HOVNANIAN ENTERPRISES INC
Form 424B5
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Registration No. 333-173365

$12,000,000

K. Hovnanian Enterprises, Inc.

105/8% Senior Secured Notes due 2016
guaranteed by

Hovnanian Enterprises, Inc.

The notes are being issued as additional 105/8% Senior Secured Notes due 2016 under the indenture dated as of October 20, 2009. There are $785 million aggregate principal amount of 105/8% Senior Secured Notes due 2016 already outstanding under the indenture. The additional notes offered hereby will be treated as a single class with the outstanding 105/8% Senior Secured Notes due 2016. The notes will bear interest at the rate of 105/8% per year. Interest on the notes is payable on April 15 and October 15 of each year, beginning on October 15, 2011. The notes will mature on October 15, 2016. We may redeem some or all of the notes at any time on or after October 15, 2012 at the redemption prices specified under Description of Notes Redemption plus accrued and unpaid interest. In addition, we may redeem up to 35% of the aggregate principal amount of the notes (including the existing notes) before October 15, 2012 with the net cash proceeds from certain equity offerings at a price equal to 110.625% of the principal amount thereof plus accrued and unpaid interest, if any. 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. The notes and guarantees will be secured by a first-priority lien on substantially all of our and the guarantors assets, subject to permitted liens and certain exceptions.

Investing in the notes involves risks. See Risk Factors beginning on page S-8.

	Price to Public(1)	**Underwriting Discounts and Commissions**	**Proceeds to Us Before Expenses**
Per Note	105.500%	2.500%	103.000%
Total	$12,660,000	$300,000	$12,360,000

(1) Plus accrued interest from April 15, 2011.

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 May 4, 2011.

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

April 29, 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.

Except in the section under the caption Description of Notes and 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 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 and industry and business conditions and impacts of the sustained homebuilding downturn;

adverse weather conditions and natural disasters;

changes in market conditions and other environmental 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 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 Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended October 31, 2010, our quarterly report on Form 10-Q for the quarter ended January 31, 2011 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.

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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, 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 188 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.

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Recent Developments and Related Transactions

February 2011 Transactions

On February 9, 2011, we completed an underwritten public offering (the February 2011 Common Stock Offering) of 13,512,500 shares of our Class A Common Stock, including 1,762,500 shares issued pursuant to the over-allotment option granted to the underwriters, at a price of $4.30 per share. Also on February 9, 2011, we and K. Hovnanian completed an underwritten public offering (the February 2011 Units Offering) of 3,000,000 7.25% Tangible Equity Units (the Units), and on February 14, 2011, we and K. Hovnanian issued an additional 450,000 Units pursuant to the over-allotment option granted to the underwriters. On February 14, 2011, K. Hovnanian completed an underwritten public offering (the February 2011 Notes Offering) of $155.0 million aggregate principal amount of 117/8% Senior Notes due 2015. We refer to the February 2011 Common Stock Offering, the February 2011 Units Offering and the February 2011 Notes Offering collectively, as the February 2011 Offerings.

The net proceeds from the February 2011 Offerings were approximately $286.2 million, a portion of which were used to fund the purchase, on February 14, 2011, of certain of K. Hovnanian s senior and senior subordinated notes in tender offers for any and all of such notes as follows: approximately $24.6 million aggregate principal amount of 8% Senior Notes due 2012 (the 2012 Senior Notes), $44.1 million aggregate principal amount of 87/8% Senior Subordinated Notes due 2012 (the 2012 Senior Subordinated Notes) and $29.2 million aggregate principal amount of 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). Also on February 14, 2011, K. Hovnanian called for redemption on March 15, 2011 all Tender Offer Notes that were not tendered in the tender offers for an aggregate redemption price of approximately $60.1 million. Such redemptions were funded with proceeds from the February 2011 Offerings. We refer to the February 2011 Offerings together with the repurchase and redemption of the Tender Offer Notes described above as the February 2011 Transactions. See our Quarterly Report on Form 10-Q for the quarter ended January 31, 2011, incorporated by reference into this prospectus for additional information.

Redemption of the Junior Lien Notes

We intend to use the net proceeds from this offering together with cash on hand to fund the redemption of all of K. Hovnanian s outstanding 111/2% Senior Secured Notes due 2013 (the Second Lien Notes) and 18.0% Senior Secured Notes due 2017 (the Third Lien Notes and, together with the Second Lien Notes, the Junior Lien Notes). As of January 31, 2011, there were approximately $0.5 million aggregate principal amount of Second Lien Notes outstanding and approximately $11.7 million aggregate principal amount of Third Lien Notes outstanding. Beginning May 1, 2011, the Second Lien Notes may be called for redemption at K. Hovnanian s option at a redemption price of 101% of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the redemption date, and the Third Lien Notes may be called for redemption at K. Hovnanian s option at a redemption price of 102% of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the redemption date. We currently expect to issue notices of redemption to holders of the Junior Lien Notes concurrently with the closing of this offering, specifying a redemption date for the Junior Lien Notes that is 30 days after the date of such notice. We refer to the anticipated redemptions of the Junior Lien Notes as the Redemptions.

The Offering

Issuer	K. Hovnanian Enterprises, Inc.
Notes Offered	We are offering $12.0 million aggregate principal amount of 105/8% Senior Secured Notes due 2016. The notes offered hereby (the New Notes) are being issued as additional 105/8% Senior Secured Notes due 2016 under an indenture dated as of October 20, 2009. There are $785.0 million aggregate principal amount of 105/8% Senior Secured 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	October 15, 2016.
Interest Payment Dates	Each April 15 and October 15, beginning October 15, 2011.
Optional Redemption	We may redeem some or all of the Notes at any time on or after October 15, 2012, at the redemption prices specified under the section Description of Notes Redemption plus accrued and unpaid interest, if any. In addition, we may redeem up to 35% of the aggregate principal amount of the Notes before October 15, 2012 with the net cash proceeds from certain equity offerings at a price equal to 110.625% of the principal amount thereof plus accrued and unpaid interest, if any.
Change of Control	Upon a Change of Control as described in the section Description of Notes Certain covenants Repurchase of Notes upon Change of Control, you may require us to repurchase all or part of your Notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. We can give no assurance that, upon such an event, we will have sufficient funds to repurchase 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 foreign subsidiary is not a Guarantor, and 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 or restricted subsidiaries. In addition, three of our restricted subsidiaries, which we expect to sell prior to the closing of this offering, will not be Guarantors upon the closing of such sale.
Ranking	The Notes and the guarantees thereof will be the Issuer s and the Guarantors general senior secured obligations and will: rank senior in right of payment to the Issuer s and the Guarantors existing and future debt and other obligations that expressly provide for

their subordination to the Notes and the guarantees;

rank equally in right of payment to all of the Issuer s and the Guarantors existing and future unsubordinated debt;

- be effectively senior to all of the Issuer s and the Guarantors debt that is unsecured or secured by junior-priority liens, to the extent of the value of the collateral;
- be effectively subordinated to any of the Issuer s or any Guarantor s debt that is secured by permitted liens on assets that are not part of the collateral securing the Notes, to the extent of the value of such assets (see Collateral below); and
- be structurally subordinated to all of the existing and future liabilities, including trade payables, of our subsidiaries that do not guarantee the Notes.

Furthermore, we have entered into certain stand alone letter of credit agreements and facilities, which require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder. We refer to the collateral that secures these letter of credit agreements and facilities, and that will secure any future such agreements, facilities or similar instruments as the L/C Collateral. The indenture governing the Notes requires (except with respect to certain assets excluded from the collateral securing the Notes, including $25.0 million of cash and cash equivalents collateralizing letters of credit or similar instruments) that the holders of the Notes have a security interest in the L/C Collateral that collateralizes our letter of credit agreements and facilities and any future agreements, facilities or similar instruments on a basis that is junior to the lien granted to the applicable issuing bank. Accordingly, upon an enforcement event or insolvency proceeding, proceeds from such L/C Collateral will be applied first to satisfy such letter of credit obligations and then to satisfy the obligations on the Notes.

At January 31, 2011, on a pro forma basis, after giving effect to (i) the February 2011 Transactions and (ii) the completion of this offering and the Redemptions, the Issuer and the Guarantors would have had:

- approximately $797.0 million of secured indebtedness outstanding ($784.8 million, net of discount), all of which would be represented by the Notes;
- approximately $828.8 million of senior unsecured notes ($827.2 million, net of discount); and
- approximately $15.6 million of senior subordinated notes.

In addition, as of January 31, 2011, we had a total of $86.3 million of letters of credit outstanding issued under our letter of credit agreements and facilities.

	In addition, as of January 31, 2011, our non-guarantor subsidiaries had approximately $38.2 million of liabilities, including trade payables, but excluding intercompany obligations.
	See the section Description of Notes Ranking.
Collateral	The Notes and the guarantees thereof will be secured by a first-priority lien on substantially all the assets owned by the Issuer and

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the Guarantors on the issue date of the Notes or thereafter acquired, subject to permitted liens and certain exceptions.

The collateral will not include:

the pledge of stock of Guarantors or of K. Hovnanian JV Holdings, L.L.C., our wholly owned holding company subsidiary that owns our equity interests in substantially all of our joint ventures, to the extent such pledge would result in separate financial statements of such Guarantor or of K. Hovnanian JV Holdings, L.L.C. being required in SEC filings;

personal property where the cost of obtaining a security interest or perfection thereof exceeds its benefits;

real property subject to a lien securing indebtedness incurred for the purpose of financing the acquisition thereof;

real property located outside of the United States;

unentitled land;

real property which is leased or held for the purpose of leasing to unaffiliated third parties;

equity interests in subsidiaries other than restricted subsidiaries, except for K. Hovnanian JV Holdings, L.L.C., and subject to future grants under certain circumstances as required under the indenture;

any real property in a community under development with a dollar amount of investment as of the most recent month-end (determined in accordance with GAAP) of less than $2.0 million or with less than 10 lots remaining;

up to $50.0 million of assets received in certain asset dispositions or asset swaps or exchanges made in accordance with the indenture;

assets with respect to which any applicable law or contract prohibits the creation or perfection of security interests therein; and

up to $25.0 million of L/C Collateral, provided that we will use commercially reasonable efforts to obtain the necessary consent of the banks issuing the letters of credit in order to have such L/C Collateral secure the Notes. Upon release of such cash or cash equivalents from the liens securing such letters of credit, such cash and cash equivalents will become subject to a lien in favor of the holders of Notes, pending usage as permitted by the indenture.

Furthermore, the Issuer and the Guarantors will not be required to provide control agreements with respect to certain deposit, checking or securities

accounts with average balances below a certain dollar amount.

At January 31, 2011, the aggregate book value of the real property that constituted part of the collateral securing the Notes was approximately $757.5 million, which does not include the impact of inventory investments, home deliveries, or impairments

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	thereafter and which may differ from the appraised value. In addition, cash collateral that constituted part of the collateral securing the Notes was $273.3 million as of January 31, 2011, which includes $88.3 million of restricted cash also collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments. The incremental value of the stock of Guarantors that would constitute a part of the collateral securing the Notes is not meaningful because the underlying assets of such Guarantors have been separately pledged as collateral. For more details, see the section Description of Notes Security. Subject to limitations in our debt instruments, we may secure indebtedness and other obligations, including our letter of credit agreements and facilities, permitted to be incurred under the indenture governing the Notes by granting liens upon any or all of the collateral securing the Notes. Such indebtedness and other obligations may be secured, subject to certain limits, on an equal or a junior basis with respect to the Notes.
Certain Covenants	The Notes will be issued under an indenture dated as of October 20, 2009, which, among other things, restricts the Issuer s ability and the ability of the Guarantors to: borrow money; pay dividends and distributions on our common and preferred stock; repurchase certain senior and senior subordinated notes and 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 Notes Certain covenants.
Qualified Reopening	We will treat the New Notes as having been issued in a qualified reopening for United States federal income tax purposes, and the following discussion assumes such treatment will be respected. Consequently, the New Notes will be part of the same issue as the

Existing Notes. Because the Existing Notes were issued with original issue discount (OID) for United States federal income tax purposes, the New Notes also will have OID. However, as discussed in further detail below under Certain United States Federal Tax Consequences Certain Tax Consequences to U.S. Holders Amortizable Premium, since the initial offering price of the New

	Notes is greater than their stated principal amount, investors purchasing New Notes pursuant to this offering at their initial offering price will not be required to include any OID in income. See Certain United States Federal Tax Consequences.
Use of Proceeds	We intend to use the net proceeds from this offering together with cash on hand to fund the Redemptions and to pay related fees and expenses.
Risk Factors	See Risk Factors beginning on page S-8 of this prospectus supplement for a discussion of risks you should carefully consider before deciding to invest in the New Notes.

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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.

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 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.

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 January 31, 2011, including the debt of the subsidiaries that guarantee our debt, was $1,630.6 million ($1,616.8 million net of discount); and

- our debt service payments for the 12-month period ended January 31, 2011 were $150.1 million, all of which represents interest incurred as there were no mandatory principal payments on our corporate debt under the terms of our indentures, but 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 January 31, 2011, we had $86.3 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by $88.3 million of cash. Our fees for these letters of credit for the 12 months ended January 31, 2011, which are based on both the used and unused portion of the facilities and agreements, were $1.3 million. We also had substantial contractual commitments and contingent obligations, including approximately $360.9 million of performance bonds as of January 31, 2011.

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 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.

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 significant portion of our business in the California, Maryland, New Jersey, Texas and Virginia 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, Maryland, New Jersey and Virginia 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 fu