

K HOVNANIAN ENTERPRISES INC

Form 424B5

February 07, 2011

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**Filed Pursuant to Rule 424(b)(5)
Registration No. 333-171349**

**3,000,000 7.25% Tangible Equity Units
Hovnianian Enterprises, Inc.**

This is an offering of tangible equity units, or Units, issued by Hovnianian Enterprises, Inc (Hovnianian) and K. Hovnianian Enterprises, Inc. (K. Hovnianian). Each Unit has a stated amount of \$25. Each Unit is comprised of a prepaid stock purchase contract issued by Hovnianian and a senior subordinated amortizing note due February 15, 2014 issued by K. Hovnianian, which has an initial principal amount of \$4.526049 per amortizing note and a final installment payment date of February 15, 2014.

Unless settled earlier as described herein, on February 15, 2014 (subject to postponement in certain limited circumstances), each purchase contract will automatically settle, and we will deliver a number of shares of our Class A common stock based on the applicable market value of our Class A common stock. The applicable market value is the average of the closing prices of the Class A common stock on each of the 20 consecutive trading days beginning on, and including, the 23rd scheduled trading day immediately preceding February 15, 2014. On the mandatory settlement date, each purchase contract will settle, unless earlier settled, as follows (subject to adjustment):

if the applicable market value equals or exceeds the threshold appreciation price, which is approximately \$5.25, you will receive 4.7655 shares;

if the applicable market value is greater than \$4.30 but less than the threshold appreciation price, you will receive a number of shares having a value, based on the applicable market value, equal to \$25; and

if the applicable market value is less than or equal to \$4.30, you will receive 5.8140 shares.

At any time prior to the third scheduled trading day immediately preceding February 15, 2014, you may settle your purchase contract early, and we will deliver 4.7655 shares of our Class A common stock per purchase contract (subject to adjustment). In addition, if a fundamental change (as defined herein) occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our Class A common stock based on the fundamental change early settlement rate, as described herein. We may elect to settle all, but not less than all, outstanding purchase contracts prior to February 15, 2014 at the early mandatory settlement rate (as defined herein), upon a date fixed by us upon not less than five business days notice. Except for cash in lieu of fractional shares, the purchase contract holders will not receive any cash distributions under the purchase contracts.

In order to preserve the tax treatment of our net operating loss carryforwards under the Internal Revenue Code of 1986, as amended (the Code), beneficial owners of Units and any separate purchase contracts will be subject to both a beneficial ownership limitation and a settlement limitation as described herein. In addition, as a Class A common stockholder upon settlement of your purchase contract, you will be subject to both our Rights Plan and the transfer restrictions of our amended Certificate of Incorporation. See Limitation on Beneficial Ownership of Class A Common Stock, Units and Separate Purchase Contracts.

The amortizing notes will pay you equal quarterly cash installments of \$0.453125 per amortizing note, which cash payment in the aggregate will be equivalent to 7.25% per year with respect to each \$25 stated amount of Units. The amortizing notes will be K. Hovnianian s unsecured senior subordinated obligations and will be subordinated in right of payment to all of K. Hovnianian s senior indebtedness as described herein. The obligations under the amortizing notes

will be fully and unconditionally guaranteed by Hovnanian and most of its existing and future subsidiaries. If we elect to settle the purchase contracts early, you will have the right to require K. Hovnanian to repurchase your amortizing notes, except in certain circumstances as described herein.

Each Unit may be separated into its constituent purchase contract and amortizing note after the initial issuance date of the Units, and the separate components may be combined to create a Unit.

We will apply to list the Units on the New York Stock Exchange, subject to satisfaction of its minimum listing standards with respect to the Units. If the Units are approved for listing, we expect trading on the New York Stock Exchange to begin within 30 calendar days after the Units are first issued. However, we will not initially apply to list the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system, but we may apply to list such separate purchase contracts and separate amortizing notes in the future as described herein. Prior to this offering, there has been no public market for the Units.

Our Class A common stock is listed on the New York Stock Exchange under the symbol HOV. On February 3, 2011, the last reported sale price of our Class A common stock on the New York Stock Exchange was \$4.49 per share.

The underwriters have a 30-day option to purchase up to an additional 450,000 Units from us to cover over-allotments, if any, at the price to public less the underwriting discount and commissions.

Concurrently with this offering of Units, pursuant to separate prospectus supplements, we are offering \$155.0 million aggregate principal amount of Senior Notes due 2015 and 11,750,000 shares of our Class A common stock for a total price to public of approximately \$50.5 million (or 13,512,500 shares, for a total price to public of approximately \$58.1 million if the underwriters exercise their over-allotment option in full). The completion of the offering of the senior notes is contingent on the completion of each of the offering of the Class A common stock and this offering, but the completion of the offering of Class A common stock and this offering are not contingent on the completion of the offering of senior notes or each other.

Investing in the Units involves risks. See Risk Factors beginning on page S-14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of 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.

	Per Unit	Total
Public Offering Price	\$ 25.00	\$ 75,000,000
Underwriting Discount	\$ 0.75	\$ 2,250,000
Proceeds to Us (before expenses)	\$ 24.25	\$ 72,750,000

The underwriters expect to deliver the Units to purchasers on or about February 9, 2011 through the book-entry facilities of The Depository Trust Company.

	<i>Joint Book-Running Managers</i>	
Credit Suisse	Citi	J.P. Morgan
	<i>Co-Managers</i>	
BofA Merrill Lynch	Deutsche Bank Securities	Wells Fargo Securities

February 3, 2011

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.

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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 otherwise stated or context otherwise requires, all references in this prospectus supplement 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.

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 underwriters have independently verified such data and neither we nor the underwriters make 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 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;

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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 and warranty claims;

Successful identification and integration of acquisitions;

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/A for the year ended October 31, 2010, and in this prospectus supplement under Risk Factors.

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.

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Summary

The following summary contains information about Hovnanian and the offering of the Units. It does not contain all of the information that may be important to you in making a decision to purchase the Units. For a more complete understanding of Hovnanian and the offering of the Units, 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.

Unless otherwise specifically indicated, all information in this prospectus supplement assumes the underwriters option to purchase additional Units is not exercised.

The Company

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, mid-rise 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, Hovnanian Enterprises, Inc. 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 291,000 homes, including 5,009 homes in fiscal 2010. 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 192 communities in 40 markets in 18 states throughout the United States. Our operations span all significant aspects of the home-buying process from design, construction, and sale, to mortgage origination and title services. 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 \$34,000 (low income housing) to \$1,660,000 with an average sales price, including options, of \$281,000 nationwide in fiscal 2010.

We market and build homes that are constructed in 20 of the nation's top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, and Pennsylvania

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

Midwest: Illinois, Kentucky, 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. Information on or accessible through

our website is not a part of, or incorporated by reference in, this prospectus.

Business Strategies

Due to the progressive weakening of demand in our homebuilding markets over the past several years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges, and incurred losses before income taxes in fiscal 2007, 2008, 2009, and 2010. Although the timing of a recovery in the housing market is unclear, because certain long-term fundamentals which support housing demand, namely population growth and household formation, remain solid, we believe the current negative conditions

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will moderate over time. Consequently, our primary focus while market conditions have been weak over the past several years has been to strengthen our financial condition by reducing inventories of homes and land, controlling and reducing construction and overhead costs, maximizing cash flows, reducing outstanding debt, and maintaining strong liquidity. However, in the first quarter of 2009, we began to see opportunities to purchase land at prices and terms that make economic sense in light of our sales prices and sales paces. As a result, we determined to either purchase or option certain new properties. In order to return to profitability, we will need to continue purchasing new land and that will generate good investment returns and drive greater operating efficiencies, as well as control expenses commensurate with our level of deliveries.

In addition to our current focus on maintaining strong liquidity and evaluating new investment opportunities, we will continue to focus on our historic key business strategies. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation, and adherence to these principles will continue to benefit our business.

Our goal is to become a significant builder in each of the selected markets in which we operate, which will enable us to achieve powers and economies of scale and differentiate ourselves from most of our competitors.

We offer a broad product array to provide housing to a wide range of customers. Our customers consist of first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. Our diverse product array includes single-family detached homes, attached townhomes and condominiums, mid-rise condominiums, urban infill, and active adult homes.

We are committed to customer satisfaction and quality in the homes that we build. We recognize that our future success rests in the ability to deliver quality homes to satisfied customers. We seek to expand our commitment to customer service through a variety of quality initiatives. In addition, our focus remains on attracting and developing quality associates. We use several leadership development and mentoring programs to identify key individuals and prepare them for positions of greater responsibility within our Company.

We focus on achieving high return on invested capital. Each new community is evaluated based on its ability to meet or exceed internal rate of return requirements. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital. However, given market conditions during the downturn, until 2009, it had been difficult to find new land investments that meet or exceed these rate of return requirements. Therefore, we have focused on managing the balance sheet by selling through our currently owned inventory and conserving cash to be prepared to invest in new land when market conditions are right. Since the first quarter of fiscal 2009, we have begun to see land investment opportunities that meet or exceed our underwriting requirements. New land purchases at pricing that will generate good investment returns are needed to return to profitability.

We utilize a risk-averse land strategy. We attempt to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. This policy significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

We enter into homebuilding and land development joint ventures from time to time as a means of controlling lot positions, expanding our market opportunities, establishing strategic alliances, reducing our risk profile, leveraging our capital base, and enhancing our returns on capital. Our homebuilding joint ventures are generally entered into with third-party investors to develop land and construct homes that are sold directly to homebuyers. Our land development joint ventures include those with developers and other homebuilders, as well as financial investors to develop finished lots for sale to the joint venture's members or other third parties.

We manage our financial services operations to better serve all of our homebuyers. Our current mortgage financing and title service operations enhance our contact with customers and allow us to coordinate the home-buying experience from beginning to end.

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Related Transactions

Concurrent Offerings

Concurrently with this offering, pursuant to a separate prospectus supplement, we are offering 11,750,000 shares of our Class A common stock with a total price to public of approximately \$50.5 million (or 13,512,500 shares, with a total price to public of approximately \$58.1 million if the underwriters exercise their over-allotment option with respect to that offering in full) in an underwritten public offering (the Common Stock Offering). We estimate that the net proceeds of the Common Stock Offering, after deducting the underwriting discount and estimated offering expenses, will be approximately \$47.7 million (or \$54.9 million if the underwriters exercise their over-allotment option with respect to that offering in full), although there can be no assurance that the Common Stock Offering will be completed.

Concurrently with this offering, pursuant to a separate prospectus supplement, we are also offering \$155.0 million aggregate principal amount of our Senior Notes due 2015 (the Senior Notes), in an underwritten public offering (the Notes Offering) and together with the Common Stock Offering, the Concurrent Offerings). We estimate that the net proceeds of the Notes Offering, after taking into account the original issue discount and deducting the underwriting discount and estimated offering expenses, will be approximately \$147.9 million, although there can be no assurance that the Notes Offering will be completed.

The completion of the Notes Offering is contingent on the completion of this offering and the Common Stock Offering, but the completion of this offering and the Common Stock Offering are not contingent on the completion of each other or the Notes Offering.

Tender Offers and Redemptions

On January 31, 2011, we commenced (i) a cash tender offer (the 2012 Senior Notes Tender Offer) for any and all of the approximately \$35.5 million outstanding aggregate principal amount of our 8% Senior Notes due 2012 (the 2012 Senior Notes), (ii) a cash tender offer (the 2012 Senior Subordinated Notes Tender Offer) for any and all of the approximately \$66.6 million outstanding aggregate principal amount of our 87/8% Senior Subordinated Notes due 2012 (the 2012 Senior Subordinated Notes), and (iii) a cash tender offer (the 2013 Notes Tender Offer) and together with the 2012 Senior Notes Tender Offer and the 2012 Senior Subordinated Notes Tender Offer, the Tender Offers) for any and all of the approximately \$53.5 million outstanding aggregate principal amount of our 73/4% Senior Subordinated Notes due 2013 (the 2013 Notes) and together with the 2012 Senior Notes and the 2012 Senior Subordinated Notes, the Tender Offer Notes). The consummation of each of the Tender Offers is conditioned upon the satisfaction, or waiver by us, of certain conditions, including the receipt of aggregate net cash proceeds from this offering and the Concurrent Offerings sufficient to finance the payment of the consideration to holders of the Tender Offer Notes that participate in the Tender Offers. Neither the completion of this offering nor the Concurrent Offerings is conditioned upon completion of the Tender Offers.

All of the Tender Offer Notes are currently redeemable at our option and we currently expect that we will exercise our right to optionally redeem any and all Tender Offer Notes that have not been accepted and paid for in the Tender Offers (the Redemptions) at a price equal to 100% of the principal amount thereof, plus accrued unpaid interest to the redemption date, in the case of the 2012 Senior Notes and 2012 Senior Subordinated Notes, and a price equal to 101.292% of the principal amount thereof, plus accrued and unpaid interest, in the case of the 2013 Notes.

We intend to finance the Tender Offers and/or the Redemptions with a portion of the net proceeds of this offering and the Concurrent Offerings. The remaining net proceeds will be used for general corporate purposes. Credit Suisse Securities (USA) LLC will serve as dealer manager for the Tender Offers.

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The Offering

The summary below describes the principal terms of the Units, the purchase contracts and the amortizing notes.

Certain of the terms and conditions described below are subject to important limitations and exceptions. The

Description of the Units, Description of the Purchase Contracts and Description of the Amortizing Notes sections of this prospectus supplement contain a more detailed description of the terms and conditions of the Units, the purchase contracts and the amortizing notes. As used in this section, the term Hovnanian means Hovnanian Enterprises, Inc. and does not include K. Hovnanian Enterprises, Inc. or any other subsidiary of Hovnanian Enterprises, Inc.

The Units

Issuer	Hovnanian Enterprises, Inc., a Delaware corporation, and K. Hovnanian Enterprises, Inc., a California corporation.
Number of Units offered	3,000,000 Units. We have also granted the underwriters an option, for a period of 30 days from the date of this prospectus supplement, to purchase up to an additional 450,000 Units, solely to cover over-allotments.
Stated amount and initial offering price of each Unit	\$25 for each Unit.
Components of each Unit	<p>Each Unit is comprised of two parts:</p> <ul style="list-style-type: none"> a prepaid stock purchase contract issued by Hovnanian (a purchase contract); and a senior subordinated amortizing note issued by K. Hovnanian (an amortizing note). <p>Unless settled earlier at the holder's option or our option, each purchase contract will, subject to postponement in certain limited circumstances, automatically settle on February 15, 2014 (such date, as so postponed (if applicable), the mandatory settlement date), and we will deliver not more than 5.8140 shares and not less than 4.7655 shares of our Class A common stock per purchase contract, subject to adjustment, based upon the applicable settlement rate and applicable market value of our Class A common stock, as described below under Description of the Purchase Contracts Delivery of Class A Common Stock.</p> <p>No fractional shares of our Class A common stock will be issued to holders upon settlement of purchase contracts. In lieu of fractional shares, holders will be entitled to receive a cash payment of equivalent value calculated as described herein. Other than cash payments in lieu of fractional shares, the purchase contract holders will not receive any cash distributions under the purchase contracts.</p> <p>Each amortizing note will have an initial principal amount of \$4.526049, will bear interest at the rate of 12.072% per annum and will have a final</p>

installment payment date of February 15, 2014. On each February 15, May 15, August 15 and November 15 commencing on May 15, 2011, K. Hovnanian will pay equal quarterly cash installments of \$0.453125 per amortizing note (except for the May 15, 2011 installment payment, which will be \$0.483334 per Amortizing Note), which cash payment in the aggregate per year will be equivalent to 7.25% per year with

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respect to each \$25 stated amount of Units. Each installment will constitute a payment of interest and a partial repayment of principal, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.

The return to an investor on a Unit will depend upon the return provided by each component. The overall return will consist of the value of the shares of our Class A common stock delivered upon settlement of the purchase contracts and the cash installments paid on the amortizing notes.

Limitation on beneficial ownership

In order to preserve the tax treatment of our net operating loss carryforwards under the Code, holders of Units and any separate purchase contracts will be subject to both a beneficial ownership limitation and a settlement limitation as described herein. In addition, as a Class A common stockholder upon settlement of your purchase contract, you will be subject to both our Rights Plan and the transfer restrictions of our amended Certificate of Incorporation. See Limitation on Beneficial Ownership of Class A Common Stock, Units and Separate Purchase Contracts.

Each Unit may be separated into its components

Each Unit may be separated by a holder into its constituent purchase contract and amortizing note on any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third scheduled trading day immediately preceding February 15, 2014 or any early mandatory settlement date, as defined below. Prior to separation, the purchase contracts and amortizing notes may only be purchased and transferred together as Units. See Description of the Units Separating and Recreating Units.

A Unit may be recreated from its components

If you hold a separate purchase contract and a separate amortizing note, you may combine the two components to recreate a Unit. See Description of the Units Separating and Recreating Units.

Trading

We will apply to list the Units on the New York Stock Exchange, subject to satisfaction of its minimum listing standards with respect to the Units. If approved for listing, we expect trading on the New York Stock Exchange to begin within 30 calendar days after the Units are first issued. However, we will not initially apply to list the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system, but we may apply to list such separate purchase contracts and separate amortizing notes in the future as described under Description of the Units Listing of Securities. Prior to this offering, there has been no public market for the Units.

Our Class A common stock is listed on The New York Stock Exchange under the symbol HOV.

Use of proceeds

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated

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expenses of the offering, will be approximately \$72.5 million (or approximately \$83.4 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds of this offering, together with the net proceeds from the Concurrent Offerings to finance the Tender Offers and/or the Redemptions, and for general corporate purposes. See **Related Transactions** above and **Use of Proceeds**.

United States federal income tax considerations

Although there is no authority directly on point and therefore the issue is not entirely free from doubt, each Unit will be treated as an investment unit composed of two separate instruments for U.S. federal income tax purposes: (i) a purchase contract and (ii) an amortizing note. Under this treatment, a holder of Units will be treated as if it held each component of the Units for U.S. federal income tax purposes. By acquiring a Unit, you will agree to treat (i) a Unit as an investment unit composed of two separate instruments in accordance with its form and (ii) the amortizing notes as indebtedness of K. Hovnanian for U.S. federal income tax purposes. If, however, the components of a Unit were treated as a single instrument, the U.S. federal income tax consequences could differ from the consequences described herein.

Holders should consult their tax advisors regarding the tax treatment of an investment in Units and whether a purchase of a Unit is advisable in light of the investor's particular tax situation and the tax treatment described under **Certain United States Federal Income and Estate Tax Consequences**.

The Purchase Contracts

Mandatory settlement date

February 15, 2014, subject to postponement in limited circumstances.

Mandatory settlement

On the mandatory settlement date, unless such purchase contract has been earlier settled, each purchase contract will automatically settle, and we will deliver a number of shares of our Class A common stock, based on the applicable settlement rate.

Settlement rate for the mandatory settlement date

The settlement rate for each purchase contract will be not more than 5.8140 shares and not less than 4.7655 shares of our Class A common stock (each subject to adjustment as described herein) depending on the applicable market value of our Class A common stock, calculated as described below.

If the applicable market value is equal to or greater than the threshold appreciation price (as defined below), you will receive 4.7655 shares of Class A common stock per purchase contract (the minimum settlement rate).

If the applicable market value is greater than \$4.30 (the reference price) but less than the threshold appreciation price, you will receive a number of shares per purchase contract equal to \$25, *divided by* the applicable

market value.

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If the applicable market value is less than or equal to the reference price, you will receive 5.8140 shares of Class A common stock per purchase contract (the maximum settlement rate).

Each of the maximum settlement rate and the minimum settlement rate is subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates.

The applicable market value means the average of the closing prices (as defined below) of our Class A common stock on each of the 20 consecutive trading days beginning on, and including, the 23rd scheduled trading day immediately preceding February 15, 2014.

The reference price is the public offering price of our Class A common stock in the common stock offering described above.

The threshold appreciation price shall be equal to \$25 *divided by* the minimum settlement rate (rounded to the nearest \$0.0001). The threshold appreciation price, which is initially approximately \$5.25, represents an approximately 22% appreciation over the reference price.

No fractional shares of our Class A common stock will be issued to holders upon settlement of purchase contracts. In lieu of fractional shares, holders will be entitled to receive a cash payment of equivalent value calculated as described herein. Other than cash payments in lieu of fractional shares, the purchase contract holders will not receive any cash distributions.

The following table illustrates the settlement rate per purchase contract and the value of our Class A common stock issuable upon settlement on the mandatory settlement date, determined using the applicable market value shown, subject to adjustment.

Applicable Market Value of Our Class A Common Stock	Settlement Rate	Value of Class A Common Stock Delivered (Based on the Applicable Market Value Thereof)
Less than or equal to \$4.30	5.8140 shares of our Class A common stock	Less than \$25
Greater than \$4.30 but less than the threshold appreciation price	A number of shares of our Class A common stock equal to \$25 <i>divided by</i> the applicable market value	\$25
Equal to or greater than the threshold appreciation price	4.7655 shares of our Class A common stock	Greater than \$25

Early settlement at your election

At any time prior to 5:00 p.m., New York City time, on the third scheduled trading day immediately preceding February 15, 2014, you may settle any or all of your purchase contracts early, in which case we will deliver a number of shares of our Class A common stock per purchase contract equal to the minimum settlement rate, which is subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates. That is, the market value of our Class A

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common stock on the early settlement date will not affect the early settlement rate. Your right to settle your purchase contract prior to the third scheduled trading day immediately preceding February 15, 2014 is subject to the delivery of your purchase contract.

Upon early settlement at your election of a purchase contract that is a component of a Unit, the corresponding amortizing note will remain outstanding and beneficially owned by or registered in the name of, as the case may be, the holder who elected to settle the related purchase contract early.

Early settlement at your election upon a fundamental change

At any time prior to the third scheduled trading day immediately preceding February 15, 2014, if a fundamental change (as defined herein) occurs, you may settle any or all of your purchase contracts early. If you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our Class A common stock based on the fundamental change early settlement rate as described under Description of the Purchase Contracts Early Settlement Upon a Fundamental Change.

Upon early settlement at your election in connection with a fundamental change of a purchase contract that is a component of a Unit, the corresponding amortizing note will remain outstanding and beneficially owned by or registered in the name of, as the case may be, the holder who elected to settle the related purchase contract early upon such fundamental change.

Early mandatory settlement at our election

We may elect to settle all, but not less than all, outstanding purchase contracts early at the early mandatory settlement rate (as described under Description of the Purchase Contracts Early Settlement at Our Election) upon a date fixed by us upon not less than five business days notice (the early mandatory settlement date).

The early mandatory settlement rate will be the maximum settlement rate, unless the closing price of our Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the trading day immediately preceding the notice date (as defined under Early Settlement at Our Election below) exceeds 130% of the threshold appreciation price in effect on each such trading day, in which case the early mandatory settlement rate will be the minimum settlement rate.

If we elect to settle all the purchase contracts early, you will have the right to require K. Hovnanian to repurchase your amortizing notes, except in certain circumstances, on the repurchase date and at the repurchase price as described under Description of the Amortizing Notes Repurchase of Amortizing Notes at the Option of the Holder.

Limitation on beneficial ownership

In order to preserve the tax treatment of our net operating loss carryforwards under the Code, holders of Units and any separate

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purchase contracts will be subject to both a beneficial ownership limitation and a settlement limitation as described herein. In addition, as a Class A common stockholder upon settlement of your purchase contract, you will be subject to both our Rights Plan and the transfer restrictions of our amended Certificate of Incorporation. See Limitation on Beneficial Ownership of Class A Common Stock, Units and Separate Purchase Contracts.

The Amortizing Notes

Issuer	K. Hovnanian Enterprises, Inc., a California corporation
Initial principal amount of each amortizing note	\$4.526049
Installment payments	Each installment payment of \$0.453125 per amortizing note (except for the May 15, 2011 installment payment, which will be \$0.483334 per amortizing note) will be paid in cash and will constitute a partial repayment of principal and a payment of interest, computed at an annual rate of 12.072%. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Payments will be applied first to the interest due and payable and then to the reduction of the unpaid principal amount, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.
Installment payment dates	Each February 15, May 15, August 15 and November 15, commencing on May 15, 2011, with a final installment payment date of February 15, 2014.
Senior Subordinated Guarantees	<p>Hovnanian Enterprises, Inc., the parent corporation of K. Hovnanian, and most of the parent's existing and future subsidiaries (collectively, the Guarantors) will, jointly and severally, unconditionally guarantee on a senior subordinated basis all of K. Hovnanian's obligations under the amortizing notes. If K. Hovnanian cannot make payments on the amortizing notes when they are due, the Guarantors must make the payments instead.</p> <p>As of the date of this prospectus supplement, our home mortgage subsidiaries, our joint ventures and subsidiaries holding interests in our joint ventures and certain of our title insurance subsidiaries are not Guarantors.</p>
Ranking of the amortizing notes and subsidiary guarantees	<p>The amortizing notes are senior subordinated obligations of K. Hovnanian and will not be secured by any collateral. Your right to payment under the amortizing notes will be:</p> <p style="padding-left: 40px;">junior to the rights of secured creditors to the extent of their security in K. Hovnanian's assets;</p>

subordinated in right of payment to all K. Hovnanian's existing and future Senior Indebtedness (as defined under Description of the Amortizing Notes Subordination);

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equal with the rights of creditors under other existing and future unsecured senior subordinated debt of K. Hovnanian, if any; and

senior to the rights of creditors under existing and future debt that is expressly subordinated to the amortizing notes, if any.

The senior subordinated guarantees of the amortizing notes are the senior subordinated obligations of the Guarantors and will not be secured by any collateral. Your right to payment under any senior subordinated guarantee will be:

junior to the rights of secured creditors of the relevant Guarantor to the extent of their security in the relevant Guarantor's assets;

subordinated to the rights of creditors under the relevant Guarantor's existing and future Senior Indebtedness;

equal with the rights of creditors under the relevant Guarantor's other existing and future unsecured senior subordinated debt, if any; and

senior to the rights of creditors under the relevant Guarantor's existing and future debt that is expressly subordinated to such senior subordinated guarantee, if any.

See Description of Amortizing Notes Ranking below.

At October 31, 2010, after giving effect to the completion of this offering and the Concurrent Offerings and the application of the net proceeds therefrom, K. Hovnanian and the Guarantors would have had:

approximately \$797.2 million of secured indebtedness outstanding (\$784.6 million, net of discount); and

approximately \$832.7 million of senior unsecured notes (\$827.2 million, net of discount).

In addition, after giving effect to the use of proceeds from this offering and the Concurrent Offerings, the amortizing notes will be our only senior subordinated indebtedness outstanding and we will not have any other senior subordinated notes or subordinated notes.

As of October 31, 2010, our non-Guarantor subsidiaries had approximately \$90.0 million of liabilities, including trade payables, but excluding intercompany obligations.

Repurchase of amortizing notes at the option of the holder

If we elect to settle the purchase contracts early, holders will have the right to require us to repurchase their amortizing notes for cash at the repurchase price as described under Description of the Amortizing

Table of Contents**SUMMARY FINANCIAL INFORMATION**

The following table presents summary historical consolidated financial and other data of Hovnanian Enterprises, Inc. and subsidiaries as of and for the years ended October 31, 2010, 2009, 2008, 2007 and 2006. We derived the summary consolidated statement of operations and other data for the years ended October 31, 2010, 2009, 2008, and the summary consolidated balance sheet data as of October 31 2010 and 2009 from Hovnanian's audited consolidated financial statements incorporated by reference herein. The summary consolidated statement of operations and other data for the years ended October 31, 2007 and 2006 and the summary consolidated balance sheet data as of October 31, 2008, 2007 and 2006 have been derived from Hovnanian's audited consolidated financial statements not incorporated by reference herein. You should read this data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein and our consolidated financial statements and related notes for the three years ended October 31, 2010, incorporated by reference herein.

	October 31, 2010	October 31, 2009	Year Ended October 31, 2008	October 31, 2007	October 31, 2006
	(Dollars in thousands, except per share data)				
Statement of Operations and Other Data					
Revenues	\$ 1,371,842	\$ 1,596,290	\$ 3,308,111	\$ 4,798,921	\$ 6,148,235
Inventory impairment loss and land option write-offs	\$ 135,699	\$ 659,475	\$ 710,120	\$ 457,773	\$ 336,204
Gain on extinguishment of debt	\$ 25,047	\$ 410,185			
Income (loss) from unconsolidated joint ventures	\$ 956	\$ (46,041)	\$ (36,600)	\$ (28,223)	\$ 15,385
(Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt(1)	\$ (184,630)	\$ (379,118)	\$ (391,323)	\$ (20,887)	\$ 581,360
(Loss) income before income taxes	\$ (295,282)	\$ (672,019)	\$ (1,168,048)	\$ (646,966)	\$ 233,106
State and Federal income tax (benefit) provision	(297,870)	44,693	(43,458)	(19,847)	83,573
Net income (loss)	2,588	(716,712)	(1,124,590)	(627,119)	149,533
Less: preferred stock dividends				10,674	10,675
Net income (loss) attributable to common stockholders	\$ 2,588	\$ (716,712)	\$ (1,124,590)	\$ (637,793)	\$ 138,858
Per share data:					
Basic:					
Income (loss) per common share	\$ 0.03	\$ (9.16)	\$ (16.04)	\$ (10.11)	\$ 2.21
Weighted average number of common shares outstanding	78,691	78,238	70,131	63,079	62,822

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Assuming dilution:

Income (loss) per common share	\$	0.03	\$	(9.16)	\$	(16.04)	\$	(10.11)	\$	2.14
Weighted average number of common shares outstanding		79,683		78,238		70,131		63,079		64,838

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	October 31, 2010	October 31, 2009	October 31, 2008	October 31, 2007	October 31, 2006
	(Dollars in thousands)				
Consolidated Balance Sheet Data					
Total Assets	\$ 1,817,560	\$ 2,024,577	\$ 3,637,322	\$ 4,540,548	\$ 5,480,035
Mortgages, term loans, revolving credit agreements, and notes payable	\$ 98,613	\$ 77,364	\$ 107,913	\$ 410,298	\$ 319,943
Senior secured notes, senior notes and senior subordinated notes	\$ 1,616,347	\$ 1,751,701	\$ 2,505,805	\$ 1,910,600	\$ 2,049,778
Total equity deficit	\$ (337,938)	\$ (348,868)	\$ 330,264	\$ 1,321,803	\$ 1,942,163

Important indicators of our future results are recently signed contracts and home contract backlog for future deliveries. Our sales contracts and homes in contract backlog, which primarily use base sales prices by segment, are set forth below:

	Net Contracts(2) for the Year Ended October 31,			Contract Backlog as of October 31,		
	2010	2009	2008	2010	2009	2008
	(Dollars in thousands)					
Northeast:						
Dollars	\$ 193,826	\$ 350,515	\$ 381,401	\$ 94,363	\$ 196,262	\$ 215,604
Homes	497	783	934	236	457	497
Mid-Atlantic:						
Dollars	\$ 236,095	\$ 281,194	\$ 313,405	\$ 106,589	\$ 150,819	\$ 165,871
Homes	629	789	880	262	386	385
Midwest:						
Dollars	\$ 72,347	\$ 95,764	\$ 106,887	\$ 34,188	\$ 46,418	\$ 61,108
Homes	408	482	497	222	253	291
Southeast:						
Dollars	\$ 76,799	\$ 103,173	\$ 132,245	\$ 20,212	\$ 35,970	\$ 45,657
Homes	331	461	584	82	135	163
Southwest:						
Dollars	\$ 393,943	\$ 377,292	\$ 518,565	\$ 88,123	\$ 77,418	\$ 100,305
Homes	1,753	1,798	2,285	337	351	420
West:						
Dollars	\$ 144,782	\$ 220,369	\$ 421,292	\$ 27,304	\$ 52,666	\$ 57,642
Homes	588	914	1,366	110	190	151
Consolidated total:						
Dollars	\$ 1,117,792	\$ 1,428,307	\$ 1,873,795	\$ 370,779	\$ 559,553	\$ 646,187
Homes	4,206	5,227	6,546	1,249	1,772	1,907

Unconsolidated joint ventures:

Dollars	\$ 114,740	\$ 56,886	\$ 221,858	\$ 67,112	\$ 88,263	\$ 157,167
Homes	266	193	540	145	159	263
Totals:						
Dollars	\$ 1,232,532	\$ 1,485,193	\$ 2,095,653	\$ 437,891	\$ 647,816	\$ 803,354
Homes	4,472	5,420	7,086	1,394	1,931	2,170

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(1) (Loss) income before income-taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt is not a financial measure calculated in accordance with U.S. generally accepted accounting principles (GAAP). The most directly comparable GAAP financial measure is (Loss) income before income taxes. The reconciliation of (Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt to (Loss) income before income taxes is presented below. (Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt should be considered in addition to, but not as a substitute for, (loss) income before income taxes, net income (loss) and other measures of financial performance prepared in accordance with GAAP that are presented on the financial statements and notes included in Hovnanian's public filings. Additionally, the Company's calculation of (Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt may be different than the calculation used by other companies, and, therefore, comparability may be affected. Management believes (Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt to be relevant and useful information because it provides a better metric for our operating performance.

Reconciliation of (Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt to (loss) income before income taxes:

	October 31, 2010	October 31, 2009	Year Ended October 31, 2008	October 31, 2007	October 31, 2006
	(Dollars in thousands)				
(Loss) income before income taxes	\$ (295,282)	\$ (672,019)	\$ (1,168,048)	\$ (646,966)	\$ 233,106
Inventory impairment loss and land option write-offs	135,699	659,475	710,120	457,773	336,204
Goodwill and definite life intangible impairments			35,363	135,206	4,241
Unconsolidated joint venture investment, intangible and land-related charges		43,611	31,242	33,100	7,809
Gain on extinguishment of debt	(25,047)	(410,185)			
(Loss) income before income taxes excluding land-related charges, intangible impairments and gain on extinguishment of debt	\$ (184,630)	\$ (379,118)	\$ (391,323)	\$ (20,887)	\$ 581,360

(2) Net contracts are defined as new contracts during the period for the purchase of homes, less cancellations of prior contracts in the same period.

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RISK FACTORS

An investment in the Units involves material risks. You should carefully consider the risks set forth below, as well as the other information contained in this prospectus supplement and the accompanying prospectus, before deciding to invest in the Units. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, results of operations, cash flows and the value of the Units, any separate purchase contracts or separate amortizing notes, and our Class A common stock. In such case, the trading price of the Units, any separate purchase contracts or separate amortizing notes, and/or our Class A common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations and cash flows.

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.

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 believe we help 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. In connection with the issuance of our senior secured first lien notes in the fourth quarter of

fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. In addition, we entered into certain stand alone letter of credit facilities, and agreements pursuant to which all of the outstanding letters of credit under our revolving credit facility were replaced with letters of credit issued under such new letter of credit facilities and agreements. However, we may need additional letters of credit above the amounts provided under these new letter of credit 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 natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the effect of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an

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effect on materials and labor availability or pricing, but did affect the volume of home sales in subsequent weeks.

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 is undergoing 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 is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has 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, has 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 2010 and may continue to materially adversely affect our business and results of operations in fiscal 2011. 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 continue to work through this inventory. Looking forward, if the housing market continues to deteriorate it will become more difficult to generate positive cash flow. General economic conditions in the U.S. remain weak. 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 this 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.

There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets, or increase liquidity and the availability of credit, or whether any such results will be sustainable. The housing market has 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. Department of Housing and Urban Development (HUD) tightened FHA underwriting standards. Housing markets may further decline as these programs are modified or terminated.

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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, as of October 31, 2010, including the debt of the subsidiaries that guarantee our debt, was \$1,630.6 million (\$1,616.3 million net of discount); and

our debt service payments for the 12-month period ended October 31, 2010 were \$165.7 million, which includes interest incurred of \$152.1 million and mandatory principal payments on our corporate debt under the terms of our indentures of \$13.6 million, but which does not include principal and interest on nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter of credit facilities and agreements.

In addition, as of October 31, 2010, we had \$89.5 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by \$92.3 million of cash. Our fees for these letters of credit for the 12 months ended October 31, 2010, which are based on both the used and unused portion of the facilities and agreements, were \$1.4 million. We also had substantial contractual commitments and contingent obligations, including approximately \$359.1 million of performance bonds as of October 31, 2010. See Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations in our Annual Report on Form 10-K/A incorporated by reference herein.

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.

In connection with the issuance of our senior secured first lien notes in the fourth quarter of fiscal 2009, we terminated our revolving credit facility and refinanced the borrowing capacity thereunder. Because we no longer have a revolving credit facility, we are 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 liquidity needs. In addition, we may need to 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, or to sell assets, seek additional capital, or restructure our indebtedness. These alternative measures may not be successful and may

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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 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 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 impose certain restrictions on our 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 preferred stock and anticipate that we will remain prohibited for the foreseeable future.

The restrictions in our debt instruments could prohibit or restrict our 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. On March 16, 2009, Fitch Ratings lowered the Company's issuer default rating to CCC from B-. On April 7, 2009, Moody's Investor Services affirmed our corporate family rating of Caa1, with a negative outlook. On April 1, 2009, Standard & Poor's (S&P) lowered our B-corporate credit rating to CCC, with a negative outlook. On September 14, 2010, S&P affirmed our corporate credit rating of CCC+ but revised our outlook from developing to negative. Downgrades may make it more difficult and costly for us to access capital. Therefore, any further downgrade by any of the principal credit agencies may exacerbate these difficulties.

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

Our quarterly operating results generally fluctuate by season. Historically, a large percentage of our agreements of sale have been entered into in the winter and spring. 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, late 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.

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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. 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 Policies in our Annual Report on Form 10-K/A incorporated by reference herein. For example, during 2010, 2009, and 2008, 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 \$13.2 million, \$45.4 million and \$114.1 million, respectively. Also, in 2010, 2009, and 2008, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of \$122.5 million, \$614.1 million, and \$596.0 million, respectively. If market conditions continue to worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

Home prices and sales activities in the California, Maryland, New Jersey, Texas and Virginia 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