date of the 8.625% Senior Notes,
- (3) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the 8.625% Senior Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Indebtedness being refunded, refinanced or extended that is scheduled to mature on or prior to the maturity date of the Notes, and
- (4) such Refinancing Indebtedness is in an aggregate principal amount that is equal to or less than the aggregate principal amount then outstanding under the Indebtedness being refunded, refinanced or extended.

*Restricted Payment* means any of the following:

- (1) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company, the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than (a) dividends or distributions payable solely in Qualified Stock and (b) in the case of the Issuer or Restricted Subsidiaries, dividends or distributions payable to the Company, the Issuer or a Restricted Subsidiary);
- (2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary); and
- (3) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (2) of the definition of Indebtedness.

*Restricted Subsidiary* means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

*S&P* means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., a New York corporation, or any successor to its debt rating business.

*Significant Subsidiary* means any Subsidiary of the Company which would constitute a significant subsidiary as defined in Rule 1-02(w)(1) or (2) of Regulation S-X under the Securities Act and the Exchange Act as in effect on the Issue Date.

*Subsidiary* of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the Board of Directors or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

*Unrestricted Subsidiary* means any Subsidiary of the Company so designated by a resolution adopted by the Board of Directors of the Company or a duly authorized committee thereof as provided below; *provided* that (a) the holders of Indebtedness thereof do not have direct or indirect recourse against the Company, the Issuer or any Restricted Subsidiary, and neither the Company, the Issuer nor any Restricted Subsidiary otherwise has

---

**Table of Contents**

liability for, any payment obligations in respect of such Indebtedness (including any undertaking, agreement or instrument evidencing such Indebtedness), except, in each case, to the extent that the amount thereof constitutes a Restricted Payment permitted by the 8.625% Senior Notes Indenture, in the case of Non-Recourse Indebtedness, to the extent such recourse or liability is for the matters discussed in the last sentence of the definition of Non-Recourse Indebtedness, or to the extent such Indebtedness is a guarantee by such Subsidiary of Indebtedness of the Company, the Issuer or a Restricted Subsidiary and (b) no holder of any Indebtedness of such Subsidiary shall have a right to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity as a result of a default on any Indebtedness of the Company, the Issuer or any Restricted Subsidiary. As of the date of this prospectus, the Issuer's home mortgage subsidiaries, certain title insurance subsidiaries, joint ventures, subsidiaries holding interests in joint ventures and foreign subsidiary are designated as Unrestricted Subsidiaries under the 8.625% Senior Notes Indenture.

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided, however*, that (1) the net amount (the Designation Amount) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under the Limitations on Restricted Payments covenant set forth in the Indenture, to the extent provided therein, (2) the Company must be permitted under the Limitations on Restricted Payments covenant set forth in the Indenture to make the Restricted Payment deemed to have been made pursuant to clause (1), and (3) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person's merger with the Company or any Restricted Subsidiary (but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that (1) the Indebtedness of such Unrestricted Subsidiary as of the date of such redesignation could then be incurred under the Limitations on Indebtedness covenant and (2) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur \$1.00 of additional Indebtedness under the first paragraph of the Limitations on Indebtedness covenant. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the 8.625% Senior Notes Trustee by the filing with the 8.625% Senior Notes Trustee of a certified copy of the resolution of the Board of Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers' Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers' Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided, however*, that the ownership of the general partnership interest (or a similar member's interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

*Weighted Average Life to Maturity* means, when applied to any Indebtedness or portion thereof at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including, without limitation, payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (ii) the sum of all such payments described in clause (i)(a) above.

---

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

The following description of our common stock and preferred stock, together with the additional information we include in any applicable prospectus supplement, summarizes the material terms and provisions of the common stock and the preferred stock that may be offered from time to time pursuant to this prospectus. While the terms we have summarized below will apply generally to any future common stock or preferred stock that we may offer, we will describe the particular terms of any class or series of these securities in more detail in the applicable prospectus supplement. For the complete terms of our common stock and preferred stock, please refer to Hovnanian's restated certificate of incorporation, the Certificate of Incorporation and restated bylaws, the Restated By-Laws that are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. The terms of these securities may also be affected by the General Corporation Law of the State of Delaware. The summary below and that contained in any prospectus supplement is qualified in its entirety by reference to the Certificate of Incorporation and Restated By-laws.

The authorized capital stock of Hovnanian is 460,100,000 shares consisting of 400,000,000 shares of Class A Common Stock, par value \$.01 per share, the Class A Common Stock, 60,000,000 shares of Class B Common Stock, par value \$.01 per share, the Class B Common Stock, and 100,000 shares of preferred stock, par value \$.01 per share, in the series and with the voting powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as may be fixed from time to time by the Board of Directors of Hovnanian for each series.

**Common Stock**

As of June 27, 2013, 124,544,460 shares of Class A Common Stock and 14,656,867 shares of Class B Common Stock were issued and outstanding. The Class A Common Stock is traded on the New York Stock Exchange under the symbol HOV. There is no established public trading market for the Class B Common Stock. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. Any offering of common stock made hereby will consist only of Class A Common Stock. The outstanding Class A Common Stock is, and any Class A Common Stock offered pursuant to this prospectus and any prospectus supplement when issued and paid for will be, fully paid and non-assessable.

*Dividends.* Dividends on the Class A Common Stock will be paid if, when and as determined by the Board of Directors of Hovnanian out of funds legally available for this purpose. Certain debt instruments to which Hovnanian is a party contain restrictions on the payment of cash dividends. As a result of the most restrictive of these provisions, Hovnanian is not currently able to pay any cash dividends and anticipates that it will be prohibited from doing so for the foreseeable future. Hovnanian has never paid cash dividends on its Class A Common Stock nor does it currently intend to pay cash dividends on its Class A Common Stock. If and when declared, the amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110% of the corresponding regular cash dividend payable on a share of Class B Common Stock.

*Voting Rights.* Holders of Class A Common Stock are entitled to one vote for each share held by them on all matters presented to shareholders. Holders of Class B Common Stock are generally entitled to ten votes per share.

*Liquidation Rights.* After satisfaction of the preferential liquidation rights of any preferred stock, the holders of the Class A Common Stock and Class B Common Stock are entitled to share ratably as a single class in the distribution of all remaining net assets.

*Preemptive and Other Rights.* The holders of Class A Common Stock do not have preemptive rights as to additional issues of common stock or conversion rights. The shares of Class A Common Stock are not subject to redemption or to any further calls or assessments and are not entitled to the benefit of any sinking fund provisions. The rights, preferences and privileges of holders of Class A Common Stock are subject to, and may be adversely affected by, the rights of the holder of shares of any series of preferred stock that Hovnanian may designate and issue in the future.

---

## **Table of Contents**

### **Preferred Stock**

The Certificate of Incorporation authorizes the Board of Directors of Hovnanian to issue from time to time up to 100,000 shares of preferred stock, in one or more series, and with the voting powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as may be fixed from time to time by the Board of Directors of Hovnanian for each series. The preferred stock may be used by the Board of Directors of Hovnanian without further action by Hovnanian's stockholders as an anti-takeover device. As of June 27, 2013, 5,600 shares of Hovnanian's preferred stock were issued and outstanding, consisting of entirely of Hovnanian's 7.625% Series A Preferred Stock (liquidation preference \$25,000.00 per share) par value \$.01 per share, the Series A Preferred Stock.

The applicable prospectus supplement will describe the terms of any preferred stock that may be offered, including the number of shares, dividend rate and dividend period, liquidation value, voting rights, conversion rights (if any), dividend and liquidation preferences, redemption terms, whether depositary shares representing fractional interests will be offered, and any other rights, privileges and limitations thereof.

### **7.625% Series A Preferred Stock**

Dividends on the Series A Preferred Stock are not cumulative. The Series A Preferred Stock ranks senior to Hovnanian's common stock with respect to the payment of dividends to the extent provided in the Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock (the Certificate). The Certificate provides that unless dividends have been declared and paid or set apart for payment on the Series A Preferred Stock for the then-currently quarterly dividend period, no dividend may be declared or paid or set apart for payment on Hovnanian's common stock for that period, other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Hovnanian or any other stock of Hovnanian ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Hovnanian, junior to the Series A Preferred Stock.

The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock, and is listed on the NASDAQ Global Market under the symbol HOVNP.

The Series A Preferred Stock has no voting rights except as provided for in the Certificate or as otherwise required by law. However, so long as any shares of Series A Preferred Stock are outstanding, Hovnanian will not, without the vote of the holders of at least a majority of the shares of the Series A Preferred Stock, (1) authorize, create or issue any capital stock of Hovnanian ranking, as to dividends or upon liquidation, dissolution or winding up, senior to the Series A Preferred Stock, or reclassify any authorized capital stock of Hovnanian into any such shares of such capital stock, or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (2) amend, alter or repeal the Certificate, or the certificate of incorporation of Hovnanian, whether by merger, consolidation or otherwise, in a way that adversely affects the powers, preferences or special rights of the Series A Preferred Stock. Any increase in the amount of authorized common stock or preferred stock or any increase or decrease in the number of shares of any series of preferred stock or the authorization, creation and issuance of other classes or series of stock, in each case ranking equally with or junior to the Series A Preferred Stock will not be deemed to adversely affect such powers, preferences or special rights.

The Series A Preferred Stock has liquidation preferences over Hovnanian's common stock. Upon any liquidation, dissolution or winding up of Hovnanian, the holders of the Series A Preferred Stock will be entitled to receive out of the assets of Hovnanian available for distribution to its stockholders, an amount equal to the liquidation preference of \$25,000.00 per share plus all accrued and unpaid dividends before any payment or distribution out of Hovnanian's assets may be made to or set apart for the holders of Hovnanian's common stock or other junior equity. If, upon any liquidation, dissolution or winding up of Hovnanian, the assets of Hovnanian, or proceeds thereof, distributable among the holders of shares Series A Preferred Stock and any stock ranking equally with the Series A Preferred Stock shall be insufficient to pay in full the preferential amounts to which

---

## **Table of Contents**

such stock would be entitled, then such assets, or the proceeds thereof, shall be distributable among such holders ratably in accordance with the respective amounts which would be payable on such shares if all amounts payable thereon were paid in full. Neither a consolidation nor merger of Hovnanian, nor a sale, lease, exchange or transfer of all or substantially all of Hovnanian's assets will be deemed to be a liquidation, dissolution or winding up of Hovnanian.

### **Rights Plan**

On July 29, 2008, the Board of Directors of Hovnanian adopted a shareholder rights plan, the Rights Plan, and declared a dividend of one preferred share purchase right for each outstanding share of Class A Common Stock and Class B Common Stock, which was subsequently paid to stockholders of record as of August 15, 2008. Subject to the terms, provisions and conditions of the rights plan, if and when they become exercisable, each right would entitle its holder to purchase from Hovnanian one ten-thousandth of a share of Hovnanian's Series B Junior Preferred Stock for a purchase price of \$35.00 per share, the Purchase Price. If issued, each fractional share of Preferred Stock would give the stockholder approximately the same dividend, voting and liquidation rights as does one share of Hovnanian's Class A Common Stock. However, prior to exercise, a right does not give its holder any rights as a stockholder of Hovnanian, including without limitation any dividend, voting or liquidation rights.

The Board of Directors of Hovnanian adopted the Rights Plan in an effort to protect stockholder value by attempting to protect against a possible limitation on Hovnanian's ability to use its net operating loss carryforwards, NOLs, to reduce potential future federal income tax obligations. Hovnanian has experienced and continues to experience substantial operating losses, and under the Internal Revenue Code and rules promulgated by the Internal Revenue Service, Hovnanian may carry forward these losses in certain circumstances to offset any current and future earnings and thus reduce its federal income tax liability, subject to certain requirements and restrictions. To the extent that the NOLs do not otherwise become limited, Hovnanian believes that it will be able to carry forward a significant amount of NOLs, and therefore these NOLs could be a substantial asset to Hovnanian. However, if Hovnanian experiences an Ownership Change, as defined in Section 382 of the Internal Revenue Code, Hovnanian's ability to use the NOLs will be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could therefore significantly impair the value of that asset. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Class A Common Stock, an Acquiring Person, without the approval of Hovnanian's Board.

*Exercisability.* The rights will not be exercisable until the earlier of (i) 10 business days after a public announcement by us that a person or group has become an Acquiring Person and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group for 4.9% of the Class A Common Stock.

Until the date that the rights become exercisable, the Distribution Date, the rights are evidenced by Hovnanian's Class A Common Stock and Class B Common Stock certificates which contain a notation to that effect. Any transfer of shares of Class A Common Stock and/or Class B Common Stock prior to the Distribution Date constitutes a transfer of the associated rights. After the Distribution Date, the rights may be transferred separately from the transfer of the underlying shares of Class A Common Stock or Class B Common Stock. After the Distribution Date, each holder of a right, other than rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and payment of the Purchase Price, that number of shares of Class A Common Stock or Class B Common Stock, as the case may be, having a market value of two times the Purchase Price.

*Exchange.* After the Distribution Date, the Board of Directors may exchange the rights (other than rights owned by an Acquiring Person which will have become void), in whole or in part, at an exchange ratio of one share of Common Stock, or a fractional share of Series B Preferred Stock (or of a share of a similar class or series of Hovnanian's preferred stock having similar rights, preferences and privileges) of equivalent value, per right (subject to adjustment).

---

## **Table of Contents**

*Expiration.* The rights and the Rights Plan will expire on the earliest of (i) August 14, 2018, (ii) the time at which the rights are redeemed pursuant to the Rights Agreement, (iii) the time at which the rights are exchanged pursuant to the Rights Agreement, (iv) the repeal of Section 382 of the Internal Revenue Code or any successor statute if the Board of Directors determines that the Rights Agreement is no longer necessary for the preservation of tax benefits, and (v) the beginning of a taxable year of Hovnanian to which the Board of Directors determines that no tax benefits may be carried forward.

*Redemption.* At any time prior to the time an Acquiring Person becomes such, the Board of Directors may redeem the rights in whole, but not in part, at a price of \$0.01 per right, the Redemption Price. The redemption of the rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the Redemption Price.

*Anti-Dilution Provisions.* The Board of Directors may adjust the purchase price of the preferred shares, the number of preferred shares issuable and the number of outstanding rights to prevent dilution that may occur as a result of certain events, including among others, a stock dividend, a stock split or a reclassification of the preferred shares or Hovnanian's Class A Common Stock or Class B Common Stock. No adjustments to the purchase price of less than 1% will be made.

*Amendments.* Before the Distribution Date, the Board of Directors may amend or supplement the Rights Plan without the consent of the holders of the rights. After the Distribution Date, the Board of Directors may amend or supplement the rights Plan only to cure an ambiguity, to alter time period provisions, to correct inconsistent provisions, or to make any additional changes to the Rights Plan, but only to the extent that those changes do not impair or adversely affect any rights holder.

### **Transfer Restrictions in the Certificate of Incorporation**

At a special meeting of stockholders held on December 5, 2008, Hovnanian's stockholders approved an amendment to its Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of Hovnanian's NOLs under Section 382 of the Internal Revenue Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in the amended Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of Hovnanian's stock that result from the transfer of interests in other entities that own Hovnanian's stock) if the effect would be to: (i) increase the direct or indirect ownership of Hovnanian's stock by any person (or public group) from less than 5% to 5% or more of Hovnanian's common stock; (ii) increase the percentage of Hovnanian's common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of Hovnanian's common stock; or (iii) create a new public group (as defined in the applicable Treasury regulations). Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

*Consequences of Prohibited Transfers.* In accordance with Hovnanian's amended Certificate of Incorporation, any direct or indirect transfer attempted in violation of the restrictions would be void as of the date of the purported transfer as to the purported transferee (or, in the case of an indirect transfer, the ownership of the direct owner of Class A Common Stock would terminate simultaneously with the transfer), and the purported transferee (or in the case of any indirect transfer, the direct owner) would not be recognized as the owner of the shares owned in violation of the restrictions for any purpose, including for purposes of voting and receiving dividends or other distributions in respect of such Class A Common Stock, or in the case of options, receiving Class A Common Stock in respect of their exercise. In this prospectus, Class A Common Stock purportedly acquired in violation of the transfer restrictions is referred to as excess stock.

## **Table of Contents**

In addition to the purported transfer being void as of the date of the purported transfer, upon demand, the purported transferee must transfer the excess stock to Hovnanian's agent along with any dividends or other distributions paid with respect to such excess stock. Hovnanian's agent is required to sell such excess stock in an arms-length transaction (or series of transactions) that would not constitute a violation under the transfer restrictions. The net proceeds of the sale, together with any other distributions with respect to such excess stock received by Hovnanian's agent, after deduction of all costs incurred by the agent, will be distributed first to the purported transferee in an amount, if any, up to the cost (or in the case of gift, inheritance or similar transfer, the fair market value of the excess stock on the date of the violative transfer) incurred by the purported transferee to acquire such excess stock, and the balance of the proceeds, if any, will be distributed to a charitable beneficiary. If the excess stock is sold by the purported transferee, such person will be treated as having sold the excess stock on behalf of the agent, and will be required to remit all proceeds to Hovnanian's agent (except to the extent Hovnanian grants written permission to the purported transferee to retain an amount not to exceed the amount such person otherwise would have been entitled to retain had Hovnanian's agent sold such shares).

To the extent permitted by law, any stockholder who knowingly violates the transfer restrictions will be liable for any and all damages suffered by Hovnanian as a result of such violation, including damages resulting from a reduction in or elimination of the ability to utilize the NOLs and any professional fees incurred in connection with addressing such violation.

With respect to any transfer of Class A Common Stock which does not involve a transfer of securities of Hovnanian within the meaning of the General Corporation Law of the State of Delaware but which would cause any 5% stockholder to violate the transfer restrictions, the following procedure will apply in lieu of those described above. In such case, no such 5% stockholder shall be required to dispose of any interest that is not a security of Hovnanian, but such 5% stockholder and/or any person whose ownership of securities of Hovnanian is attributed to such 5% stockholder will be deemed to have disposed of (and will be required to dispose of) sufficient securities, simultaneously with the transfer, to cause such 5% stockholder not to be in violation of the transfer restrictions, and such securities will be treated as excess stock to be disposed of through the agent under the provisions summarized above, with the maximum amount payable to such 5% stockholder or such other person that was the direct holder of such excess stock from the proceeds of sale by the agent being the fair market value of such excess stock at the time of the prohibited transfer.

## **Exceptions**

The Board of Directors will have the discretion to approve transfers that would otherwise be restricted by the amended Certificate of Incorporation and may exempt any person or group from triggering the dilutive effect of the Rights Plan.

## **DESCRIPTION OF DEPOSITARY SHARES**

The following description of depositary shares representing shares of our preferred stock sets forth certain general terms and provisions of depositary agreements, depositary shares and depositary receipts. The particular terms of the depositary shares and related agreements and receipts will be described in the prospectus supplement relating to those depositary shares. The description set forth below and in any prospectus supplement is not complete, and is subject to, and qualified in its entirety by reference to, the applicable depositary agreement, a form of which has been incorporated by reference as an exhibit to the Registration Statement of which this prospectus forms a part, and the depositary receipts, which will be filed as exhibits to the Registration Statement or filed as exhibits to one or more current reports on Form 8-K and incorporated by reference herein. The specific terms of the depositary shares as described in the applicable prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this prospectus.

## **Table of Contents**

### **General**

Hovnanian may, at its option, elect to offer fractional shares of preferred stock, rather than full shares of preferred stock. In such event, Hovnanian will issue receipts for depositary shares, each of which will represent a fraction of a share of a particular series of preferred stock.

The shares of any series of preferred stock represented by depositary shares will be deposited under a deposit agreement between Hovnanian and a bank or trust company selected by Hovnanian having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000, as preferred stock depositary. Each owner of a depositary share will be entitled to all the rights and preferences of the underlying preferred stock, including dividend, voting, redemption, conversion and liquidation rights, in proportion to the applicable fraction of a share of preferred stock represented by such depositary share.

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to the registered holder purchasing the fractional shares of preferred stock in accordance with the terms of the applicable prospectus supplement.

Shares of preferred stock represented by depositary shares may be withdrawn from the depositary arrangement upon surrender of depositary receipts at the principal office of the preferred stock depositary and upon payment of the taxes, charges and fees provided for in the deposit agreement. Subject to the terms of the deposit agreement, the holder of depositary receipts will receive the appropriate number of shares of preferred stock and any money or property represented by such depositary shares. Only whole shares of preferred stock may be withdrawn; if a holder holds an amount of depositary shares in excess of whole shares of preferred stock, the preferred stock depositary will deliver along with the withdrawn shares of preferred stock a new depositary receipt evidencing the excess number of depositary shares. Except as described in the deposit agreement, holders of withdrawn shares of preferred stock will not be entitled to redeposit such shares or to receive depositary shares.

### **Dividends and Other Distributions**

The preferred stock depositary will distribute all cash dividends or other cash distributions received in respect of the deposited preferred stock to the record holders of depositary shares relating to such preferred stock in proportion to the number of such depositary shares owned by such holders.

The preferred stock depositary will distribute any property received by it other than cash to the record holders of depositary shares entitled thereto. If the preferred stock depositary determines that it is not feasible to make such distribution, it may, with Hovnanian's approval, sell such property and distribute the net proceeds from such sale to such holders.

If Hovnanian offers to the holders of a series of preferred stock represented by the depositary shares any rights, preferences or privileges to subscribe for or to purchase any securities or of any other nature, the preferred stock depositary will make such rights, preferences or privileges available to the record holders of depositary shares either by the issue of warrants representing such rights, preferences or privileges or by such other method as approved by the preferred stock depositary and Hovnanian. If the preferred stock depositary determines that this is not lawful or feasible or if it is instructed by a holder that such holder does not want to exercise such rights, preferences or privileges, it may, with Hovnanian's approval, sell such rights, preferences or privileges and distribute the net proceeds from such sale to the holders of depositary shares entitled thereto.

### **Redemption of Preferred Stock**

If a series of preferred stock represented by depositary shares is to be redeemed, the depositary shares will be redeemed from the proceeds received by the preferred stock depositary resulting from the redemption, in whole or in part, of such series of preferred stock. The depositary shares will be redeemed by the preferred stock



## **Table of Contents**

depository at a price per depository share equal to the applicable fraction of the redemption price per share payable in respect of the shares of preferred stock so redeemed.

Whenever Hovnanian redeems shares of preferred stock held by the preferred stock depository, the preferred stock depository will redeem as of the same date the number of depository shares representing shares of preferred stock so redeemed. If fewer than all the depository shares are to be redeemed, the depository shares to be redeemed will be selected by the preferred stock depository by lot or ratably or by such other equitable method as the preferred stock depository may decide.

### **Voting Deposited Preferred Stock**

Upon receipt of notice of any meeting at which the holders of any series of deposited preferred stock are entitled to vote, the preferred stock depository will mail the information contained in such notice of meeting to the record holders of the depository shares relating to such series of preferred stock. Each record holder of such depository shares on the record date will be entitled to instruct the preferred stock depository to vote the amount of the preferred stock represented by such holder's depository shares. The preferred stock depository will endeavor, as practicable, to vote the amount of such series of preferred stock represented by such depository shares in accordance with such instructions.

Hovnanian will agree to take all actions that the preferred stock depository may deem necessary to enable the preferred stock depository to vote as instructed. The preferred stock depository will abstain from voting shares of any series of preferred stock held by it for which it does not receive specific instructions from the holders of depository shares representing such shares.

### **Changes Affecting Preferred Stock**

Upon any change in par or stated value, split-up, combination or any other reclassification of the series of preferred stock represented by the depository shares, or upon any recapitalization, reorganization, merger, amalgamation or consolidation affecting Hovnanian or to which it is a party, the preferred stock depository may in its discretion, with the approval and instructions of Hovnanian, and in such manner as the preferred stock depository may deem equitable, treat any securities which shall be received by the preferred stock depository in exchange for or upon conversion of or in respect of such preferred stock as new deposited securities received in exchange for or upon conversion or in respect of such preferred stock and make such adjustments in:

the fraction of an interest represented by one depository share in one share of such preferred stock; and

the ratio of the redemption price per depository share to the redemption price of a share of such preferred stock, in each case as may be necessary to fully reflect the effects of such change.

With the approval of Hovnanian, the preferred stock depository may execute and deliver additional depository receipts, or may call for the surrender of all outstanding depository receipts to be exchanged for new depository receipts specifically describing such new deposited securities.

### **Amendment and Termination of the Deposit Agreement**

The form of depository receipt evidencing the depository shares and any provision of the deposit agreement may at any time be amended by agreement between Hovnanian and the preferred stock depository. However, any amendment that materially and adversely alters any existing right of the holders of depository shares will not be effective unless such amendment has been approved by the holders of at least a majority of the depository shares then outstanding. Every holder of an outstanding depository receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such depository receipt, to consent and agree to such amendment

## **Table of Contents**

and to be bound by the deposit agreement, which has been amended thereby. The deposit agreement may be terminated only if

all outstanding depositary shares have been redeemed; or

a final distribution in respect of the preferred stock has been made to the holders of depositary shares in connection with any liquidation, dissolution or winding up of Hovnanian.

### **Charges of Preferred Stock Depositary; Taxes and Other Governmental Charges**

Hovnanian will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. Hovnanian also will pay charges of the depositary in connection with the deposit of preferred stock and any redemption of preferred stock. The amount paid as dividends or otherwise distributable by the preferred stock depositary with respect to the depositary shares or the underlying preferred stock will be reduced by any amounts required to be withheld by Hovnanian or the preferred stock depositary on account of taxes or other governmental charges. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and such other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the deposit agreement to be for their accounts. The preferred stock depositary may refuse to make any payment or distribution, or any transfer, exchange or withdrawal of any depositary shares or shares of preferred stock, until such taxes or other governmental charges are paid.

### **Transfer, Surrender and Exchange**

Depositary receipts may be transferred, surrendered or exchanged in accordance with the deposit agreement. The preferred stock depositary, its agents or Hovnanian may require a holder, among other things, to furnish appropriate endorsements and transfer documents. The preferred stock depositary is not required to accept deposits of preferred stock or to register transfers, surrenders or exchanges of depositary shares during any period when the register of stockholders of Hovnanian is closed or in order to comply with any requirement of law, government or governmental body, commission or the deposit agreement.

### **Resignation and Removal of Depositary**

The preferred stock depositary may resign at any time by delivering to Hovnanian notice of its intent to do so, and Hovnanian may at any time remove the preferred stock depositary, any such resignation or removal to take effect upon the appointment of a successor preferred stock depositary and its acceptance of such appointment. Such successor preferred stock depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

### **Miscellaneous**

The preferred stock depositary will forward all reports and communications from Hovnanian which are delivered to the preferred stock depositary and which Hovnanian is required to furnish to the holders of the deposited preferred stock.

Neither the preferred stock depositary nor Hovnanian will be liable if it or Hovnanian are prevented or delayed by law or any circumstances beyond its or Hovnanian's control in performing its or Hovnanian's obligations under the deposit agreement. Hovnanian's obligations and the obligations of the preferred stock depositary under the deposit agreement will be limited to performance in good faith of Hovnanian's and their duties thereunder, and neither Hovnanian nor they will be obligated to prosecute or defend any legal proceeding in respect of any depositary shares, depositary receipts or shares of preferred stock unless satisfactory indemnity is furnished. Hovnanian and the preferred stock depositary may rely upon written advice of counsel or accountants, or upon information provided by holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

---

**Table of Contents**

**Concerning the Preferred Stock Depositary**

Information concerning the preferred stock depositary for a series of preferred stock represented by depositary shares will be set forth in the prospectus supplement relating to that series of preferred stock. Hovnanian and certain of its subsidiaries may maintain bank accounts, borrow money and have other commercial banking, investment banking and other business relationships with the preferred stock depositary and its affiliates in the ordinary course of business. The preferred stock depositary or its affiliates may participate as underwriters, agents or dealers in any offering of depositary shares.

**DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS**

The following description of stock purchase contracts and stock purchase units sets forth certain general terms of the stock purchase contracts and/or stock purchase units that Hovnanian may issue. The particular terms of any stock purchase contracts or stock purchase units will be described in the prospectus supplement relating to the stock purchase contracts or stock purchase units. The description set forth below and in any prospectus supplement is not complete, and is subject to, and qualified in its entirety by reference to, the stock purchase contracts, any collateral arrangements and any depositary arrangements relating to such stock purchase contracts or stock purchase units and, if applicable, the prepaid securities and the document pursuant to which the prepaid securities will be issued which will be filed with the Commission promptly after the offering of such stock purchase contracts or stock purchase units and, if applicable, prepaid securities.

Hovnanian may issue stock purchase contracts representing contracts obligating holders to purchase from Hovnanian and Hovnanian to sell to the holders shares of Class A Common Stock, shares of preferred stock or depositary shares at a future date or dates. The price per share of Class A Common Stock, preferred stock or depositary shares may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts.

The stock purchase contracts may be issued separately or as a part of units, often known as stock purchase units, consisting of two separate securities, the first a stock purchase contract and the second either:

debt securities issued by either Hovnanian or K. Hovnanian (which will be fully and unconditionally guaranteed by Hovnanian), or

debt obligations of third parties, including U.S. Treasury securities, which may or may not secure the holder's obligations to purchase the Class A Common Stock, preferred stock or depositary shares under the stock purchase contracts. If the stock purchase unit consists of a stock purchase contract and debt securities issued by K. Hovnanian, K. Hovnanian will only have obligations with respect to such debt securities and not with respect to the stock purchase contract issued by Hovnanian. The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations in a specified manner and in certain circumstances we may deliver newly issued prepaid stock purchase contracts, often known as prepaid securities, upon release to a holder of any collateral securing each holder's obligations under the original stock purchase contract.

**DESCRIPTION OF UNITS**

As specified in the applicable prospectus supplement, Hovnanian may issue units consisting of the combination of securities that are separately issuable hereunder and K. Hovnanian may issue units consisting of the combination of securities that are separately issuable by it hereunder. Hovnanian and K. Hovnanian may also co-issue units consisting of securities of both entities that are separately issuable by Hovnanian or K. Hovnanian

**Table of Contents**

hereunder. If Hovnanian and K. Hovnanian co-issue such a unit, K. Hovnanian will only have obligations with respect to the constituent part(s) of such unit that it may issue hereunder. The applicable prospectus supplement will describe:

the terms of the units and of the securities comprising the units, including whether and under what circumstances such securities may be traded separately;

the terms of any unit agreement governing the units; and

the provisions for the payment, settlement, transfer or exchange of the units or the securities comprising the units.

**DESCRIPTION OF WARRANTS**

The following description of the terms of the warrants sets forth certain general terms that may apply to the warrants that Hovnanian may offer. The particular terms of any warrants will be described in the applicable prospectus supplement accompanying this prospectus. The description set forth below and in any prospectus supplement is not complete, and is subject to, and qualified in its entirety by reference to, the applicable warrant agreement, a form of which has been incorporated by reference as an exhibit to the Registration Statement of which this prospectus forms a part. The specific terms of warrants as described in the applicable prospectus supplement will supplement and, if applicable, may modify or replace the general terms described in this prospectus.

Hovnanian may issue warrants, including warrants to purchase Class A Common Stock, preferred stock or Depositary Shares and warrants to purchase Hovnanian Debt Securities. Warrants may be issued independently of or together with any other securities and may be attached to or separate from such securities. Obligations of Hovnanian under the warrants to purchase Class A Common Stock may be guaranteed by the subsidiary guarantors. Each series of warrants will be issued under a separate warrant agreement, each a warrant agreement to be entered into among Hovnanian and any subsidiary guarantors and a warrant agent, the warrant agent. The warrant agent will act solely as an agent of Hovnanian in connection with the warrants of that series and will not assume any obligation or relationship of agency or trust for or with holders or beneficial owners of warrants. The following describes some general terms and provisions of the warrants offered hereby. Further terms of the warrants and the applicable warrant agreement will be described in the applicable prospectus supplement.

The applicable prospectus supplement will describe the following terms, where applicable, of the warrants in respect of which this prospectus is being delivered:

the title of the warrants;

the aggregate number of the warrants;

the price or prices at which the warrants will be issued;

the designation, aggregate principal amount and terms of the securities purchasable upon exercise of the warrants;

the designation and terms of the securities with which the warrants are issued and the number of the warrants issued with each such security;

if applicable, the date on and after which the warrants and the related securities will be separately transferable;

the price at which the securities purchasable upon exercise of the warrants may be purchased, and any provisions for changes to or adjustments in such exercise price;

the date on which the right to exercise the warrants will commence and the date on which the right will expire;

**Table of Contents**

the minimum or maximum amount of the warrants that may be exercised at any one time;

information with respect to book-entry procedures, if any;

a discussion of certain United States Federal income tax considerations; and

any other terms of the warrants, including terms, procedures and limitations relating to the exercise of the warrants.

**PLAN OF DISTRIBUTION**

Hovnanian, K. Hovnanian and the selling shareholders may sell the securities to or through underwriters or dealers, and also may sell the offered securities directly to one or more other purchasers or through agents. The applicable prospectus supplement will list the names of any underwriters or agents involved in the sale of the offered securities and any applicable commissions or discounts, and will also describe the method of distribution of the securities offered thereby, the purchase price and the proceeds to be received from the sale, and any securities exchanges on which the securities of such series may be listed.

Hovnanian, K. Hovnanian, the selling shareholders or any of their agents may directly solicit offers to purchase these securities. The applicable prospectus supplement will name any agent, who may be deemed to be an underwriter as that term is defined in the Securities Act, involved in the offer or sale of the securities in respect of which this prospectus is delivered, and will set forth any commissions payable to that agent by Hovnanian, K. Hovnanian, or the selling shareholders, as the case may be. Unless otherwise indicated in the prospectus supplement, any such agent will be acting in a best efforts basis for the period of its appointment (ordinarily five business days or less). Agents, dealers and underwriters may be customers of, engage in transactions with, or perform services for Hovnanian, or K. Hovnanian or the selling shareholders in the ordinary course of business.

If Hovnanian, K. Hovnanian or the selling shareholders utilize an underwriter or underwriters in the sale, they will execute an underwriting agreement with such underwriters at the time of sale to them and will set forth in the applicable prospectus supplement the names of the underwriters and the terms of the transaction. The underwriters will use the prospectus supplement to make releases of the securities in respect of which this prospectus is delivered to the public.

If Hovnanian, K. Hovnanian or the selling shareholders utilize a dealer in the sale of the securities in respect of which this prospectus is delivered, Hovnanian, K. Hovnanian or the selling shareholders, as the case may be, will sell the securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale. The prospectus supplement will set forth the name of the dealer and the terms of the transaction.

Underwriters, dealers or agents may offer and sell the offered securities at a fixed price or prices, which may be changed, or from time to time at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices. In connection with the sale of the securities, underwriters or agents may be deemed to have received compensation from Hovnanian, K. Hovnanian or the selling shareholders in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent. Underwriters or agents may sell the securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent.

The preferred stock, depositary shares, debt securities, stock purchase contracts, stock purchase units, units and warrants, when first issued or sold, will have no established trading market. Any underwriters or agents to or through whom offered securities are sold by Hovnanian, K. Hovnanian or the selling shareholders for public offering and sale may make a market in such offered securities, but the underwriters or agents will not be

## **Table of Contents**

obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for any offered securities. The applicable prospectus supplement will set forth whether or not underwriters or agents may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of debt securities offered thereby at levels above those that might otherwise prevail in the open market, including, for example, by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids.

Any underwriters, dealers or agents participating in the distribution of the offered securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the offered securities may be deemed to be underwriting discounts and commissions under the Securities Act. Underwriters, dealers or agents may be entitled, under agreements entered into with Hovnanian, K. Hovnanian or the selling shareholders, to indemnification against or contribution toward certain civil liabilities, including liabilities under the Securities Act.

If so indicated in the prospectus supplement, Hovnanian, K. Hovnanian or the selling shareholders will authorize underwriters or other persons acting as its or their agents to solicit offers by certain institutions to purchase securities from it or them pursuant to contracts providing for payment and delivery on a future date. Institutions with which contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases will be subject to the condition that the purchase of the securities will not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and agents will not have any responsibility in respect of the validity or performance of such contracts.

The applicable prospectus supplement will set forth the place and time of delivery for the securities in respect of which this prospectus is delivered.

## **LEGAL MATTERS**

Certain legal matters with respect to the validity of the offered securities will be passed upon for Hovnanian, K. Hovnanian and the subsidiary guarantors by Simpson Thacher & Bartlett LLP, New York, New York, and will also be passed upon for Hovnanian, K. Hovnanian and the subsidiary guarantors by Michael Discafani, Esq., Vice President and Corporate Counsel for Hovnanian and K. Hovnanian. Michael Discafani, Esq., beneficially owns, directly and indirectly, less than 1% of the common stock of Hovnanian. Certain legal matters in connection with the offered securities may also be passed upon for any agents or underwriters by counsel specified in the applicable prospectus supplement.

## **EXPERTS**

The consolidated financial statements incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K and the effectiveness of the Company's internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports which are incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

**Table of Contents**