

HOVNANIAN ENTERPRISES INC
Form 10-K
December 20, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended OCTOBER 31, 2012

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission file number: 1-8551

Hovnanian Enterprises, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-1851059 (I.R.S. Employer Identification No.)
110 West Front Street, P.O. Box 500, Red Bank, N.J. (Address of Principal Executive Offices)	07701 (Zip Code)

732-747-7800
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$.01 par value per share	New York Stock Exchange
7.25% Tangible Equity Units	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
Depository Shares, each representing 1/1,000th of a share of 7.625% Series A Preferred Stock	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
Class B Common Stock, \$.01 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☒ NonAccelerated Filer ☐ Smaller Reporting Company ☐
(Do Not Check if a smaller reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and nonvoting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) was \$200,205,968.

As of the close of business on December 14, 2012, there were outstanding 119,833,294 shares of the Registrant's Class A Common Stock and 14,658,353 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III — Those portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of stockholders to be held on March 12, 2013, which are responsive to those parts of Part III, Items 10, 11, 12, 13, and 14 as identified herein.

FORM 10-K
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Part I

ITEM 1

BUSINESS

Business Overview

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

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 172 communities in 37 markets in 16 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active adult buyers, and empty nesters. We offer a variety of home styles at base prices ranging from \$68,652 (low income housing) to \$1,067,000 with an average sales price, including options, of \$301,000 nationwide in fiscal 2012.

Our operations span all significant aspects of the home-buying process – from design, construction, and sale, to mortgage origination and title services.

The following is a summary of our growth history:

1959 - Founded by Kevork Hovnanian as a New Jersey homebuilder.

1983 - Completed initial public offering.

1986 - Entered the North Carolina market through the investment in New Fortis Homes.

1992 - Entered the greater Washington, D.C. market.

1994 - Entered the Coastal Southern California market.

1998 - Expanded in the greater Washington, D.C. market through the acquisition of P.C. Homes.

1999 - Entered the Dallas, Texas market through our acquisition of Goodman Homes. Further diversified and strengthened our position as New Jersey's largest homebuilder through the acquisition of Matzel & Mumford.

2001 - Continued expansion in the greater Washington D.C. and North Carolina markets through the acquisition of Washington Homes. This acquisition further strengthened our operations in each of these markets.

2002 - Entered the Central Valley market in Northern California and Inland Empire region of Southern California through the acquisition of Forecast Homes.

2003 - Expanded operations in Texas and entered the Houston market through the acquisition of Parkside Homes and Brighton Homes. Entered the greater Ohio market through our acquisition of Summit Homes and entered the greater metro Phoenix market through our acquisition of Great Western Homes.

2004 - Entered the greater Tampa, Florida market through the acquisition of Windward Homes and started operations in the Minneapolis/St. Paul, Minnesota market.

2005 - Entered the Orlando, Florida market through our acquisition of Cambridge Homes and entered the greater Chicago, Illinois market and expanded our position in Florida and Minnesota through the acquisition of the operations of Town & Country Homes, which occurred concurrently with our entering into a joint venture with affiliates of Blackstone Real Estate Advisors to own and develop Town & Country's existing residential communities. We also entered the Fort Myers market through the acquisition of First Home Builders of Florida, and the Cleveland, Ohio market through the acquisition of Oster Homes.

2006 - Entered the coastal markets of South Carolina and Georgia through the acquisition of Craftbuilt Homes.

Geographic Breakdown of Markets by Segment

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

Northeast: New Jersey and Pennsylvania

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

Midwest: Illinois, Minnesota, and Ohio

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

Southwest: Arizona and Texas

West: California

For financial information about our segments, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 11 to the Consolidated Financial Statements.

Employees

We employed approximately 1,565 full-time employees (whom we refer to as associates) as of October 31, 2012.

Corporate Offices and Available Information

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 available on or through our web site is not a part of this Form 10-K. We make available through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). Copies of the Company's Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request. Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Business Strategies

Although new home demand remains at historically low levels, during fiscal 2012, we began to see the homebuilding market improve resulting in our higher revenues and gross margins, as well as increased contracts and deliveries. Prior to fiscal 2012, the homebuilding market had been in a prolonged downturn. 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. A few years into the downturn, in 2009, we began to see opportunities to purchase land at prices and terms that made economic sense in light of our sales prices and sales paces. As a result, since early 2009 we have been more active in purchasing or putting under option new

properties that meet or exceed our internal rate of return investment requirements. In order to return to profitability, we will need to continue purchasing new land 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, 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.

We prefer to use 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 approach 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.

Operating Policies and Procedures

We attempt to reduce the effect of certain risks inherent in the housing industry through the following policies and procedures:

Training - Our training is designed to provide our associates with the knowledge, attitudes, skills, and habits necessary to succeed in their jobs. Our training department regularly conducts online or webinar training in sales, construction, administration, and managerial skills.

Land Acquisition, Planning, and Development - Before entering into a contract to acquire land, we complete extensive comparative studies and analyses which assist us in evaluating the economic feasibility of such land acquisition. We generally follow a policy of acquiring options to purchase land for future community developments.

- Ωηερε ποσσιβλε, ωε αχθυρε λανδ φορ φυτυρε δεωελομεντ τηρουγη τη υσε οφ λανδ οπτιονσ ωηιχη νεεδ νοτ βε εξερχισεδ βεφορε τη χομπλετιον οφ τη ρεγυλατορψ αππροωαλ προχεσσ. Ωε αττεμπτ το

στρυχτυρε τησε οπτιονσ ωιτη φλεξιβλε τακεδων σχηεδυλεσ ρατηερ τηαν ωιτη αν οβλιγατιον το τακε δοων της εντιρε παρχελ υπον ρεχειωινγ ρεγυλατορψ αππροωαλ. Ιφ ωε αρε υναβλε το νεγοτιατε φλεξιβλε τακεδων σχηεδυλεσ, ωε ωιλλ βυψ παρχελσ ιν α σινγλε βυλκ πυρχηασε. Αδδιτιοναλλψ, ωε πυρχηασε ιμπροωεδ λοτσ ιν χερταιν μαρκετσ βψ αχθυιρινγ α σμαλλ νυμβερ οφ ιμπροωεδ λοτσ ωιτη αν οπτιον ον αδδιτιοναλ λοτσ. Τηισ αλλοωσ υς το μινιμιζε τηε εχονομικ χοστς ανδ ρισκς οφ χαρρψινγ α λαργε λανδ ινϋεντορψ, ωηιλε μαινταινινγ ουρ αβιλιτυ το χομμενχε νεω δεωελοπμεντς δυρινγ φαωοραβλε μαρκετ περιοδς.

- Ουρ οπτιον ανδ πυρχηασε αγρεεμεντς αρε τυπιχαλλψ συβφεχτ το νυμερους χονδιτιονσ, ινχλυδινγ, βυτ νοτ λιμιτεδ το, ουρ αβιλιτυ το οβταιν νεχεσσαρψ γοωερνμενταλ αππροωαλς φορ τηε προποσεδ χομμυνιτυ. Γενεραλλψ, τηε δεποσιτ ον τηε αγρεεμεντ ωιλλ βε ρετυρνεδ το υς ιφ αλλ αππροωαλς αρε νοτ οβταινεδ, αλτηουγη προδεωελοπμεντ χοστς μαψ νοτ βε ρεχοωεραβλε. Βψ παψινγ αν αδδιτιοναλ ανδ νονρεφυνδαβλε δεποσιτ, ωε ηαωε τηε ριγητ το εξτενδ α σιγνιφιχαντ νυμβερ οφ ουρ οπτιονσ φορ ωαρψινγ περιοδς οφ τιμε. Ιν μοστ ινστανχεσ, ωε ηαωε τηε ριγητ το χανχελ ανψ οφ ουρ λανδ οπτιον αγρεεμεντς βψ φορφειτυρε οφ ουρ δεποσιτ ον τηε αγρεεμεντ. Ιν φισχαλ 2012, 2011 ανδ 2010, ρατηερ τηαν πυρχηασε αδδιτιοναλ λοτσ ιν υνδερπερφορμινγ χομμυνιτιεσ, ωε τοοκ αδωανταγε οφ τηισ ριγητ ανδ ωαλκεδ αωαψ φρομ 2,134 λοτσ, 6,983 λοτσ, ανδ 3,102 λοτσ, ρεσπεχτιωελψ, ουτ οφ 13,552 τοταλ λοτσ, 16,896 τοταλ λοτσ, ανδ 17,481 τοταλ λοτσ, ρεσπεχτιωελψ, υνδερ οπτιον, ρεσυλτινγ ιν προταξ χηαργεσ οφ Ξ2.7 μιλλιον, Ξ24.3 μιλλιον, ανδ Ξ13.2 μιλλιον, ρεσπεχτιωελψ.

Design - Our residential communities are generally located in suburban areas easily accessible through public and/or personal transportation. Our communities are designed as neighborhoods that fit existing land characteristics. We strive to create diversity within the overall planned community by offering a mix of homes with differing architecture, textures, and colors. Recreational amenities such as swimming pools, tennis courts, clubhouses, open areas, and tot lots are frequently included.

Construction - We design and supervise the development and building of our communities. Our homes are constructed according to standardized prototypes which are designed and engineered to provide innovative product design while attempting to minimize costs of construction. We generally employ subcontractors for the installation of site improvements and construction of homes. Agreements with subcontractors are generally short term and provide for a fixed price for labor and materials. We rigorously control costs through the use of computerized monitoring systems.

Because of the risks involved in speculative building, our general policy is to construct an attached condominium or townhouse building only after signing contracts for the sale of at least 50% of the homes in that building. A majority of our single family detached homes are constructed after the signing of a sales contract and mortgage approval has been obtained. This limits the buildup of inventory of unsold homes and the costs of maintaining and carrying that inventory.

Materials and Subcontractors - We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors. In recent years, we have experienced no significant construction delays due to shortage of materials or labor; however, we cannot predict the extent to which shortages in necessary materials or labor may occur in the future.

Marketing and Sales - Our residential communities are sold principally through on-site sales offices. In order to respond to our customers' needs and trends in housing design, we rely upon our internal market research group to analyze information gathered from, among other sources, buyer profiles, exit interviews at model sites, focus groups, and demographic databases. We make use of newspaper, radio, television, internet, magazine, our web site, billboard, video and direct mail advertising, special and promotional events, illustrated brochures, and full-sized and scale model homes in our comprehensive marketing program. In addition, we have home design galleries in our Florida, Illinois, New Jersey, North Carolina and Virginia markets, which offer a wide range of customer options to satisfy individual customer tastes.

Customer Service and Quality Control - In many of our markets, associates are responsible for customer service and pre-closing quality control inspections as well as responding to post-closing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by us. Our homes are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a one-year warranty for the home's materials and workmanship, a two-year warranty for the home's heating, cooling, ventilating, electrical, and plumbing systems, and a 10 year warranty for major structural defects. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing - We sell our homes to customers who generally finance their purchases through mortgages. Our financial services segment provides our customers with competitive financing and coordinates and expedites the loan origination transaction through the steps of loan application, loan approval, and closing and title services. We originate loans in Arizona, California, Delaware, Florida, Georgia, Illinois, Maryland, Minnesota, New Jersey, North Carolina, Pennsylvania, South Carolina, Texas, Virginia and Washington, D.C. We believe that our ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

During the year ended October 31, 2012, for the markets in which our mortgage subsidiaries originated loans, 14.6% of our homebuyers paid in cash and 75.9% of our noncash homebuyers obtained mortgages from our mortgage banking subsidiary. The loans we originated in fiscal 2012 were 41.7% Federal Housing Administration/Veterans Affairs (FHA/VA), 55.3% prime, and 3.0% United States Department of Agriculture.

We customarily sell virtually all of the loans and loan-servicing rights that we originate within a short period of time. Loans are sold either individually or against forward commitments to institutional investors, including banks, mortgage banking firms, and savings and loan associations.

Residential Development Activities

Our residential development activities include site planning and engineering, obtaining environmental and other regulatory approvals and constructing roads, sewer, water, and drainage facilities, recreational facilities and other amenities and marketing and selling homes. These activities are performed by our associates, together with independent architects, consultants, and contractors. Our associates also carry out long-term planning of communities. A residential development generally includes single-family detached homes and/or a number of residential buildings containing from two to 24 individual homes per building, together with amenities such as club houses, swimming pools, tennis courts, tot lots, and open areas.

Current base prices for our homes in contract backlog at October 31, 2012, range from \$68,652 (low income housing) to \$1,067,000 in the Northeast, from \$174,990 to \$1,032,195 in the Mid-Atlantic, from \$89,000 to \$547,650 in the Midwest, from \$74,900 to \$749,700 in the Southeast, from \$101,625 to \$800,990 in the Southwest, and from \$104,294 to \$835,000 in the West. Closings generally occur and are typically reflected in revenues within 12 months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2012, is set forth below:

(Housing revenue in thousands)	Housing Revenues	Homes Delivered	Average Price
Northeast	\$218,396	505	\$432,467
Mid-Atlantic	268,880	649	414,299
Midwest	106,539	477	223,352
Southeast	113,347	482	235,160
Southwest	515,757	2,003	257,492
West	182,661	560	326,180
Consolidated total	\$1,405,580	4,676	\$300,595
Unconsolidated joint ventures	320,657	680	471,554
Total including unconsolidated joint ventures	\$1,726,237	5,356	\$322,300

The value of our net sales contracts, excluding unconsolidated joint ventures, increased to \$1.6 billion from \$1.1 billion for the years ended October 31, 2012 and 2011, respectively. The number of homes contracted increased to 5,137 in 2012 from 4,023 in 2011. The increase in the number of homes contracted occurred despite the number of open-for-sale communities decreasing from 192 to 172. We contracted an average of 28.1 homes per average active selling community in 2012 compared to 21.3 homes per active selling community in 2011, demonstrating an increase in sales pace as the homebuilding market has shown signs of improvement.

Information on the value of net sales contracts by segment for the years ended October 31, 2012 and 2011 is set forth below. As a result of the purchase of our partner's interest in one of our unconsolidated joint ventures during fiscal 2012, \$18.7 million of net sales contract dollars have been reclassified from the unconsolidated joint venture total to the Northeast segment total.

(Value of net sales contracts in thousands)	2012	2011	Percentage of Change
Northeast	\$225,168	\$191,270	17.7 %
Mid-Atlantic	250,350	238,143	5.1 %
Midwest	157,385	74,988	109.9 %
Southeast	145,963	88,061	65.8 %

Southwest	590,208	404,715	45.8	%
West	228,624	132,608	72.4	%
Consolidated total	\$1,597,698	\$1,129,785	41.4	%
Unconsolidated joint ventures	318,409	201,817	57.8	%
Total including unconsolidated joint ventures	\$1,916,107	\$1,331,602	43.9	%

The following table summarizes our active selling communities under development as of October 31, 2012. The contracted not delivered and remaining homes available in our active selling communities are included in the consolidated total home sites under the total residential real estate chart in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Active Selling Communities

	Communities	Approved Homes	Homes Delivered	Contracted Not Delivered(1)	Remaining Homes Available(2)
Northeast	16	4,774	3,163	264	1,347
Mid-Atlantic	20	3,984	1,759	266	1,959
Midwest	21	3,694	1,435	427	1,832
Southeast	19	2,004	1,156	235	613
Southwest	84	11,783	7,603	506	3,674
West	12	2,796	1,038	191	1,567
Total	172	29,035	16,154	1,889	10,992

(1) Includes 216 home sites under option.

(2) Of the total remaining homes available, 722 were under construction or completed (including 73 models and sales offices) and 5,816 were under option.

Backlog

At October 31, 2012 and 2011, including unconsolidated joint ventures, we had a backlog of signed contracts for 2,145 homes and 1,663 homes, respectively, with sales values aggregating \$742.2 million and \$552.4 million, respectively. The majority of our backlog at October 31, 2012 is expected to be completed and closed within the next 12 months. At November 30, 2012 and 2011, our backlog of signed contracts, including unconsolidated joint ventures, was 2,138 homes and 1,714 homes, respectively, with sales values aggregating \$745.8 million and \$567.9 million, respectively.

Sales of our homes typically are made pursuant to a standard sales contract that provides the customer with a statutorily mandated right of rescission for a period ranging up to 15 days after execution. This contract requires a nominal customer deposit at the time of signing. In addition, in the Northeast, and some sections of the Mid-Atlantic and Midwest, we typically obtain an additional 5% to 10% down payment due within 30 to 60 days after signing. The contract may include a financing contingency, which permits customers to cancel their obligation in the event mortgage financing at prevailing interest rates (including financing arranged or provided by us) is unobtainable within the period specified in the contract. This contingency period typically is four to eight weeks following the date of execution of the contract. When housing values decline in certain markets, some customers cancel their contracts and forfeit their deposits. Cancellation rates are discussed further in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Sales contracts are included in backlog once the sales contract is signed by the customer, which in some cases includes contracts that are in the rescission or cancellation periods. However, revenues from sales of homes are recognized in the Consolidated Statement of Operations, when title to the home is conveyed to the buyer, adequate initial and continuing investment have been received and there is no continued involvement.

Residential Land Inventory in Planning

It is our objective to control a supply of land, primarily through options, whenever possible, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land (land owned and under option) as of October 31, 2012, exclusive of communities under development described above under “Active Selling Communities” and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities in planning are included in the 28,019 consolidated total home sites under the total residential real estate table in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 36.

Communities in Planning

(Dollars in thousands)	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value
Northeast:				
Under option(1)	10	1,699	\$ 94,733	\$ 5,834
Owned	13	1,053		106,005
Total	23	2,752		111,839
Mid-Atlantic:				
Under option(1)	12	891	\$ 83,776	3,325
Owned	15	2,762		38,062
Total	27	3,653		41,387
Midwest:				
Under option(1)	14	712	\$ 29,383	1,234
Owned	3	233		1,075
Total	17	945		2,309
Southeast:				
Under option(1)	11	675	\$ 28,338	11,705
Owned	17	656		5,393
Total	28	1,331		17,098
Southwest:				
Under option(1)	27	1,379	\$ 99,747	11,661
Owned	3	194		3,646
Total	30	1,573		15,307
West:				
Under option(1)	1	30	\$ 12,036	1,265
Owned	33	4,854		29,791
Total	34	4,884		31,056
Totals:				
Under option(1)	75	5,386	\$ 348,013	35,024
Owned	84	9,752		183,972
Combined total	159	15,138		\$ 218,996

(1) Properties under option also include costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2012, option fees and deposits aggregated approximately \$29.8 million. As of October 31, 2012, we spent an additional \$5.2 million in nonrefundable predevelopment costs on such properties.

We either option or acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a nonrecourse purchase agreement. During the declining homebuilding market, we decided to mothball (or stop development on) certain communities where we determined that current market conditions did not justify further investment at that time. When we decide to mothball a community, the inventory is reclassified on our Consolidated Balance Sheet from Sold and unsold homes and lots under development to Land and land options held for future development or sale. See Note 3 to the Consolidated Financial Statements for further discussion on mothballed communities. For additional financial information regarding our homebuilding segments, see Note 11 to the Consolidated Financial Statements.

Raw Materials

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. We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors.

Seasonality

Our business is seasonal in nature and, historically, weather-related problems, typically in the fall, late winter and early spring, can delay starts or closings and increase costs.

Competition

Our homebuilding operations are highly competitive. We are among the top 10 homebuilders in the United States in both homebuilding revenues and home deliveries. We compete with numerous real estate developers in each of the geographic areas in which we operate. Our competition ranges from small local builders to larger regional builders to publicly owned builders and developers, some of which have greater sales and financial resources than we do. Previously owned homes and the availability of rental housing provide additional competition. We compete primarily on the basis of reputation, price, location, design, quality, service, and amenities.

Regulation and Environmental Matters

We are subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design, construction, and similar matters, including local regulations which impose restrictive zoning and density requirements in order to limit the number of homes that can eventually be built within the boundaries of a particular locality. In addition, we are subject to registration and filing requirements in connection with the construction, advertisement, and sale of our communities in certain states and localities in which we operate even if all necessary government approvals have been obtained. We may also be subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums that could be implemented in the future in the states in which we operate. Generally, such moratoriums relate to insufficient water or sewerage facilities or inadequate road capacity.

In addition, some state and local governments in markets where we operate have approved, and others may approve, slow-growth or no-growth initiatives that could negatively affect the availability of land and building opportunities within those areas. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets and/or could require the satisfaction of additional administrative and regulatory requirements, which could result in slowing the progress or increasing the costs of our homebuilding operations in these markets. Any such delays or costs could have a negative effect on our future revenues and earnings.

We are also subject to a variety of local, state, federal, and foreign laws and regulations concerning protection of health and the environment (“environmental laws”). The particular environmental laws which apply to any given community vary greatly according to the community site, the site’s environmental conditions, and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance, remediation, and/or other costs, and prohibit or severely restrict development and homebuilding activity. See Item 3 “Legal Proceedings” and Note 18 to the Consolidated Financial Statements.

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

ITEM 1A RISK FACTORS

You should carefully consider the following risks in addition to the other information included in this Annual Report on Form 10-K, including the Consolidated Financial Statements and the notes thereto.

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:

- Εμπλοψμεντ λεπελσ ανδ φοβ γρωωτη;
- Απαιλαβιλιτψ οφ φινανχινγ φορ ηομε βυπερσ;
 - Ιντερεστ ρατεσ;
 - Φορεχλοσυρε ρατεσ;
 - Ινφλατιον;
- Αδωερσε χηανγεσ ιν ταξ λαωσ;
- Χονσυμερ χονφιδενχε;
- Ηουσινγ δεμανδ;
- Ποτυλατιον γρωωτη; ανδ
- Απαιλαβιλιτψ οφ ωατερ συππλψ ιν λοχατιονσ ιν ωηιχη ωε οπερατε.

Turmoil in the financial markets could affect our liquidity, and we could also be adversely affected by the negative economic impact resulting from the combination of federal income tax increases and government spending restrictions potentially occurring at the end of calendar year 2012 in the U.S. (commonly referred to as the “fiscal cliff”). In addition, our cash balances are primarily invested in short-term government-backed instruments. The remaining cash balances are held at numerous financial institutions and may, at times, exceed insurable amounts. We seek to mitigate this risk by depositing our cash in major financial institutions and diversifying our investments. In addition, our homebuilding operations often require us to obtain letters of credit. We do not have a revolving credit facility. We have certain stand alone letter of credit facilities and agreements pursuant to which our letters of credit are issued. However, we may need additional letters of credit above the amounts provided under these 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 man-made or natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions can harm the local homebuilding business. For example, our business in Florida was adversely affected in late 2005 and into 2006 due to the effects of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an effect on materials and labor availability or pricing, but did affect the volume of home sales in subsequent weeks. In August 2011 and October 2012, Hurricane Irene and Hurricane Sandy, respectively, caused widespread flooding and disruptions on the Atlantic seaboard, which impacted our sales and construction activity in affected markets during that month.

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

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

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

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

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

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

- Ταξ χρεδισ φορ ηομε βυπερσ προωιδεδ βψ της φεδεραλ γοπερνμεντ ανδ χερταιν στατε γοπερνμεντς, ινχλυδινγ Χαλιφορνια; ανδ
- Συμπορτ οφ της μορτγαγε μαρκετ, ινχλυδινγ τηρουγη πυρχηασεσ οφ μορτγαγε-βαχκεδ σεχυριτιεσ βψ Τηε Φεδεραλ Ρεσερβε Βανκ ανδ της υνδερωριτινγ οφ α συβσταντιαλ αμουντ οφ νεω μορτγαγεσ βψ της Φεδεραλ Ηουσινγ Αδμινιστρατιον (ΦΗΑ) ανδ οτηερ γοπερνμενταλ αγενχιεσ.

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

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

We have a significant amount of debt.

- Ουρ δεβτ (εξχλυδινγ νονρεχουρσε σεχυρεδ δεβτ ανδ δεβτ οφ ουρ φινανχιαλ συβσιδιαριεσ), ας οφ Οχτοβερ 31, 2012, ινχλυδινγ της δεβτ οφ της συβσιδιαριεσ τηατ γυαραντее ουρ δεβτ, ωασ Ξ1,558.7 μιλλιον (Ξ1,542.2 μιλλιον νετ οφ δισχυουντ); ανδ

- Ουρ δεβτ σερωιχε παψμεντς φορ τηε 12–μοντη περιοδ ενδεδ Οχτοβερ 31, 2012 ωερε Ξ141.9 μιλλιον, συβσταντιαλλψ αλλ οφ ωηιχη ρεπρεσεντεδ ιντερεστ ινχυρρεδ ανδ τηε ρεμαινδερ οφ ωηιχη ρεπρεσεντεδ παψμεντς ον τηε πρινχιπαλ οφ ουρ σενιορ συβορδινατεδ αμορτιζινγ νοτεσ, ανδ δο νοτ ινχλυδε πρινχιπαλ ανδ ιντερεστ ον νονρεχουρσε σεχυρεδ δεβτ, δεβτ οφ ουρ φινανχιαλ συβσιδιαριεσ ανδ φεεσ υνδερ ουρ λεττερ οφ χρεδιτ φαχιλιτιεσ ανδ αγρεεμεντς.

In addition, as of October 31, 2012, we had \$29.5 million in aggregate outstanding face amount of letters of credit issued under various letter of credit facilities and agreements, which were collateralized by \$30.7 million of cash. Our fees for these letters of credit for the 12 months ended October 31, 2012, which are based on both the used and unused portion of the facilities and agreements, were \$0.4 million. We also had substantial contractual commitments and contingent obligations, including approximately \$252.0 million of performance bonds as of October 31, 2012. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations.”

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

- Λιμιτ ουρ αβιλιτς το οβταιν φυτυρε φινανχινγ φορ ωορκινγ χαπιταλ, χαπιταλ εξπενδιτυρεσ, αχθυισιτιονσ, δεβτ σερωιχε ρεθυιρεμεντσ, ορ οτηερ ρεθυιρεμεντσ;
- Ρεθυιρε υσ το δεδιχατε α συβσταντιαλ πορτιον οφ ουρ χαση φλω φρομ οπερατιονσ το τηε παωμεντ οφ ουρ δεβτ ανδ ρεδυχε ουρ αβιλιτς το υσε ουρ χαση φλω φορ οτηερ πυρποσεσ;
- Λιμιτ ουρ φλεξιβιλιτς ιν πλαννινγ φορ, ορ ρεαχτινγ το, χηανγεσ ιν ουρ βυσινεσσ;
- Πλαχε υσ ατ α χομπετιτιβε δισαδωανταγε βεχαυσε ωε ηαωε μορε δεβτ τηαν σομε οφ ουρ χομπετιτορσ; ανδ
- Μακε υσ μορε πυλνεραβλε το δωωντυρνσ ιν ουρ βυσινεσσ ανδ γενεραλ εχονομιχ χονδιτιονσ.

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.

Because we do not 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. We used \$67.0 million of cash in operating activities in the fiscal year ended October 31, 2012, and expect to continue to generate negative cash flow, after taking into account land purchases. If the homebuilding industry does not experience improved conditions over the next several years, our cash flows could be insufficient to fund our obligations and support land purchases; if we cannot buy additional land we would ultimately be unable to generate future revenues from the sale of houses. In addition, we may need to further refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all. If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital, or restructure our indebtedness. These alternative measures may not be successful or, if successful, made on desirable terms and may not permit us to meet our debt service obligations. We have also entered into certain cash collateralized letter of credit agreements and facilities that require us to maintain specified amounts of cash in segregated accounts as collateral to support our letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. If our available cash and capital resources are insufficient to meet our debt service and other obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or the proceeds from the dispositions may not be adequate to meet any debt service obligations then due. For additional information about capital resources and liquidity, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Resources and Liquidity.”

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

instruments.

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

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

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

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

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

Our ability to access capital on favorable terms is a key factor in our ability to service our indebtedness to cover our operating expenses, and to fund our other liquidity needs. For example, during fiscal 2011 and thereafter, credit agencies took a series of negative actions, including downgrades, with respect to their credit ratings of us and our debt. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources." 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. Although certain of our credit ratings have recently been upgraded, there can be no assurances that our credit ratings will not be further downgraded in the future, whether as a result of deteriorating general economic conditions, a more protracted downturn in the housing industry, failure to successfully implement our operating strategy, the adverse impact on our results of operations or liquidity position of any of the above, or otherwise.

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

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

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

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

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

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

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots, and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Critical Accounting Policies.” For example, during fiscal 2012, 2011 and 2010, we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of \$2.7 million, \$24.3 million and \$13.2 million, respectively. Also, in fiscal 2012, 2011 and 2010, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of \$9.8 million, \$77.5 million and \$122.5 million, respectively. If market conditions worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

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

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

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

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

Starting in 2007, many lenders have been significantly tightening their underwriting standards, and subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be difficult to obtain, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes will be adversely affected, which will adversely affect our operating

results. In addition, we believe that the availability of mortgage financing, including Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and FHA/VA financing, is an important factor in marketing many of our homes. The maximum size of mortgage loans that are treated as conforming by Fannie Mae and Freddie Mac was reduced on October 1, 2011, which could further weaken home sales in general as mortgages may become more expensive and, if conforming loan limits are further reduced, it could have a material adverse effect on the Company. In addition, HUD continues to tighten FHA underwriting standards. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

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

Significant expenses of owning a home, including mortgage interest expenses and real estate taxes, generally are deductible expenses for an individual's federal, and in some cases state, income taxes, subject to limitations under current tax law and policy. If the federal government or a state government were to change its income tax laws to eliminate or substantially limit these income tax deductions, as has been discussed from time to time, the after-tax cost of owning a new home would increase for many of our potential customers. The loss or reduction of these homeowner tax deductions, if such tax law changes were enacted without any offsetting legislation, would adversely impact demand for and sales prices of new homes, including ours. In addition, increases in property tax rates or fees on developers by local governmental authorities, as experienced in response to reduced federal and state funding or to fund local initiatives such as funding schools or road improvements, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes, and can have an adverse impact on our business and financial results.

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

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At October 31, 2012, we had invested an aggregate of \$61.1 million in these joint ventures, including advances to these joint ventures of approximately \$15.0 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

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

earnings.

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

For example, the Company engaged in discussions with the U.S. Environmental Protection Agency ("EPA") and the U.S. Department of Justice ("DOJ") regarding alleged violations of storm water discharge requirements. In resolution of this matter, in April 2010 we agreed to the terms of a consent decree with the EPA, DOJ and the states of Virginia, Maryland, West Virginia and the District of Columbia (collectively, the "States"). The consent decree was approved by the federal district court in August 2010. Under the terms of the consent decree, we paid a fine of \$1.0 million collectively to the United States and the States named above and have agreed to perform under the terms of the consent decree for a minimum of three years, which includes implementing certain operational and training measures nationwide to facilitate ongoing compliance with storm water regulations. We received in October 2012 a notice from Region III of the EPA concerning stipulated penalties, totaling approximately \$120,000, based on the extent to which we reportedly did not meet certain compliance performance the consent decree specifies, which we have since paid as assessed. Until terminated by court order, which can occur no sooner than three years from the date of its entry, the consent decree remains in effect and could give rise to additional assessments of stipulated penalties. In October 2012, we also received notices from Region III of the EPA concerning alleged violations of stormwater discharge permits, issued in 2010 pursuant to the federal Clean Water Act, at two projects in Maryland; we are negotiating with the EPA a resolution of these more recent administrative proceedings that would involve our paying a penalty and agreeing to certain measures in order to comply with those permits.

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

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

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

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, we may experience losses that could hurt our financial results. Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims. We have received construction defect and home warranty claims associated with allegedly defective drywall manufactured in China (“Chinese Drywall”) that may be responsible for noxious smells and accelerated corrosion of certain metals in certain homes we have developed. We have remediated certain such homes and have received claims or notices regarding 2 additional homes with Chinese Drywall that may require remediation. In addition, we were involved, among a number of other defendants, in a multidistrict litigation (which has been settled) in which 61 homes located in our Florida and Houston markets were alleged to have Chinese Drywall requiring remediation. If additional homes are identified to have the Chinese Drywall issue, or our actual costs to remediate differ from our current estimated costs, we may be required to revise our construction defect and home warranty reserves.

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

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

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

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

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

- διφφιχυλτψ ιν αχθυιρινγ συιταβλε λανδ ατ αχχεπταβλε πριχεσ;
 - ινχρεασεδ σελλινγ ινχεντιϖεδσ;
 - λοωερ σαλεσ; ορ
 - δελαψσ ιν χονστρυχτιον.

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

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

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

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

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

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

Members of the Hovnanian family, including Ara K. Hovnanian, our chairman of the board, president and chief executive officer, have voting control, through personal holdings, the limited partnership established for members of Mr. Hovnanian's family, family trusts and shares held by the estate of our former chairman, Kevork S. Hovnanian, of Class A and Class B common stock that enables them to cast approximately 56.3% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of the Board and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

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

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

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

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

In August 2008, we announced that the Board adopted a shareholder rights plan (the “Rights Plan”) designed to preserve shareholder value and the value of certain tax assets primarily associated with net loss carryforwards and built-in losses under Section 382 of the Code, and on December 5, 2008, our stockholders approved the Board’s decision to adopt the Rights Plan. The Rights Plan is intended to act as a deterrent to any person or group acquiring 4.9% or more of our outstanding Class A common stock (any such person an “Acquiring Person”), without the approval of the Company’s board of directors. Subject to the terms, provisions and conditions of the Rights Plan, if and when they become exercisable, each right would entitle its holder to purchase from the Company one ten-thousandth of a share of the Company’s Series B Junior Preferred Stock for a purchase price of \$35.00 per share (the “purchase price”). The rights will not be exercisable until the earlier of (i) 10 business days after a public announcement by us that a person or group has become an Acquiring Person and (ii) 10 business days after the commencement of a tender or exchange offer by a person or group for 4.9% of the Class A common stock (the “distribution date”). If issued, each fractional share of Series B Junior Preferred Stock would give the stockholder approximately the same dividend, voting and liquidation rights as does one share of the Company’s Class A common stock. However, prior to exercise, a right does not give its holder any rights as a stockholder of the Company, including without limitation any dividend, voting or liquidation rights. After the Distribution Date, each holder of a right, other than rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a right and payment of the Purchase Price, that number of shares of Class A Common Stock or Class B Common Stock, as the case may be, having a market value of two times the Purchase Price. After the Distribution Date, our board of directors may exchange the rights (other than rights owned by an Acquiring Person which will have become void), in whole or in part, at an exchange ratio of one share of Common Stock, or a fractional share of Series B Preferred Stock (or of a share of a similar class or series of Hovnanian's preferred stock having similar rights, preferences and privileges) of equivalent value, per right (subject to adjustment).

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

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

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

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

Geopolitical events, such as the aftermath of the war with Iraq and the continuing involvement in Afghanistan, may have a substantial impact on the economy and the housing market. The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 had an impact on our business and the occurrence of similar events in the future cannot be ruled out. The war and the continuing involvement in Afghanistan, terrorism, and related geopolitical

risks have created many economic and political uncertainties, some of which may have additional material adverse effects on the U.S. economy, and our customers and, in turn, our results of operations and financial condition.

ITEM 1B

UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 PROPERTIES

We own a 69,000 square-foot office complex located in the Northeast that serves as our corporate headquarters. We own 215,000 square feet of office and warehouse space throughout the Midwest. We lease approximately 506,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest, and West. Included in this amount is 88,000 square feet of abandoned lease space.

ITEM 3 LEGAL PROCEEDINGS

We are involved in litigation arising in the ordinary course of business, none of which is expected to have a material adverse effect on our financial position or results of operations, and we are subject to extensive and complex regulations that affect the development and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding.

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

We received in October 2012 a notice from Region III of the EPA concerning stipulated penalties, totaling approximately \$120,000, based on the extent to which we reportedly did not meet certain compliance performance specified in the previously reported consent decree entered into in August 2010; we have since paid the stipulated penalties as assessed. Until terminated by court order, which can occur no sooner than three years from the date of its entry, the consent decree remains in effect and could give rise to additional assessments of stipulated penalties. In October 2012, we also received notices from Region III of EPA concerning alleged violations of stormwater discharge permits, issued in 2010 pursuant to the federal Clean Water Act, at two projects in Maryland; we are negotiating with the EPA a resolution of these more recent administrative proceedings that would involve our paying a penalty and agreeing to certain measures in order to comply with those permits. We do not expect the impact on us to be material.

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

The Company is also involved in the following litigation:

Hovnanian Enterprises, Inc. and K. Hovnanian Venture I, L.L.C. have been named as defendants in a class action suit. The action was filed by Mike D'Andrea and Tracy D'Andrea, on behalf of themselves and all others similarly situated in the Superior Court of New Jersey, Gloucester County. The action was initially filed on May 8, 2006 alleging that the HVAC systems installed in certain of the Company's homes are in violation of applicable New Jersey building codes and are a potential safety issue. On December 14, 2011, the Superior Court granted class certification; the potential class is 1,065 homes. We filed a request to take an interlocutory appeal regarding the class certification decision. The Appellate Division denied the request, and we filed a request for interlocutory review by the New Jersey

Supreme Court, which remanded the case back to the Appellate Division for a review on the merits of the appeal on May 8, 2012. The plaintiff seeks unspecified damages as well as treble damages pursuant to the NJ Consumer Fraud Act. The Company believes there is insurance coverage available to it for this action. While we have determined that a loss related to this case is not probable, it is not possible to estimate a loss or range of loss related to this matter at this time given the class certification is still in review by the Appellate Division. On December 19, 2011, certain subsidiaries of the Company filed a separate action seeking indemnification against the various manufactures and subcontractors implicated by the class action.

ITEM 4

MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

Information on executive officers of the registrant is incorporated herein from Part III, Item 10.

Part II

ITEM 5

MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock is traded on the New York Stock Exchange under the symbol "HOV" and was held by 529 stockholders of record at December 14, 2012. There is no established public trading market for our Class B Common Stock, which was held by 250 stockholders of record at December 14, 2012. In order to trade Class B Common Stock, the shares must be converted into Class A Common Stock on a one-for-one basis. The high and low closing sales prices for our Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 2012 and 2011:

Quarter	Oct. 31, 2012		Oct. 31, 2011	
	High	Low	High	Low
First	\$2.67	\$1.23	\$4.96	\$3.54
Second	\$3.24	\$1.88	\$4.67	\$3.21
Third	\$2.94	\$1.61	\$3.04	\$1.90
Fourth	\$4.44	\$2.25	\$1.94	\$1.03

Certain debt instruments to which we are a party contain restrictions on the payment of cash dividends. As a result of the most restrictive of these provisions, we are not currently able to pay any cash dividends. We have never paid a cash dividend to common stockholders.

Recent Sales of Unregistered Equity Securities

None.

Issuer Purchases of Equity Securities

No shares of our Class A Common Stock or Class B Common Stock were purchased by or on behalf of the Company or any affiliated purchaser during the fiscal fourth quarter of 2012. The maximum number of shares that may yet be purchased under the Company's repurchase plans or programs is 0.5 million.

ITEM 6

SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data and should be read in conjunction with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

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Summary Consolidated Statements of Operations Data (In thousands, Except Per Share Data)	Year Ended				
	October 31, 2012	October 31, 2011	October 31, 2010	October 31, 2009	October 31, 2008
Revenues	\$ 1,485,353	\$ 1,134,907	\$ 1,371,842	\$ 1,596,290	\$ 3,308,111
Expenses	1,550,406	1,323,316	1,557,428	1,972,978	3,692,556
Inventory impairment loss and land option write-offs	12,530	101,749	135,699	659,475	710,120
Goodwill and intangible amortization and impairment	-	-	-	-	36,883
(Loss) gain on extinguishment of debt	(29,066)	7,528	25,047	410,185	-
Gain (loss) from unconsolidated joint ventures	5,401	(8,958)	956	(46,041)	(36,600)
Loss before income taxes	(101,248)	(291,588)	(295,282)	(672,019)	(1,168,048)
State and federal (benefit) income tax provision	(35,051)	(5,501)	(297,870)	44,693	(43,458)
Net (loss) income	(66,197)	(286,087)	2,588	(716,712)	(1,124,590)
Less: preferred stock dividends	-	-	-	-	-
Net (loss) income available to common stockholders	\$ (66,197)	\$ (286,087)	\$ 2,588	\$ (716,712)	\$ (1,124,590)
Per share data:					
Basic:					
(Loss) income per common share	\$ (0.52)	\$ (2.85)	\$ 0.03	\$ (9.16)	\$ (16.04)
Weighted-average number of common shares outstanding	126,350	100,444	78,691	78,238	70,131
Assuming dilution:					
(Loss) income per common share	\$ (0.52)	\$ (2.85)	\$ 0.03	\$ (9.16)	\$ (16.04)
Weighted-average number of common shares outstanding	126,350	100,444	79,683	78,238	70,131

Summary Consolidated Balance Sheet Data

(In thousands)	October 31, 2012	October 31, 2011	October 31, 2010	October 31, 2009	October 31, 2008
Total assets	\$ 1,684,250	\$ 1,602,180	\$ 1,817,560	\$ 2,024,577	\$ 3,637,322
Mortgages, term loans, revolving credit agreements, and notes payable	\$ 164,562	\$ 95,598	\$ 98,613	\$ 77,364	\$ 107,913
Senior secured notes, senior notes, senior amortizing notes, senior exchangeable notes and TEU senior subordinated amortizing notes (net of discount)	\$ 1,542,196	\$ 1,602,770	\$ 1,616,347	\$ 1,751,701	\$ 2,505,805
Total equity (deficit)	\$ (485,345)	\$ (496,602)	\$ (337,938)	\$ (348,868)	\$ 330,264

Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends

For purposes of computing the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of earnings from continuing operations before income taxes and income or loss from equity investees, plus fixed charges and distributed income of equity investees, less interest

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

	Years Ended October 31,				
	2012	2011	2010	2009	2008
Ratio of earnings to fixed charges	(a)	(a)	(a)	(a)	(a)
Ratio of earnings to combined fixed charges and preferred stock dividends	(b)	(b)	(b)	(b)	(b)

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

ITEM 7

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During fiscal 2012, the housing market began to improve and, as a result, we began to see positive operating trends, including year over year improvements for the year ended October 31, 2012 compared to the year ended October 31, 2011, such as: contract growth of 27.7%, an increase in gross margin percentage from 15.6% to 17.8% and a decrease in selling, general and administrative costs (including corporate general and administrative expenses) as a percentage of total revenue from 18.6% to 12.8%. In addition, our contract cancellation rate of 23% in the fourth quarter of fiscal 2012, was more typical of what we believe to be a normalized level. Active selling communities decreased to 172 at October 31, 2012 compared to 192 in the same period a year ago, as net contracts per average active selling community increased to 28.1 for the year ended October 31, 2012 compared to 21.3 in the same period in the prior year. While we are encouraged by the positive operating trends of fiscal 2012, several challenges such as persistently high unemployment levels, national and global economic weakness and uncertainty, the restrictive mortgage lending environment and the potential for more foreclosures continue to threaten a recovery in the housing market. Our recent operating results and other national data indicate that the overall demand for new homes during fiscal 2012 has improved from the prior year. However, both national new home sales and our home sales remain below historical levels. Until there is a more robust U.S. economic recovery, we expect national demand for new homes to remain at historically low levels, with uneven improvement across our operating markets.

During the prolonged downturn of the housing market, we adjusted our approach to land acquisition and construction practices and shortened our land pipeline, reduced production volumes, and balanced home price and profitability with sales pace. We delayed and cancelled planned land purchases, renegotiated land prices and significantly reduced our total number of controlled lots owned and under option. Additionally, we significantly reduced our total number of speculative homes put into production. Since January 2009, however, we began to see more opportunities to purchase land at prices that made economic sense in light of our sales prices and sales paces and plan to continue pursuing such land acquisitions. New land purchases at pricing that we believe will generate appropriate investment returns and drive greater operating efficiencies are needed to return to sustained profitability. During fiscal 2012, we opened 61 new communities, purchased approximately 3,600 lots within 163 newly identified communities (which we define as communities that were controlled subsequent to January 31, 2009) and optioned approximately 6,600 lots in 222 newly identified communities. Also during fiscal 2012, we sold 828 of our owned lots to GSO Capital Partners LP ("GSO"), for proceeds of \$49.8 million, net of transaction costs of \$1.1 million, with the option to purchase back finished lots on a quarterly basis. From October 31, 2011 through October 31, 2012, our active community count decreased by 20 communities as a result of increased sales pace. We continue to consider and make new land acquisitions to replenish our community count. We have also continued to closely evaluate and make reductions in selling, general and administrative expenses, including corporate general and administrative expenses, reducing these expenses \$21.1 million from \$211.4 million for fiscal 2011 to \$190.3 million for fiscal 2012 due to the continued tightening of variable spending across all of our operating segments. Given the persistence of these difficult market conditions, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus. For the year ended October 31, 2012, homebuilding selling, general and administrative costs declined 12.0% to \$142.1 million compared to the year ended October 31, 2011.

Critical Accounting Policies

Management believes that the following critical accounting policies require its most significant judgments and estimates used in the preparation of the consolidated financial statements:

Income Recognition from Home and Land Sales - We are primarily engaged in the development, construction, marketing and sale of residential single-family and multi-family homes where the planned construction cycle is less than 12 months. For these homes, in accordance with ASC 360-20, “Property, Plant and Equipment - Real Estate Sales” (“ASC 360-20”), revenue is recognized when title is conveyed to the buyer, adequate initial and continuing investments have been received, and there is no continued involvement. In situations where the buyer’s financing is originated by our mortgage subsidiary and the buyer has not made an adequate initial investment or continuing investment as prescribed by ASC 360-20, the profit on such sales is deferred until the sale of the related mortgage loan to a third-party investor has been completed.

Income Recognition from Mortgage Loans - Our Financial Services segment originates mortgages, primarily for our homebuilding customers. We use mandatory investor commitments and forward sales of mortgage-backed securities ("MBS") to hedge our mortgage-related interest rate exposure on agency and government loans.

We elected the fair value option for our mortgage loans held for sale in accordance with ASC 825, "Financial Instruments", which permits us to measure our loans held for sale at fair value. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions.

Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations and warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to the sellers' representations and warranties in particular loan sale agreements. We have established reserves for probable losses.

Inventories - Inventories consist of land, land development, home construction costs, capitalized interest and construction overhead and property taxes. Construction costs are accumulated during the period of construction and charged to cost of sales under specific identification methods. Land, land development, and common facility costs are allocated based on buildable acres to product types within each community, then charged to cost of sales equally based upon the number of homes to be constructed in each product type.

We record inventories in our consolidated balance sheets at cost unless the inventory is determined to be impaired, in which case the inventory is written down to its fair value. Our inventories consist of the following three components: (1) sold and unsold homes and lots under development, which includes all construction, land, capitalized interest, and land development costs related to started homes and land under development in our active communities; (2) land and land options held for future development or sale, which includes all costs related to land in our communities in planning or mothballed communities; and (3) consolidated inventory not owned, which includes all costs related to specific performance options, variable interest entities, and other options, which consists primarily of model homes financed with an investor and inventory related to land banking arrangements.

We decide to mothball (or stop development on) certain communities when we determine that current market conditions do not justify further investment at that time. When we decide to mothball a community, the inventory is reclassified on our consolidated balance sheets from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale". As of October 31, 2012, the net book value associated with our 53 mothballed communities was \$124.2 million, net of impairment charges of \$467.8 million. We regularly review communities to determine if mothballing is appropriate. During fiscal 2012, we mothballed one community previously held for sale, re-activated two communities and sold five communities which were previously mothballed.

During fiscal 2012, we entered into certain model sale leaseback financing arrangements, whereby we sold and leased back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement, for accounting purposes, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Consolidated Balance Sheet, the inventory of \$33.7 million was reclassified to consolidated inventory not owned, with a \$32.9 million liability from inventory not owned for the amount of net cash received.

During fiscal 2012, we entered into a land banking arrangement with GSO Capital Partners LP (“GSO”). We sold a portfolio of our land parcels to GSO, and GSO provided us an option to purchase back finished lots on a quarterly basis. Because of our option to repurchase these parcels, for accounting purposes, this transaction is considered a financing rather than a sale. For purposes of our Consolidated Balance Sheet, the inventory of \$56.9 million was reclassified to consolidated inventory not owned, with a \$44.8 million liability from inventory not owned recorded for the amount of net cash received.

The recoverability of inventories and other long-lived assets is assessed in accordance with the provisions of ASC 360-10, “Property, Plant and Equipment - Overall” (“ASC 360-10”). ASC 360-10 requires long-lived assets, including inventories, held for development to be evaluated for impairment based on undiscounted future cash flows of the assets at the lowest level for which there are identifiable cash flows. As such, we evaluate inventories for impairment at the individual community level, the lowest level of discrete cash flows that we measure.

We evaluate inventories of communities under development and held for future development for impairment when indicators of potential impairment are present. Indicators of impairment include, but are not limited to, decreases in local housing market values, decreases in gross margins or sales absorption rates, decreases in net sales prices (base sales price net of sales incentives), or actual or projected operating or cash flow losses. The assessment of communities for indication of impairment is performed quarterly. As part of this process, we prepare detailed budgets for all of our communities at least semi-annually and identify those communities with a projected operating loss. For those communities with projected losses, we estimate the remaining undiscounted future cash flows and compare those to the carrying value of the community, to determine if the carrying value of the asset is recoverable.

The projected operating profits, losses, or cash flows of each community can be significantly impacted by our estimates of the following:

- future base selling prices;
- future home sales incentives;
- future home construction and land development costs; and
- future sales absorption pace and cancellation rates.

These estimates are dependent upon specific market conditions for each community. While we consider available information to determine what we believe to be our best estimates as of the end of a quarterly reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. Local market-specific conditions that may impact our estimates for a community include:

- the intensity of competition within a market, including available home sales prices and home sales incentives offered by our competitors;
- the current sales absorption pace for both our communities and competitor communities;
- community specific attributes, such as location, availability of lots in the market, desirability and uniqueness of our community, and the size and style of homes currently being offered;
- potential for alternative product offerings to respond to local market conditions;
- changes by management in the sales strategy of the community;
- current local market economic and demographic conditions and related trends of forecasts; and
- existing home inventory supplies, including foreclosures and short sales.

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be

sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair-value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written-down to its fair value. We determine the estimated fair value of each community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community, or in limited circumstances, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale), and recent bona fide offers received from outside third parties. Our discount rates used for all impairments recorded from October 31, 2010 to October 31, 2012 ranged from 16.8% to 20.3%. The estimated future cash flow assumptions are virtually the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative fair value basis.

From time to time, we write off deposits and approval, engineering and capitalized interest costs when we determine that it is no longer probable that we will exercise options to buy land in specific locations or when we redesign communities and/or abandon certain engineering costs. In deciding not to exercise a land option, we take into consideration changes in market conditions, the timing of required land takedowns, the willingness of land sellers to modify terms of the land option contract (including timing of land takedowns), and the availability and best use of our capital, among other factors. The write-off is recorded in the period it is deemed not probable that the optioned property will be acquired. In certain instances, we have been able to recover deposits and other pre-acquisition costs that were previously written off. These recoveries have not been significant in comparison to the total costs written off.

Inventories held for sale are land parcels ready for sale in their current condition, where we have decided not to build homes but are instead actively marketing for sale. These land parcels represented \$4.4 million of our total inventories at October 31, 2012, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Insurance Deductible Reserves - For homes delivered in fiscal 2012 and 2011, our deductible under our general liability insurance is \$20 million per occurrence for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2012 and 2011 is \$0.1 million up to a \$5 million limit. Our aggregate retention in 2012 and 2011 is \$21 million for construction defect, warranty and bodily injury claims. We do not have a deductible on our worker's compensation insurance. Reserves for estimated losses for construction defects, warranty, bodily injury and worker's compensation claims have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty and construction defect data and worker's compensation data to assist our management in estimating our unpaid claims, claim adjustment expenses and incurred but not reported claims reserves for the risks that we are assuming under the general liability and worker's compensation programs. The estimates include provisions for inflation, claims handling and legal fees. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices, and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts.

Land Options - Deposits on options to acquire improved or unimproved home sites and pre-development costs incurred on this land under option are capitalized. Such amounts are either included as part of the purchase price if the land is acquired or charged to operations if we determine we will not exercise the option. If the options are with variable interest entities and we are the primary beneficiary, we record the land under option on the Consolidated Balance Sheets under "Consolidated inventory not owned" with an offset under "Liabilities from inventory not owned". The evaluation of whether or not we are the primary beneficiary can require significant judgment. Similarly, if the option obligation is to purchase under specific performance or has terms that require us to record it as financing, then we record the option on the Condensed Consolidated Balance Sheets under "Consolidated inventory not owned" with an offset under "Liabilities from inventory not owned". We record costs associated with other options on the Consolidated Balance Sheets under "Land and land options held for future development or sale".

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interest in joint ventures varies but our voting interests are generally less than or equal to 50%. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of

control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, "Investments - Equity Method and Joint Ventures - Overall" ("ASC 323-10"), we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture's projected cash flows. This process requires significant management judgment and estimates. During fiscal 2011 and fiscal 2012, there were no write-downs of our joint venture investments.

Post-Development Completion and Warranty Costs - In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. In addition, we estimate and accrue warranty costs as part of cost of sales for repair costs under \$5,000 per occurrence to homes, community amenities and land development infrastructure. We also accrue for warranty costs over \$5,000 per occurrence as part of our general liability insurance deductible expensed as selling, general, and administrative costs. Warranty accruals require our management to make significant estimates about the cost of future claims. Both of these liabilities are recorded in "Accounts payable and other liabilities" on the Consolidated Balance Sheets.

Income Taxes - Deferred income taxes or income tax benefits are provided for temporary differences between amounts recorded for financial reporting and for income tax purposes. If the combination of future years' income (or loss) combined with the reversal of the timing differences results in a loss, such losses can be carried back to prior years or carried forward to future years to recover the deferred tax assets. In accordance with ASC 740-10, "Income Taxes - Overall" ("ASC 740-10"), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. ASC 740-10 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more-likely-than-not" standard. See "Total Taxes" below under "Results of Operations" for further discussion of the valuation allowances.

In evaluating the exposures associated with our various tax filing positions, we recognize tax liabilities in accordance with ASC 740-10, for more likely than not exposures. We re-evaluate the exposures associated with our tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision. A number of years may elapse before a particular matter for which we have established a liability is audited and fully resolved or clarified. We adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, or the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a liability that is materially different from our current estimate. Any such changes will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Recent Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K. There have been no accounting pronouncements that have been issued but not yet implemented that we believe will materially impact our financial statements.

Capital Resources and Liquidity

Our operations consist primarily of residential housing development and sales in the Northeast (New Jersey, Pennsylvania), the Mid-Atlantic (Delaware, Maryland, Virginia, West Virginia, Washington D.C.), the Midwest (Illinois, Minnesota, Ohio), the Southeast (Florida, Georgia, North Carolina, South Carolina), the Southwest (Arizona, Texas), and the West (California). In addition, we provide certain financial services to our homebuilding customers.

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities (when we had such facilities for our homebuilding operations) and the issuance of new debt and equity securities. During the prolonged housing market downturn that began in late 2006, we had been operating with a primary focus to generate cash flows from operations through reductions in assets during fiscal 2007 through fiscal 2009. The generation of cash flow, together with debt repurchases and exchanges at

prices below par, allowed us to reduce net debt (notes payable, excluding accrued interest, less homebuilding cash and cash equivalents) during fiscal 2008 and 2009 by approximately \$773 million. Since the latter half of fiscal 2009, we have seen more opportunities to purchase land at prices that make economic sense given the then-current home sales prices and sales paces. As such, since that time, despite acquiring new land at higher levels than in the previous few years we have been able to further reduce our net debt by approximately \$48 million.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, mortgage loans held for sale, interest and other accrued liabilities, deferred income taxes, accounts payable and other liabilities, and noncash charges relating to depreciation, amortization of computer software costs, stock compensation awards and impairment losses for inventory. When we are expanding our operations, inventory levels, prepaids, and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, which is what happened during the last half of fiscal 2007 through fiscal 2009, allowing us to generate positive cash flow from operations during this period. Since the latter part of fiscal 2009 cumulative through October 31, 2012, as a result of the new land purchases and land development we have used cash in operations as we add new communities. Looking forward, given the unstable housing market, it will continue to be difficult to generate positive cash flow from operations until we return to sustained profitability. However, we will continue to make adjustments to our structure and our business plans in order to maximize our liquidity while also taking steps to return to sustained profitability, including through land acquisitions.

Our homebuilding cash balance at October 31, 2012 increased by \$14.0 million from October 31, 2011. The significant uses of cash during fiscal 2012 were primarily due to spending approximately \$363.8 million on land and land development, and for repurchases of certain of our senior and senior secured notes. Through the third quarter of fiscal 2012, we spent \$75.4 million for principal payments and debt repurchases of certain of our senior and senior secured notes and \$22.1 million for the November 2011 debt exchange discussed below. In the fourth quarter of fiscal 2012, we issued \$797.0 million of new senior secured notes and \$100.0 million of senior exchangeable notes units, and used the proceeds for the tender offer and redemption of \$797.0 million of then existing senior secured notes at a premium, resulting in net cash paid of \$22.8 million. These cash uses were partially offset by \$47.3 million of proceeds received through the April 2012 common stock issuance, \$32.9 million of net proceeds from model sale leaseback financing programs, \$44.8 million of net proceeds from a new land banking arrangement and a \$31.8 million reduction of homebuilding restricted cash. Most of this restricted cash became unrestricted as the letters of credit the cash collateralized were released during fiscal 2012. The remaining change in cash came from normal operations.

Our cash uses during fiscal 2012 and 2011 were for operating expenses, land purchases, land deposits, land development, construction spending, debt payments, repurchases, state income taxes, interest payments and investments in joint ventures. During these periods, we funded our cash requirements from available cash on hand, debt and equity issuances, housing and land sales, model sale leasebacks, land banking deals, financial service revenues, and other revenues. We believe that these sources of cash will be sufficient through fiscal 2013 to finance our working capital requirements and other needs. However, if necessary, potential additional sources to generate cash could include entering into additional joint ventures or land banking deals, issuing equity for cash or debt, selling excess land, entering into additional model sale leasebacks, limiting started unsold homes, delaying or reducing land purchases and take-downs or reducing land development spending.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. During fiscal 2012, we repurchased 0.1 million shares under this program, but we did not repurchase any shares under this program during fiscal 2011 or 2010. As of October 31, 2012, 3.5 million shares of Class A Common Stock have been purchased under this program (See Part II, Item 5 for information on equity purchases).

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of \$25,000. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares beginning on the fifth anniversary of their issuance. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on the NASDAQ Global Market under the symbol "HOVNP". In fiscal 2012, 2011, and 2010, we did not make any dividend payments on the Series A Preferred Stock as a result of covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

On October 20, 2009, K. Hovnanian Enterprises, Inc. ("K. Hovnanian") issued \$785.0 million (\$770.9 million net of discount) of 10.625% Senior Secured Notes due October 15, 2016. The notes are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets owned by us, K. Hovnanian and the guarantors. The net proceeds from this issuance, together with cash on hand, were used to fund certain cash tender offers and consent solicitations for our then outstanding 11.5% Senior Secured Notes due 2013 and 18.0% Senior Secured Notes due 2017 and certain series of our unsecured notes. In May 2011, we issued \$12.0 million of additional 10.625% Senior Secured Notes due 2016 as discussed below. The 10.625% Senior Secured Notes due 2016 were the subject of a tender offer in October 2012, and the notes that were not tendered in the tender offer were redeemed, as discussed below.

On January 15, 2010, the remaining \$13.6 million principal amount of our 6.0% Senior Subordinated Notes due 2010 matured and was paid. During the year ended October 31, 2010, we repurchased in open market transactions \$27.0 million principal amount of 6.5% Senior Notes due 2014, \$54.5 million principal amount of 6.375% Senior Notes due 2014, \$29.5 million principal amount of 6.25% Senior Notes due 2015, \$1.4 million principal amount of 8.875% Senior Subordinated Notes due 2012, and \$11.1 million principal amount of 7.75% Senior Subordinated Notes due 2013. The aggregate purchase price for these repurchases was \$97.9 million, plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$25.0 million for the year ended October 31, 2010, net of the write-off of unamortized discounts and fees.

On February 9, 2011, we issued 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.

On February 9, 2011, we issued an aggregate of 3,000,000 7.25% Tangible Equity Units (the “Units”), and on February 14, 2011, we issued an additional 450,000 Units pursuant to the over-allotment option granted to the underwriters. Each Unit initially consists of (i) a prepaid stock purchase contract (each a “Purchase Contract”) and (ii) a senior subordinated amortizing note due February 15, 2014 (each, a “Senior Subordinated Amortizing Note”). As of October 31, 2012 and 2011, we had an aggregate principal amount of \$6.1 million and \$13.3 million, respectively, of Senior Subordinated Amortizing Notes outstanding. On each February 15, May 15, August 15 and November 15, K. Hovnanian will pay holders of Senior Subordinated Amortizing Notes equal quarterly cash installments of \$0.453125 per Senior Subordinated Amortizing Note, which cash payments in the aggregate will be equivalent to 7.25% per year with respect to each \$25 stated amount of Units. Each installment constitutes a payment of interest (at a rate of 12.072% per annum) and a partial repayment of principal on the Senior Subordinated Amortizing Notes, allocated as set forth in the amortization schedule provided in the indenture under which the Senior Subordinated Amortizing Notes were issued. The Senior Subordinated Amortizing Notes have a scheduled final installment payment date of February 15, 2014. If we elect to settle the Purchase Contracts early, holders of the Senior Subordinated Amortizing Notes will have the right to require K. Hovnanian to repurchase such holders’ Senior Subordinated Amortizing Notes, except in certain circumstances as described in the indenture governing Senior Subordinated Amortizing Notes.

Unless settled earlier, on February 15, 2014 (subject to postponement under certain circumstances), each Purchase Contract will automatically settle and we will deliver a number of shares of Class A Common Stock based on the applicable market value, as defined in the purchase contract agreement, which will be between 4.7655 shares and 5.8140 shares per Purchase Contract (subject to adjustment). Each Unit may be separated into its constituent Purchase Contract and Senior Subordinated Amortizing Note after the initial issuance date of the Units, and the separate components may be combined to create a Unit. The Senior Subordinated Amortizing Note component of the Units is recorded as debt, and the Purchase Contract component of the Units is recorded in equity as additional paid in capital. We have recorded \$68.1 million, the initial fair value of the Purchase Contracts, as additional paid in capital. As of October 31, 2012, 1.6 million Purchase Contracts have been converted into 7.7 million shares of our Class A Common Stock.

During the second quarter of fiscal 2012, we exchanged pursuant to agreements with bondholders approximately \$3.1 million aggregate principal amount of our Senior Subordinated Amortizing Notes for shares of our Class A Common Stock, as discussed in Note 3 to the Consolidated Financial Statements. These transactions resulted in a gain on extinguishment of debt of \$0.2 million for the year ended October 31, 2012.

On February 14, 2011, K. Hovnanian issued \$155.0 million aggregate principal amount of 11.875% Senior Notes due 2015, which are guaranteed by us and substantially all of our subsidiaries. These notes were the subject of a November 2011 exchange offer discussed below. The net proceeds from the issuances of the 11.875% Senior Notes due 2015, Class A Common Stock described above, and Units were approximately \$286.2 million, a portion of which were used to fund the purchase through tender offers, on February 14, 2011, of the following series of K. Hovnanian’s senior and senior subordinated notes: approximately \$24.6 million aggregate principal amount of 8.0% Senior Notes due 2012, \$44.1 million aggregate principal amount of 8.875% Senior Subordinated Notes due 2012 and \$29.2 million aggregate principal amount of 7.75% Senior Subordinated Notes due 2013. On February 14, 2011, K. Hovnanian called for redemption on March 15, 2011 all outstanding notes of such series 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 offerings of the Class A Common Stock, the Units and the 11.875% Senior Notes due 2015. In both, the tender offers and redemptions, we paid a premium, incurred fees, and wrote off discounts and prepaid costs that we were amortizing over the term of notes.

On May 4, 2011, K. Hovnanian issued \$12.0 million of additional 10.625% Senior Secured Notes due 2016 resulting in net proceeds of approximately \$11.6 million. On June 3, 2011, we used these net proceeds together with cash on

hand, to fund the redemption of the remaining outstanding principal amount (\$0.5 million) of our 11.5% Senior Secured Notes due 2013 and the remaining outstanding principal amount (\$11.7 million) of our 18.0% Senior Secured Notes due 2017. These transactions, along with the tender offers and redemptions in February and March 2011 discussed above, resulted in a loss of \$3.1 million during the year ended October 31, 2011.

On November 1, 2011, we issued \$141.8 million aggregate principal amount of 5.0% Senior Secured Notes due 2021 (the “5.0% 2021 Notes”) and \$53.2 million aggregate principal amount of 2.0% Senior Secured Notes due 2021 (the “2.0% 2021 Notes”, and together with the 5.0% 2021 Notes the “2021 Notes”) in exchange for \$195.0 million of certain of our unsecured senior notes with maturities ranging from 2014 through 2017. Holders of the senior notes due 2014 and 2015 that were exchanged in the exchange offer also received an aggregate of approximately \$14.2 million in cash payments and all holders of senior notes that were exchanged in the exchange offer received accrued and unpaid interest (in the aggregate amount of approximately \$3.3 million). Costs associated with this transaction were \$4.7 million. The 5.0% 2021 Notes and the 2.0% 2021 Notes were issued as separate series under an indenture, but have substantially the same terms other than with respect to interest rate and related redemption provisions, and vote together as a single class. The accounting for the debt exchange was treated as a troubled debt restructuring. Under this accounting, the Company did not recognize any gain or loss on extinguishment of debt and the costs associated with the debt exchange were expensed as incurred as shown in “Other operations” in the Consolidated Statement of Operations. See Note 9 to the Consolidated Financial Statements for further discussion.

On October 2, 2012, K. Hovnanian issued \$577.0 million aggregate principal amount of 7.25% senior secured first lien notes due 2020 (the "First Lien Notes") and \$220.0 million aggregate principal amount of 9.125% senior secured second lien notes due 2020 (the "Second Lien Notes" and, together with the First Lien Notes, the "2020 Secured Notes") in a private placement (the "2020 Secured Notes Offering"). The net proceeds from the 2020 Secured Notes Offering, together with the net proceeds of the Units offering discussed below, and cash on hand, were used to fund the tender offer and consent solicitation with respect to the Company's then outstanding 10.625% Senior Secured Notes due 2016 and the redemption of the remaining notes that were not purchased in the tender offer as described below.

The First Lien Notes are secured by a first-priority lien and the Second Lien Notes are secured by a second-priority lien, in each case, subject to permitted liens and other exceptions, on substantially all the assets owned by us, K. Hovnanian and the guarantors of such notes. At October 31, 2012, the aggregate book value of the real property that would constitute collateral securing the 2020 Secured Notes was approximately \$572.4 million, which does not include the impact of inventory investments, home deliveries, or impairments thereafter and which may differ from the value if it were appraised. In addition, cash collateral that would secure the 2020 Secured Notes was \$236.8 million as of October 31, 2012, which includes \$30.7 million of restricted cash collateralizing certain letters of credit. Subsequent to such date, cash uses include general business operations and real estate and other investments.

The First Lien Notes are redeemable in whole or in part at our option at any time prior to October 15, 2015 at 100% of the principal amount plus an applicable "Make-Whole Amount." We may also redeem some of all of the First Lien Notes at 105.438% of principal commencing October 15, 2015, at 103.625% of principal commencing October 15, 2016, at 101.813% of principal commencing October 15, 2017 and 100% of principal commencing October 15, 2018. In addition, we may redeem up to 35% of the aggregate principal amount of the First Lien Notes prior to October 15, 2015 with the net cash proceeds from certain equity offerings at 107.25% of principal.

The Second Lien Notes are redeemable in whole or in part at our option at any time prior to November 15, 2015 at 100% of the principal amount plus an applicable "Make-Whole Amount." We may also redeem some or all of the Second Lien Notes at 106.844% of principal commencing November 15, 2015, at 104.563% of principal commencing November 15, 2016, at 102.281% of principal commencing November 15, 2017 and 100% of principal commencing November 15, 2018. In addition, we may redeem up to 35% of the aggregate principal amount of the Second Lien Notes prior to November 15, 2015 with the net cash proceeds from certain equity offerings at 109.125% of principal.

Also on October 2, 2012, the Company and K. Hovnanian issued \$100,000,000 aggregate stated amount of 6.0% Exchangeable Note Units (the "Units") (equivalent to 100,000 Units). Each \$1,000 stated amount of Units initially consists of (1) a zero coupon senior exchangeable note due December 1, 2017 (the "Exchangeable Note") issued by K. Hovnanian, which bears no cash interest and has an initial principal amount of \$768.51 per Exchangeable Note, and that will accrete to \$1,000 at maturity and (2) a senior amortizing note due December 1, 2017 (the "Senior Amortizing Note") issued by K. Hovnanian, which has an initial principal amount of \$231.49 per Senior Amortizing Note, bears interest at a rate of 11.0% per annum, and has a final installment payment date of December 1, 2017. Each Unit may be separated into its constituent Exchangeable Note and Senior Amortizing Note after the initial issuance date of the Units, and the separate components may be combined to create a Unit.

Each Exchangeable Note had an initial principal amount of \$768.51 (which will accrete to \$1,000 over the term of the Exchangeable Note at an annual rate of 5.17% from the date of issuance, calculated on a semi-annual bond equivalent yield basis). Holders may exchange their Exchangeable Notes at their option at any time prior to 5:00 p.m., New York City time, on the business day immediately preceding December 1, 2017. Each Exchangeable Note will be exchangeable for shares of Class A Common Stock at an initial exchange rate of 185.5288 shares of Class A Common Stock per Exchangeable Note (equivalent to an initial exchange price, based on \$1,000 principal amount at maturity, of approximately \$5.39 per share of Class A Common Stock). The exchange rate will be subject to adjustment in

certain events. If certain corporate events occur prior to the maturity date, the Company will increase the applicable exchange rate for any holder who elects to exchange its Exchangeable Notes in connection with such corporate event. In addition, holders of Exchangeable Notes will also have the right to require K. Hovnanian to repurchase such holders' Exchangeable Notes upon the occurrence of certain of these corporate events.

On each June 1 and December 1 commencing on June 1, 2013 (each, an "installment payment date") K. Hovnanian will pay holders of Senior Amortizing Notes equal semi-annual cash installments of \$30.00 per Senior Amortizing Note (except for the June 1, 2013 installment payment, which will be \$39.83 per Senior Amortizing Note), which cash payment in the aggregate will be equivalent to 6.0% per year with respect to each \$1,000 stated amount of Units. Each installment will constitute a payment of interest (at a rate of 11.0% per annum) and a partial repayment of principal on the Senior Amortizing Note. If certain corporate events occur prior to the maturity date, holders of the Senior Amortizing Notes will have the right to require K. Hovnanian to repurchase such holders' Senior Amortizing Notes.

The net proceeds of the Units Offering, along with the net proceeds from the 2020 Secured Notes Offering previously discussed, and cash on hand, were used to fund the tender offer and consent solicitation with respect to the Company's then outstanding 10.625% Senior Secured Notes due 2016 and redemption of the remaining notes that were not purchased in the tender offer as described below.

On October 2, 2012, pursuant to a cash tender offer and consent solicitation, we purchased in a fixed-price tender offer approximately \$637.2 million aggregate principal amount of 10.625% Senior Secured Notes due 2016 for approximately \$691.3 million, plus accrued and unpaid interest. Subsequently, all 10.625% Senior Secured Notes due 2016 that were not tendered in the tender offer (approximately \$159.8 million) were redeemed for an aggregate redemption price of approximately \$181.8 million. The tender offer and redemption resulted in a loss on extinguishment of debt of \$87.0 million, including the write-off of unamortized discounts and fees.

During the year ended October 31, 2012, we repurchased for cash in the open market and privately negotiated transactions \$21.0 million principal amount of our 6.25% Senior Notes due 2016, \$61.1 million principal amount of our 7.5% Senior Notes due 2016, \$37.4 million principal amount of our 8.625% Senior Notes due 2017 and \$2.0 million principal amount of our 11.875% Senior Notes due 2015. No such repurchases were made during the quarter ended October 31, 2012. The aggregate purchase price for these repurchases was \$72.2 million plus accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of \$48.4 million for the year ended October 31, 2012, net of the write-off of unamortized discounts and fees. The gain is included in the Consolidated Statement of Operations as "(Loss) gain on extinguishment of debt." Certain of these repurchases were funded with the proceeds from our April 11, 2012 issuance of 25,000,000 shares of our Class A Common Stock (see Note 3 to the Consolidated Financial Statements).

In addition, during the year ended October 31, 2012, pursuant to agreements with bondholders we exchanged \$7.8 million principal amount of our 6.25% Senior Notes due 2016, \$4.0 million principal amount of our 7.5% Senior Notes due 2016 and \$18.3 million of our outstanding 8.625% Senior Notes due 2017 for shares of our Class A Common Stock, as discussed in Note 3 to the Consolidated Financial Statements. These transactions were treated as a substantial modification of debt, resulting in a gain on extinguishment of debt of \$9.3 million for the year ended October 31, 2012. No such exchanges were made during the quarter ended October 31, 2012. The gain is included in the Consolidated Statement of Operations as "(Loss) gain on extinguishment of debt."

As of October 31, 2012, we had \$992.0 million of outstanding senior secured notes (\$977.4 million, net of discount), comprised of \$53.2 million 2.0% Senior Secured Notes due 2021, \$141.8 million 5.0% Senior Secured Notes due 2021, \$577.0 million 7.25% Senior Secured First Lien Notes due 2020 and \$220.0 million 9.125% Senior Secured Second Lien Notes due 2020. As of October 31, 2012, we also had \$460.6 million of outstanding senior notes (\$458.7 million, net of discount), comprised of \$36.7 million 6.5% Senior Notes due 2014, \$3.0 million 6.375% Senior Notes due 2014, \$21.4 million 6.25% Senior Notes due 2015, \$131.2 million 6.25% Senior Notes due 2016, \$86.5 million 7.5% Senior Notes due 2016, \$121.0 million 8.625% Senior Notes due 2017 and \$60.8 million 11.875% Senior Notes due 2015. In addition, as of October 31, 2012, we had outstanding \$6.1 million Senior Subordinated Amortizing Notes due 2014, \$76.9 million Senior Exchangeable Notes due 2017 and \$23.1 million 11.0% Senior Amortizing Notes due 2017.

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, certain of our title insurance subsidiaries and our foreign subsidiary, we and each of our subsidiaries are guarantors of the senior secured, senior, senior amortizing, senior exchangeable and senior subordinated amortizing notes outstanding at October 31, 2012 (see Note 22 to the Consolidated Financial Statements). In addition, the 5.0% Senior Secured Notes due 2021 and the 2.0% Senior Secured Notes due 2021 are guaranteed by K. Hovnanian JV Holdings, L.L.C and its subsidiaries except for certain joint ventures and joint venture holding companies (collectively, the "Secured Group"). Members of the Secured Group do not guarantee K.

Hovnanian's other indebtedness.

The indentures governing the notes do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than certain permitted indebtedness, refinancing indebtedness and non-recourse indebtedness), pay dividends and make distributions on common and preferred stock, repurchase subordinated indebtedness with respect to certain of the senior secured notes, make other restricted payments, make investments, sell certain assets, incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets and enter into certain transactions with affiliates. The indentures also contain events of default which would permit the holders of the notes to declare the notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the notes or other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy, and insolvency and, with respect to the indentures governing the senior secured notes, the failure of the documents granting security for the senior secured notes to be in full force and effect and the failure of the liens on any material portion of the collateral securing the senior secured notes to be valid and perfected. As of October 31, 2012, we believe we were in compliance with the covenants of the indentures governing our outstanding notes.

Under the terms of the indentures, we have the right to make certain redemptions and, depending on market conditions and covenant restrictions, may do so from time to time. We also continue to evaluate our capital structure and may also continue to make debt purchases and/or exchanges for debt or equity from time to time through tender offers, open market purchases, private transactions, or otherwise or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

If our consolidated fixed charge coverage ratio, as defined in the indentures governing our senior secured and senior notes (other than the senior exchangeable notes) is less than 2.0 to 1.0, we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness, and non-recourse indebtedness. As a result of this restriction, we are currently restricted from paying dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will not result in a default under our bond indentures or otherwise affect compliance with any of the covenants contained in the bond indentures.

We do not have a revolving credit facility but have certain stand alone cash collateralized letter of credit agreements and facilities under which there were a total of \$29.5 million and \$54.1 million of letters of credit outstanding as of October 31, 2012 and October 31, 2011, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. As of October 31, 2012 and October 31, 2011, the amount of cash collateral in these segregated accounts was \$30.7 million and \$57.7 million, respectively, which is reflected in “Restricted cash” on the Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. (“Chase Master Repurchase Agreement”) is a short-term borrowing facility that provides up to \$75.0 million through November 16, 2012 and thereafter up to \$50.0 million through March 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the current LIBOR subject to a floor of 1.625% plus the applicable margin ranging from 2.5% to 3.0% based on the takeout investor and type of loan. As of October 31, 2012, the aggregate principal amount of all borrowings under the Chase Master Repurchase Agreement was \$58.8 million.

On May 29, 2012, K. Hovnanian Mortgage entered into another secured Master Repurchase Agreement with Customers Bank (“Customers Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$37.5 million through May 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR subject to a floor of 3.5% plus the applicable margin ranging from 3.0% to 5.5% based on the takeout investor and type of loan. As of October 31, 2012, the aggregate principal amount of all borrowings under the Customers Master Repurchase Agreement was \$22.9 million.

On June 29, 2012, K. Hovnanian Mortgage entered into a third secured Master Repurchase Agreement with Credit Suisse First Boston Mortgage Capital LLC (“Credit Suisse Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to \$50.0 million through June 28, 2013. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at the Credit Suisse Cost of Funds, which was 0.63% at October 31, 2012, plus the applicable margin ranging from 3.75% to 4.0% based on the takeout investor and type of loan. As of October 31, 2012, the aggregate principal amount of all borrowings under the Credit Suisse Master Repurchase Agreement was \$25.8

million.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Credit Suisse Master Repurchase Agreement (together, the “Master Repurchase Agreements”) require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the agreement, we do not consider any of these covenants to be substantive or material. As of October 31, 2012, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

During fiscal 2011 and 2012, Fitch Ratings (“Fitch”), Moody’s Investor Services (“Moody’s”) and Standard and Poor’s (“S&P”), took certain rating actions as follows:

- On June 28, 2011, S&P downgraded our corporate credit rating from CCC+ to CCC.
- On September 8, 2011, Moody’s downgraded our corporate family and probability of default ratings to Caa2 from Caa1. Moody’s also lowered the rating on our 10.625% senior secured notes to B2 from B1 and our senior unsecured notes to Caa3 from Caa2. The rating on our preferred stock was affirmed at Ca, and our speculative grade liquidity assessment remained SGL-3.
- On October 5, 2011, S&P downgraded our corporate credit ratings and its ratings on our 10.625% senior secured notes to “CC” from “CCC”. S&P also lowered the rating on our senior unsecured notes to C from CC.
- On October 20, 2011, Moody’s changed our probability of default ratings to Caa2/LD from Caa2 and also lowered the rating on our 10.625% senior secured notes to B3 from B2 and assigned a rating of B3 to our 2.0% and 5.0% senior secured notes (issued in November 2011). Subsequently, on October 25, 2011, the LD designation on our probability of default ratings was removed.
 - On October 29, 2011, S&P lowered our corporate credit rating to Selective Default (“SD”) from CC and lowered our rating on our senior unsecured notes from C to D. Subsequently, on November 3, 2011, S&P raised the Company’s corporate credit rating to CCC- from SD. S&P also raised our ratings on our 10.625% senior secured notes to CCC- from CC and our senior unsecured notes to CC from D.
- On November 2, 2011, Fitch lowered our Issuer Default Rating (“IDR”) to Restricted Default (“RD”) from CCC. Subsequently, on November 14, 2011, Fitch raised our IDR from RD back to CCC.
 - On July 27, 2012, S&P revised its outlook on the Company to positive from negative. At the same time, it affirmed its ratings on the Company, including the “CCC-” corporate credit rating.
- On November 5, 2012, S&P raised our corporate credit rating to CCC+ from CCC- and removed us from CreditWatch positive. On the same date, S&P also raised the ratings on our senior secured notes to CCC from CC and on our unsecured notes to CCC- from CC, as well as removed them from CreditWatch positive.

Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt or affect the interest rates charged on any of our debt issues or our debt covenant requirements or cause any other operating issue. A potential risk from negative changes in our credit ratings is that they may make it more difficult or costly for us to access capital. However, due to our available cash resources, the downgrades and revisions to our credit ratings in 2011 discussed above have not impacted management’s operating plans, or our financial condition, results of operations or liquidity.

Total inventory, excluding consolidated inventory not owned, decreased \$74.8 million during the year ended October 31, 2012. Total inventory, excluding consolidated inventory not owned, increased in the Midwest \$12.0 million and in the Southwest by \$17.9 million. This increase was offset by decreases in the Northeast of \$20.5 million, in the Mid-Atlantic by \$43.3 million, in the Southeast by \$3.8 million and in the West of \$37.1 million. The decreases were primarily attributable to inventory that was reclassified to consolidated inventory not owned during the period as discussed below and to delivering homes at a faster pace than replenishing with new land, as noted by the decrease in our community count from October 31, 2011 to October 31, 2012. There were also land sales in several of our segments throughout fiscal 2012, contributing to the decrease in inventory. These decreases were partially offset by the acquisition of new land parcels and consolidation of a community that was previously held in one of our

unconsolidated joint ventures. During the year ended October 31, 2012, we incurred \$9.8 million in impairments, which primarily related to a property that is held for sale in the Northeast, a community in the Midwest, several communities in the Southeast and two communities in the West in fringe markets in these areas that continue to see weakening market conditions. In addition, we wrote-off costs in the amount of \$2.7 million during the year ended October 31, 2012 related to land options that expired or that we terminated, as the communities' forecasted profitability was not projected to produce adequate returns on investment commensurate with the risk. In the last few years, we have been able to acquire new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. There can be no assurances that this trend will continue in the near term. Substantially all homes under construction or completed and included in inventory at October 31, 2012 are expected to be closed during the next 12 months.

The total inventory decrease discussed above excluded the increase in consolidated inventory not owned of \$88.2 million. Consolidated inventory not owned consists of specific performance options and other options that were added to our balance sheet in accordance with accounting principles generally accepted in the United States. The increase from October 31, 2011 to October 31, 2012, was due to sale and leaseback of certain model homes and land banking transactions during fiscal 2012. During fiscal 2012, we sold and leased back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement for accounting purposes, these sale and leaseback transactions are considered a financing rather than a sale for accounting purposes. Therefore, for purposes of our Consolidated Balance Sheet, the inventory of \$33.7 million was reclassified to consolidated inventory not owned, with a \$32.9 million liability from inventory not owned for the amount of net cash received. In addition, we entered into a land banking arrangement in fiscal 2012 with GSO whereby we sold a portfolio of our land parcels to GSO, and GSO provided us an option to purchase back finished lots on a quarterly basis. Because of our option to repurchase these parcels, for accounting purposes this transaction is considered a financing rather than a sale. For purposes of our Consolidated Balance Sheet, the inventory of \$56.9 million was reclassified to consolidated inventory not owned, with a \$44.8 million liability from inventory not owned recorded for the amount of net cash received. Offsetting the increase in consolidated inventory not owned was a decrease due to the purchase of properties in the Southwest and West during the period, which had specific performance obligations.

When possible, we option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. The costs associated with optioned properties are included in "Land and land options held for future development or sale inventory". Also included in "Land and land options held for future development or sale inventory" are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at this time. That is, we believe we will generate higher returns if we decide against spending money to improve land today and save the raw land until such times as the markets improve or we determine to sell the property. As of October 31, 2012, we have mothballed land in 53 communities. The book value associated with these communities at October 31, 2012 was \$124.2 million, net of impairment write-downs of \$467.8 million. We continually review communities to determine if mothballing is appropriate. During the fiscal 2012, we mothballed one community previously held for sale, re-activated two communities and sold five communities which were previously mothballed. Our inventory representing "Land and land options held for future development or sale" at October 31, 2012, on the Consolidated Balance Sheets, decreased by \$26.5 million compared to October 31, 2011. The decrease was due to the movement of certain of our communities from held for future development to sold and unsold homes and lots under development during the period, combined with land sales in the Northeast and Southeast and additional impairments taken in the Northeast, Midwest, Southeast and West during fiscal 2012, offset by an increase due to the acquisition of new land in all segments during fiscal 2012.

The following table summarizes home sites included in our total residential real estate. The decrease in total home sites available in 2012 compared to 2011 is attributable to the delivery of homes during fiscal 2012, offset by new lots controlled via option or purchase during 2012.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2012:			
Northeast	4,363	264	4,099
Mid-Atlantic	5,878	266	5,612
Midwest	3,204	427	2,777
Southeast	2,179	235	1,944
Southwest	5,753	506	5,247
West	6,642	191	6,451
Consolidated total	28,019	1,889	26,130
Unconsolidated joint ventures	1,774	256	1,518
Total including unconsolidated joint ventures	29,793	2,145	27,648
Owned	16,427	1,499	14,928
Optioned	11,418	216	11,202
Construction to permanent financing lots	174	174	-
Consolidated total	28,019	1,889	26,130
Lots controlled by unconsolidated joint ventures	1,774	256	1,518
Total including unconsolidated joint ventures	29,793	2,145	27,648
October 31, 2011:			
Northeast	4,739	265	4,474
Mid-Atlantic	5,592	325	5,267
Midwest	2,099	226	1,873
Southeast	2,846	124	2,722
Southwest	5,527	331	5,196
West	7,502	116	7,386
Consolidated total	28,305	1,387	26,918
Unconsolidated joint ventures	2,731	276	2,455
Total including unconsolidated joint ventures	31,036	1,663	29,373
Owned	18,277	1,141	17,136
Optioned	9,913	131	9,782
Construction to permanent financing lots	115	115	-
Consolidated total	28,305	1,387	26,918
Lots controlled by unconsolidated joint ventures	2,731	276	2,455
Total including unconsolidated joint ventures	31,036	1,663	29,373

The following table summarizes our started or completed unsold homes and models, excluding unconsolidated joint ventures, in active and substantially completed communities:

	October 31, 2012			October 31, 2011		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	116	9	125	86	18	104
Mid-Atlantic	65	7	72	73	30	103
Midwest	19	22	41	45	38	83
Southeast	55	10	65	58	30	88
Southwest	355	19	374	431	81	512
West	39	6	45	118	52	170
Total	649	73	722	811	249	1,060
Started or completed unsold homes and models per active selling communities(1)	3.8	0.4	4.2	4.2	1.3	5.5

- (1) Active selling communities, which are communities that are open for sale with 10 or more home sites available, were 172 and 192 at October 31, 2012, and 2011, respectively.

Unsold homes at October 31, 2012 decreased compared to the prior year, as the market improved and the sales pace per community increased in 2012. Models owned decreased as a result of the sale and leaseback transactions in fiscal 2012, as previously discussed.

Restricted cash and cash equivalents decreased \$31.8 million to \$41.7 million at October 31, 2012 compared to October 31, 2011. The decrease was primarily related to the release of cash securitizing letters of credit due to a reduction in our outstanding letters of credit. The largest reduction related to a land sale in the Northeast in the fourth quarter of fiscal 2011, whereby a letter of credit obligation was released in early fiscal 2012 in conjunction with the sale. In addition, there was a reduction in our surety bond escrow cash requirements during fiscal 2012.

Investments in and advances to unconsolidated joint ventures increased \$3.3 million during the fiscal year ended October 31, 2012. The increase is primarily due to the timing of advances at October 31, 2012 as compared to October 31, 2011. As of October 31, 2012, we had investments in seven homebuilding joint ventures and two land development joint ventures. We have no guarantees associated with our unconsolidated joint ventures, other than guarantees limited only to performance and completion of development, environmental indemnification and standard warranty and representation against fraud misrepresentation and similar actions, including a voluntary bankruptcy.

Receivables, deposits and notes increased \$9.5 million since October 31, 2011 to \$61.8 million at October 31, 2012. The increase was due to an increase in receivables for home closings as a result of cash in transit from various title companies at the end of the respective periods, as well as receivables from our insurance carriers for certain warranty claims.

Property, plant and equipment decreased \$4.7 million during the twelve months ended October 31, 2012 primarily due to depreciation and a small amount of disposals, which were offset by minor additions for leasehold improvements during the period.

Prepaid expenses and other assets were as follows as of:

(In thousands)

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	October 31, 2012	October 31, 2011	Dollar Change
Prepaid insurance	\$ 1,729	\$ 1,808	\$ (79)
Prepaid project costs	24,008	27,206	(3,198)
Senior residential rental properties	5,430	7,374	(1,944)
Other prepaids	26,086	21,699	4,387
Other assets	9,441	9,611	(170)
Total	\$ 66,694	\$ 67,698	\$ (1,004)

Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered. Prepaid project costs decreased for homes delivered and were not fully offset by prepaid spending for new communities. Senior residential rental properties decreased due to the sale of one of our properties during fiscal 2012. Other prepaids increased mainly due to capitalization of new prepaid costs associated with the issuance of our senior secured notes in October 2012, offset by the write-off of prepaid costs associated with our senior secured notes that were repurchased and redeemed in 2012, along with the amortization of our remaining prepaid debt costs.

Financial Services - Restricted cash increased \$18.4 million to \$22.5 million at October 31, 2012. The increase primarily related to an increase in the volume and timing of home closings at the end of fiscal 2012 compared to the end of fiscal 2011.

Financial Services - Mortgage loans held for sale consist primarily of residential mortgages receivable held for sale, of which \$115.0 million and \$71.2 million at October 31, 2012 and October 31, 2011, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. The increase in mortgage loans held for sale from October 31, 2011 was primarily related to an increase in the volume of loans originated during fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011, along with an increase in the average loan value. Also included in "Mortgage loans held for sale" are \$2.0 million and \$1.0 million residential mortgages receivable held for sale in October 31, 2012 and October 31, 2011, respectively, which represent loans that cannot currently be sold at reasonable terms in the secondary mortgage market. We may incur losses with respect to mortgages that were previously sold that are delinquent and which had underwriting defects, but only to the extent the losses are not covered by mortgage insurance or the resale value of the house.

Nonrecourse land mortgages were \$38.3 million at October 31, 2012 and \$26.1 million at October 31, 2011. The increase is primarily due to a mortgage on a community that was previously owned by one of our unconsolidated joint ventures and was consolidated during fiscal 2012.

Accounts payable and other liabilities are as follows as of:

(In thousands)	October 31, 2012	October 31, 2011	Dollar Change
Accounts payable	\$ 89,310	\$ 85,415	\$ 3,895
Reserves	129,025	141,496	(12,471)
Accrued expenses	29,969	43,151	(13,182)
Accrued compensation	26,625	23,432	3,193
Other liabilities	21,581	10,139	11,442
Total	\$ 296,510	\$ 303,633	\$ (7,123)

The increase in accounts payable was primarily due to the higher volume of deliveries in the fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. The decrease in reserves is primarily related to various legal settlements during fiscal 2012. The decrease in accrued expenses is primarily due to decreases in property tax and payroll accruals due to timing of the payments and amortization of abandoned lease space accruals. The increase in accrued compensation is primarily due to the increased bonus accruals as profitability increased in certain of our markets in fiscal 2012. Other liabilities increased primarily due to a payable to a former joint venture partner for the buy-out of their share of the joint venture during fiscal 2012.

Customer deposits increased to \$23.8 million at October 31, 2012 from \$16.7 million at October 31, 2011. This increase is primarily attributable to the increase in backlog as of October 31, 2012.

Financial Services - Mortgage warehouse line of credit increased \$57.8 million from \$49.7 million at October 31, 2011, to \$107.5 million at October 31, 2012. The increase correlates to the increase in the volume of mortgage loans held for sale during the period. In connection with the increase in loan volume, we entered into two new secured master repurchase agreements during fiscal 2012, thereby increasing our available lines of credit at October 31, 2012 as compared to October 31, 2011.

Financial Services - Accounts payable and other liabilities increased \$23.1 million to \$37.6 million at October 31, 2012. The increase primarily relates to the increase in Financial Services restricted cash during the period, due to an increase in the volume and timing of home closings during the fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011.

Liabilities from inventory not owned increased \$75.4 million to \$77.8 million at October 31, 2012 from \$2.4 million at October 31, 2011. The increase is primarily due to the land banking and model home financing programs, described with the change in inventory not owned discussion under "Capital Resources and Liquidity". Offsetting the increase was a decrease due to the take-down of properties in the Southwest and West during the period, which had a specific performance purchase obligation.

Income taxes payable of \$41.8 million at October 31, 2011 decreased \$34.9 million during the year ended October 31, 2012 to \$6.9 million primarily due to the elimination of certain state tax reserves for uncertain tax positions consistent with past practices and precedents of the relevant taxing authorities in their dealings with the Company.

Results of Operations

Total Revenues

Compared to the prior period, revenues increased (decreased) as follows:

(Dollars in thousands)	October 31, 2012	Year Ended October 31, 2011	October 31, 2010
Homebuilding:			
Sale of homes	\$ 333,106	\$ (255,025)	\$ (194,970)
Land sales	5,043	19,925	(20,430)
Other revenues	3,043	657	(5,471)
Financial services	9,254	(2,492)	(3,577)
Total change	\$ 350,446	\$ (236,935)	\$ (224,448)
Total revenues percent change	30.9%	(17.3)%	(14.1)%

Homebuilding

Sale of homes revenues increased \$333.1 million, or 31.1%, for the year ended October 31, 2012, decreased \$255.0 million, or 19.2%, for the year ended October 31, 2011 and decreased \$195.0 million or 12.8%, for the year ended October 31, 2010. The increased revenues in 2012 were primarily due to the number of home deliveries increasing 22.0% and the average price per home increasing to \$300,595 from \$279,873 in 2011. The decreased revenues in 2011 and 2010 were primarily due to the number of home deliveries declining 19.0%, and 11.8%, respectively. Average price per home also decreased to \$279,873 in 2011 from \$280,715 in 2010. The fluctuations in average prices were a result of the geographic and community mix of our deliveries, as well as price increases in certain of our individual communities. During fiscal 2012, we were able to raise prices in a number of our communities.

Information on homes delivered by segment is set forth below:

(Housing Revenue in thousands)	Year Ended		
	October 31, 2012	October 31, 2011	October 31, 2010
Northeast:			
Housing revenues	\$ 218,396	\$ 179,866	\$ 296,449
Homes delivered	505	399	718
Average price	\$ 432,467	\$ 450,792	\$ 412,882
Mid-Atlantic:			
Housing revenues	\$ 268,880	\$ 199,061	\$ 280,132
Homes delivered	649	524	753
Average price	\$ 414,299	\$ 379,887	\$ 372,021
Midwest:			
Housing revenues	\$ 106,539	\$ 70,465	\$ 91,260
Homes delivered	477	360	439
Average price	\$ 223,352	\$ 195,736	\$ 207,882
Southeast:			
Housing revenues	\$ 113,347	\$ 79,146	\$ 92,712
Homes delivered	482	339	384
Average price	\$ 235,160	\$ 233,469	\$ 241,438
Southwest:			
Housing revenues	\$ 515,757	\$ 418,631	\$ 391,807
Homes delivered	2,003	1,726	1,767
Average price	\$ 257,492	\$ 242,544	\$ 221,736
West:			
Housing revenues	\$ 182,661	\$ 125,305	\$ 175,139
Homes delivered	560	484	668
Average price	\$ 326,180	\$ 258,895	\$ 262,184
Consolidated total:			
Housing revenues	\$ 1,405,580	\$ 1,072,474	\$ 1,327,499
Homes delivered	4,676	3,832	4,729
Average price	\$ 300,595	\$ 279,873	\$ 280,715
Unconsolidated joint ventures:			
Housing revenues	\$ 320,657	\$ 172,343	\$ 124,149
Homes delivered	680	384	280
Average price	\$ 471,554	\$ 448,810	\$ 443,389
Total including unconsolidated joint ventures:			
Housing revenues	\$ 1,726,237	\$ 1,244,817	\$ 1,451,648

Homes delivered	5,356	4,216	5,009
Average price	\$ 322,300	\$ 295,260	\$ 289,808

The overall increase in housing revenues and deliveries during year ended October 31, 2012, as compared to year ended October 31, 2011, was primarily attributed to market improvement demonstrated by an increase in sales pace per community from 21.3 to 28.1 for fiscal 2011 and 2012, respectively. Housing revenues and average sales prices in 2012 increased in all of our homebuilding segments combined by 31.1% and 7.4%, respectively. In our homebuilding segments, homes delivered increased in fiscal 2012 as compared to fiscal 2011 by 26.6%, 23.9%, 32.5%, 42.2%, 16.0% and 15.7% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

The decrease in housing revenues during the years ended October 31, 2011 and October 31, 2010 was primarily due to the continued weak market conditions in most of our markets at that time. Housing revenues and average sales prices in 2011 decreased in all of our homebuilding segments combined by 19.2% and 0.3%, respectively. In our homebuilding segments, homes delivered decreased in fiscal 2011 as compared to fiscal 2010 by 44.4%, 30.4%, 18.0%, 11.7%, 2.3% and 27.5% in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West, respectively.

Quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ending October 31, 2012, 2011 and 2010 are set forth below:

(In thousands)	Quarter Ended			
	October 31, 2012	July 31, 2012	April 30, 2012	January 31, 2012
Housing revenues:				
Northeast	\$ 71,675	\$ 63,811	\$ 49,834	\$ 33,077
Mid-Atlantic	76,259	75,075	64,432	53,113
Midwest	36,579	28,213	23,590	18,157
Southeast	47,328	24,432	21,462	20,125
Southwest	170,913	139,407	114,284	91,153
West	66,521	40,543	38,892	36,705
Consolidated total	\$ 469,275	\$ 371,481	\$ 312,494	\$ 252,330
Sales contracts (net of cancellations):				
Northeast	\$ 68,779	\$ 54,575	\$ 54,887	\$ 28,198
Mid-Atlantic	63,208	55,399	82,121	49,622
Midwest	40,446	43,100	45,431	28,408
Southeast	43,624	38,562	39,305	24,471
Southwest	153,700	166,120	166,529	103,860
West	71,108	65,640	61,670	30,206
Consolidated total	\$ 440,865	\$ 423,396	\$ 449,943	\$ 264,765

(In thousands)	Quarter Ended			
	October 31, 2011	July 31, 2011	April 30, 2011	January 31, 2011
Housing revenues:				
Northeast	\$ 57,014	\$ 43,443	\$ 36,126	\$ 43,284
Mid-Atlantic	49,050	57,104	46,643	46,263
Midwest	21,249	17,716	17,466	14,034
Southeast	29,064	17,894	16,684	15,504
Southwest	126,204	107,861	97,339	87,227
West	30,555	32,461	32,716	29,573
Consolidated total	\$ 313,136	\$ 276,479	\$ 246,974	\$ 235,885
Sales contracts (net of cancellations):				
Northeast	\$ 40,014	\$ 56,427	\$ 57,394	\$ 37,435
Mid-Atlantic	56,269	73,986	55,874	52,013
Midwest	20,863	21,273	20,521	12,331
Southeast	20,775	28,301	23,345	15,640
Southwest	101,549	113,370	104,010	85,787
West	38,953	38,950	32,423	22,282
Consolidated total	\$ 278,423	\$ 332,307	\$ 293,567	\$ 225,488

(In thousands)	Quarter Ended			
	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010
Housing revenues:				
Northeast	\$ 79,040	\$ 91,740	\$ 56,955	\$ 68,714
Mid-Atlantic	73,654	72,767	67,634	66,076
Midwest	29,177	22,650	16,029	23,404
Southeast	17,472	28,522	22,041	24,677
Southwest	103,190	103,065	103,428	82,124
West	37,043	49,333	44,406	44,358
Consolidated total	\$ 339,576	\$ 368,077	\$ 310,493	\$ 309,353
Sales contracts (net of cancellations):				
Northeast	\$ 42,925	\$ 43,314	\$ 52,208	\$ 55,379
Mid-Atlantic	64,597	50,845	73,704	46,949
Midwest	12,111	16,526	27,289	16,421
Southeast	18,965	15,264	25,334	17,236
Southwest	111,760	88,360	114,166	79,656
West	31,571	33,313	43,857	36,041
Consolidated total	\$ 281,929	\$ 247,622	\$ 336,558	\$ 251,682

Contracts per average active selling community in 2012 were 28.1 compared to fiscal 2011 of 21.3. Our reported level of sales contracts (net of cancellations) has been impacted by the increase in the pace of sales in all of the Company's segments, due to improved market conditions and lower interest rates on mortgages during fiscal 2012. Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures.

Quarter	2012	2011	2010	2009	2008
First	21%	22%	21%	31%	38%
Second	16%	20%	17%	24%	29%
Third	20%	18%	23%	23%	32%
Fourth	23%	21%	24%	24%	42%

Another common and meaningful way to analyze our cancellation trends is to compare the number of contract cancellations as a percentage of the beginning backlog. The following table provides this historical comparison, excluding unconsolidated joint ventures.

Quarter	2012	2011	2010	2009	2008
First	18%	18%	13%	22%	16%
Second	21%	22%	17%	31%	24%
Third	18%	20%	15%	23%	20%
Fourth	18%	18%	25%	20%	30%

Historically, most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks after the signing of the contract. Cancellations also occur as a result of a buyer's failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. However, beginning in fiscal 2007, we started experiencing higher than normal numbers of cancellations later in the construction process. These cancellations were related primarily to falling prices, sometimes due to new discounts offered by us and other builders, leading the buyer to lose confidence in their contract price and due to tighter mortgage underwriting criteria leading to some customers' inability to be approved for a mortgage loan. In some cases, the buyer will walk away from a significant nonrefundable deposit that we recognize as other revenues. Our cancellation rate based both on gross sales contracts and as a percentage of beginning backlog for the fourth quarter of 2012 was more typical of what we believe to be normalized levels. However, it is difficult to predict if the trends shown in the tables above will continue.

An important indicator of our future results is recently signed contracts and our home contract backlog for future deliveries. Our consolidated contract backlog, excluding unconsolidated joint ventures, using base sales prices by segment is set forth below:

(Dollars In thousands)	October 31, 2012	October 31, 2011	October 31, 2010
Northeast:			
Total contract backlog	\$ 115,416	\$ 108,645	\$ 94,363
Number of homes	264	265	236
Mid-Atlantic:			
Total contract backlog	\$ 118,773	\$ 137,303	\$ 106,589
Number of homes	266	325	262
Midwest:			
Total contract backlog	\$ 95,716	\$ 44,870	\$ 34,188

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Number of homes	427	226	222
Southeast:			
Total contract backlog	\$ 62,696	\$ 30,080	\$ 20,212
Number of homes	235	124	82
Southwest:			
Total contract backlog	\$ 160,840	\$ 86,388	\$ 88,123
Number of homes	506	331	337
West:			
Total contract backlog	\$ 78,877	\$ 32,914	\$ 27,304
Number of homes	191	116	110
Totals:			
Total consolidated contract backlog	\$ 632,318	\$ 440,200	\$ 370,779
Number of homes	1,889	1,387	1,249

Our net contracts for the full years of fiscal 2012 and 2011, excluding unconsolidated joint ventures, increased 27.7% and decreased 4.4%, respectively, as compared to the prior fiscal year. In the month of November 2012, excluding unconsolidated joint ventures, we signed an additional 347 net contracts amounting to \$111.2 million in contract value.

Total cost of sales on our Consolidated Statements of Operations includes expenses for consolidated housing and land and lot sales, including inventory impairment loss and land option write-offs (defined as “land charges” in the tables below). A breakout of such expenses for housing sales and housing gross margin is set forth below:

(Dollars In thousands)	October 31, 2012	Year Ended October 31, 2011	October 31, 2010
Sale of homes	\$ 1,405,580	\$ 1,072,474	\$ 1,327,499
Cost of sales, net of impairment reversals and excluding interest expense	1,155,643	905,253	1,103,872
Homebuilding gross margin, before cost of sales interest expense and land charges	249,937	167,221	223,627
Cost of sales interest expense, excluding land sales interest expense	48,843	57,016	79,095
Homebuilding gross margin, after cost of sales interest expense, before land charges	201,094	110,205	144,532
Land charges	12,530	101,749	135,699
Homebuilding gross margin, after cost of sales interest expense and land charges	\$ 188,564	\$ 8,456	\$ 8,833
Gross margin percentage, before cost of sales interest expense and land charges	17.8%	15.6%	16.8%
Gross margin percentage, after cost of sales interest expense, before land charges	14.3%	10.3%	10.9%
Gross margin percentage after cost of sales interest expense and land charges	13.4%	0.8%	