

HOVNANIAN ENTERPRISES INC  
Form 424B3  
September 06, 2005

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Registration Nos. 333-127806  
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**PROSPECTUS**

**\$300,000,000**

**K. Hovnanian Enterprises, Inc.**

Guaranteed by  
**Hovnanian Enterprises, Inc.**

**Offer to Exchange All Outstanding  
6.25% Senior Notes due 2016  
(\$300,000,000 aggregate principal amount outstanding)  
for 6.25% Senior Notes due 2016, which have been registered  
under the Securities Act of 1933**

**The Exchange Offer Will Expire at 5:00 p.m., New York City Time, on October 12, 2005, Unless Extended**

The Exchange Offer:

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradeable.

You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.

The exchange offer expires at 5:00 p.m., New York City time, on October 12, 2005, unless extended. We do not currently intend to extend the expiration date.

The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The Exchange Notes:

The exchange notes are being offered in order to satisfy some of our obligations under the registration rights agreement entered into in connection with the placement of the outstanding notes.

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The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradeable.

### Resales of Exchange Notes:

The exchange notes may be sold in the over-the counter market, in negotiated transactions or through a combination of such methods. We do not plan to list the exchange notes on a national market.

**You should consider carefully the "Risk Factors" beginning on page 11 of this prospectus before participating in the exchange offer.**

Each broker-dealer that receives exchange notes for its own account in the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those exchange notes. The letter of transmittal states that, by so acknowledging and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933.

This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where the outstanding notes were acquired by the broker-dealer as a result of market-making activities or other trading activities.

We have agreed that, for a period of up to 180 days after the consummation of this exchange offer, we will use our best efforts to make this prospectus available to any broker-dealer for use in connection with the resale of exchange notes. See "Plan of Distribution."

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offer or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

This prospectus is dated September 6, 2005.

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**The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies. No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus in connection with the offer contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs or that of our subsidiaries since the date hereof.**

In this prospectus and except as the context otherwise requires or indicates:

"Issuer" or "K. Hovnanian" means K. Hovnanian Enterprises, Inc., a California corporation; and

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

## FORWARD-LOOKING STATEMENTS

This prospectus includes "forward-looking statements" including, in particular, the statements about our plans, strategies and prospects. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to, (1) changes in general and local economic and business conditions, (2) weather conditions, (3) changes in market conditions, (4) changes in home prices and sales activities in the markets where we build homes, (5) government regulation, including regulations concerning development of land, the homebuilding process and the environment, (6) fluctuations in interest rates and the availability of mortgage financing, (7) shortages in and price fluctuations of raw materials and labor, (8) the availability and cost of suitable land and improved lots, (9) levels of competition, (10) availability of financing to the Company, (11) utility shortages and outages or rate fluctuations, (12) geopolitical risks, terrorist acts and other acts of war and (13) other factors described in detail in Hovnanian's Form 10-K for the year ended October 31, 2004. All forward-looking statements attributable to the Company or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus.

## PROSPECTUS SUMMARY

*The following summary contains information about Hovnanian and the exchange offer. It does not contain all of the information that may be important to you in making a decision to participate in the exchange offer. For a more complete understanding of Hovnanian and the exchange offer, we urge you to read this prospectus carefully, including the "Risk Factors" section and our financial statements and the notes to those statements incorporated by reference herein.*

### The Company

We design, construct, market and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation's largest builders of residential homes. Originally founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company, we have delivered in excess of 192,000 homes, including 7,014 homes in the six months ended April 30, 2005. The Company consists of two operating groups: homebuilding and financial services. Our financial services group provides mortgage loans and title services to our homebuilding customers.

We are currently offering homes for sale in 323 communities in 35 markets in 17 states throughout the United States. We primarily 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 \$46,000 to \$1,350,000 with an average sales price, including options, of \$280,000 in fiscal 2004.

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 In November 2003, we entered the greater Tampa, Florida market through the acquisition of Windward Homes, and in March 2004, we started a new division in the Minneapolis/St. Paul, Minnesota market.

Hovnanian markets and builds homes that are constructed on-site in four regions which include 23 of the nation's top 50 housing markets. These four regions are the Northeast, Southeast, Southwest, and West.

Our geographic breakdown of markets by region is:

Northeast: New Jersey, Southern New York, Pennsylvania, Ohio, Michigan, Illinois and Minnesota

Southeast: Delaware, Maryland, North Carolina, South Carolina, Virginia, Washington D.C., West Virginia and Florida

Southwest: Arizona and Texas

West: California

We employed approximately 3,837 full-time associates as of October 31, 2004.

Our Corporate offices are located at 10 Highway 35, P. O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732) 747-7800, and our Internet website address is [www.khov.com](http://www.khov.com). Information on our website is not a part of, or incorporated by reference in, this prospectus.

#### **Recent Developments**

On March 1, 2005, we announced the purchase of Cambridge Homes, a privately held Orlando homebuilder and provider of related financial services, headquartered in Altamonte Springs, Florida. On March 2, 2005, we announced the acquisition of the operations of Town & Country Homes, a privately held homebuilder and land developer headquartered in Lombard, Illinois, which occurred concurrently with our entering into a joint venture to own and develop Town & Country's existing residential communities. Cambridge Homes operates in Florida and Town & Country operates in Illinois, Minnesota and Florida. On August 3, 2005, we announced the acquisition of substantially all of the homebuilding assets of Oster Homes, a privately held Ohio homebuilder, headquartered in Lorain, Ohio. On August 8, 2005, we announced the acquisition of substantially all of the assets of First Home Builders of Florida, a privately held homebuilder and provider of related financial services, headquartered in Cape Coral, Florida.

On June 14, 2005, we entered into an amended and restated revolving credit agreement, which replaced our prior revolving credit agreement, increased the revolving credit line from \$900 million to \$1.2 billion and extended the maturity through July 2009. The terms of the amended and restated facility are substantially similar to the terms of the facility it replaced.

On July 12, 2005, we sold 5,600,000 depositary shares, each representing 1/1,000th of a share of our 7.625% Series A Preferred Stock (liquidation preference \$25,000.00 per share), par value \$.01 per share. The net proceeds from the offering were used to repay amounts outstanding under our revolving credit facility.

**Summary of the Terms of the Exchange Offer**

*On August 8, 2005, K. Hovnanian completed a private offering of the outstanding notes. References to the "notes" in this prospectus are references to both the outstanding notes and the exchange notes offered hereby.*

**General**

In connection with the private offering of the outstanding notes, we entered into a registration rights agreement with the initial purchasers of the outstanding notes in which the Issuer and the guarantors agreed, among other things, to deliver this prospectus to you and to complete an exchange offer for the outstanding notes within the time period specified in the registration rights agreement. See "Exchange Offer; Registration Rights."

You are entitled to exchange in the exchange offer your outstanding notes for exchange notes, which are identical in all material respects to the outstanding notes except:

the exchange notes have been registered under the Securities Act of 1933, as amended, which we refer to as the "Securities Act";

the exchange notes are not entitled to certain registration rights which are applicable to the outstanding notes under the registration rights agreement; and

certain additional interest rate provisions are no longer applicable.

**Outstanding Notes**

\$300,000,000 aggregate principal amount of 6.25% Senior Notes due 2016, which were issued on August 8, 2005, and which we refer to in this prospectus as the "outstanding notes."

**Exchange Notes**

\$300,000,000 aggregate principal amount of 6.25% Senior Notes due 2016, which we are offering in this exchange offer and which we refer to in this prospectus as the "exchange notes."

**The Exchange Offer**

We are offering to exchange up to \$300,000,000 aggregate principal amount of our exchange notes, which have been registered under the Securities Act, for a like aggregate principal amount of the outstanding notes. You may only exchange outstanding notes in integral multiples of \$1,000.

Subject to the satisfaction or waiver of specified conditions, we will exchange the exchange notes for all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer. We will cause the exchange to be effected promptly after the expiration of the exchange offer.

Upon completion of the exchange offer, there may be no market for the outstanding notes and you may have difficulty selling them.

Resales

Based on interpretations by the staff of the Securities and Exchange Commission, or the "SEC," set forth in no-action letters issued to third parties referred to below, we believe that you may resell or otherwise transfer exchange notes issued in the exchange offer without complying with the registration and prospectus delivery requirements of the Securities Act, if:

- (1) you are not an "affiliate" of K. Hovnanian or any guarantor of the notes within the meaning of Rule 405 under the Securities Act;
- (2) you are not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes; and
- (3) you are acquiring the exchange notes in the ordinary course of your business.

If you are an affiliate of K. Hovnanian or the guarantors of the notes, or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business:

- (1) you cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co., Inc.* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC's letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters; and
- (2) in the absence of an exception from the position of the SEC stated in (1) above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes.

If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, you must acknowledge that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of the exchange notes that you receive in the exchange offer. See "Plan of Distribution."

Expiration Date

The exchange offer will expire at 5:00 p.m., New York City time, on October 12, 2005 unless extended by us. We do not currently intend to extend the expiration date.

Withdrawal

You may withdraw the tender of your outstanding notes at any time prior to the expiration date. We will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.

Interest on the Exchange Notes and the Outstanding Notes	Each exchange note will bear interest at the rate per annum set forth on the cover page of this prospectus from the most recent date to which interest has been paid on the outstanding notes or, if no interest has been paid on the outstanding notes, from August 8, 2005. The interest will be payable semi-annually on each January 15 and July 15, beginning January 15, 2006. No interest will be paid on outstanding notes following their acceptance for exchange.
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Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which we may assert or waive. See "The Exchange Offer Conditions to the Exchange Offer."
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Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal. If you hold outstanding notes through The Depository Trust Company, or "DTC," and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things:
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- (1) you are not an "affiliate" of K. Hovnanian or the guarantors of the notes within the meaning of Rule 405 under the Securities Act;
- (2) you are not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes;
- (3) you are acquiring the exchange notes in the ordinary course of your business; and
- (4) if you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of such exchange notes.



If you are an affiliate of K. Hovnanian or the guarantors of the notes or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business, you cannot rely on the applicable positions and interpretations of the staff of the SEC and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes.

Special Procedures for Beneficial Owners

If you are a beneficial owner of outstanding notes that are held in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender those outstanding notes in the exchange offer, you should contact such person promptly and instruct such person to tender those outstanding notes on your behalf.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal and any other documents required by the letter of transmittal or you cannot comply with the DTC procedures for book-entry transfer prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer Guaranteed Delivery Procedures."

Effect on Holders of Outstanding Notes

In connection with the sale of the outstanding notes, we entered into a registration rights agreement with the initial purchasers of the outstanding notes, which grants the holders of outstanding notes registration rights. By making this exchange offer, we will have fulfilled most of our obligations under the registration rights agreement. Accordingly, we will not be obligated to pay additional interest as described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture, except we will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement and we will not be obligated to pay additional interest as described in the registration rights agreement, except in certain limited circumstances. See "Exchange Offer; Registration Rights."

To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes could be adversely affected.

Consequences of Failure to Exchange

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will register the outstanding notes under the Securities Act.

Certain Income Tax Considerations

The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See "United States Federal Income Tax Consequences of the Exchange Offer."

Use of Proceeds

We will not receive any cash proceeds from the issuance of exchange notes in the exchange offer.

Exchange Agent

Wachovia Bank, National Association, whose address and telephone number is set forth in the section captioned "The Exchange Offer Exchange Agent" of this prospectus, is the exchange agent for the exchange offer.

**Summary of the Terms of the Exchange Notes**

*The terms of the exchange notes are identical in all material respects to the terms of the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The exchange notes will evidence the same debt as the outstanding notes. The exchange notes will be governed by the same indenture under which the outstanding notes were issued and the exchange notes and the outstanding notes will constitute a single class and series of notes for all purposes under the indenture.*

Issuer	K. Hovnanian Enterprises, Inc.
Notes Offered	We are offering \$300.0 million aggregate principal amount of 6.25% Senior Notes due 2016.
Maturity Date	January 15, 2016.
Interest Payment Dates	Each January 15 and July 15, beginning January 15, 2006.
Optional Redemption	We may redeem the notes, in whole or in part, at any time, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption, if any, plus a Make-Whole Amount. See "Description of the Notes Redemption."
Change of Control	Upon a change of control as described in the section "Description of the Notes," you will have the right to require us to purchase some or all of the notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of purchase. We can give no assurance that, upon such an event, we will have sufficient funds to purchase any of the notes.
Guarantees	The guarantors are Hovnanian Enterprises, Inc., the parent corporation of the Issuer, and most of the parent's existing and future restricted subsidiaries. If the Issuer cannot make payments on the notes when they are due, the guarantors must make the payments instead. As of the date of this prospectus, our title insurance and home mortgage subsidiaries and certain joint ventures are not guarantors or restricted subsidiaries.
Ranking	The outstanding notes are, and the exchange notes will be, general obligations and, the outstanding notes are not, and the exchange notes will not be, secured by any collateral. Your right to payment under the notes will be:  effectively junior to the rights of secured creditors, to the extent of their security in our assets;  equal with the rights of creditors under other existing and future unsecured senior debt, including our revolving credit facility; and  senior to the rights of creditors under existing and future debt that is expressly subordinated to the notes.

The guarantee of each of the guarantors of the outstanding notes is not, and, of the exchange notes, will not be, secured by any collateral. Your right to payment under any guarantee will be:

effectively junior to the rights of secured creditors to the extent of their security in the guarantors' assets;

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

senior to the rights of creditors under the guarantors' existing and future debt that is expressly subordinated to the guarantee.

See the section "Description of the Notes Ranking."

At April 30, 2005, after giving effect to the use of proceeds from the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005 and assuming that we had completed the offering of the outstanding notes at that date and assuming application of the net proceeds thereof, the Issuer and the guarantors would have had approximately \$1,563.3 million (\$1,556.4 million net of discount) of debt (including the outstanding notes) outstanding, approximately \$58.1 million of which would have been secured by certain assets of the Company and the guarantors and approximately \$400 million of which would have been subordinated to the outstanding notes.

Certain Covenants

The exchange notes will be issued under the same indenture as the outstanding notes were issued. The indenture contains covenants that, among other things, restrict the Issuer's ability and the ability of the guarantors to:

borrow money;

pay dividends on our common stock;

repurchase our common stock;

make investments in subsidiaries that are not restricted;

sell certain assets;

incur certain liens;

merge with or into other companies; and

enter into certain transactions with our affiliates.

For more details, see the section "Description of the Notes Certain Covenants."

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

Absence of a Public Market

The exchange notes will generally be freely transferable (subject to certain restrictions discussed in "Exchange Offer; Registration Rights") but will be a new issue of securities for which there will not initially be a market. Accordingly, there can be no assurance as to the development or liquidity of any market for the exchange notes. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market for the exchange notes, as permitted by applicable laws and regulations. However, they are not obligated to do so and may discontinue any such market making activities at any time without notice. We do not intend to apply for a listing of the exchange notes on any securities exchange or automated dealer quotation system.

Use of Proceeds

We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. For a description of the use of proceeds from the private offering of the outstanding notes, see "Use of Proceeds."

## RISK FACTORS

*In addition to the other information included in this prospectus and the documents incorporated by reference in this prospectus, you should carefully consider the following risk factors before you decide to participate in the exchange offer.*

### **Risks Related to the Exchange Offer**

*If you choose not to exchange your outstanding notes in the exchange offer, the transfer restrictions currently applicable to your outstanding notes will remain in force and the market price of your outstanding notes could decline.*

If you do not exchange your outstanding notes for exchange notes in the exchange offer, then you will continue to be subject to the transfer restrictions on the outstanding notes as set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to "Prospectus Summary Summary of the Terms of the Exchange Offer" and "The Exchange Offer" for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the principal amount of the outstanding notes outstanding, which may have an adverse effect upon, and increase the volatility of, the market price of the outstanding notes due to reduction in liquidity.

*You must follow the exchange offer procedures carefully in order to receive the exchange notes.*

If you do not follow the procedures described herein, you will not receive any exchange notes. The exchange notes will be issued to you in exchange for outstanding notes only after timely receipt by the exchange agent of:

your outstanding notes and either:

a properly completed and executed letter of transmittal and all other required documents; or

a book-entry delivery by electronic transmittal of an agent's message through the Automated Tender Offer Program of DTC.

If you want to tender your outstanding notes in exchange for exchange notes, you should allow sufficient time to ensure timely delivery. No one is under any obligation to give you notification of defects or irregularities with respect to tenders of outstanding notes for exchange. For additional information, see the section captioned "The Exchange Offer" in this prospectus.

### **Risks Related to Our Business**

*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. On a pro forma basis after giving effect to the use of proceeds from the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005 and after giving effect to the offering of the outstanding notes and the application of the net proceeds thereof:

our debt, as of April 30, 2005, including the debt of the guarantors, would have been \$1,563.3 million (\$1,556.4 million net of discount);

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as of April 30, 2005, under the terms of our amended and restated \$1.2 billion revolving credit agreement dated June 14, 2005, we would have had approximately \$927.5 million of borrowings available (net of approximately \$272.5 million in letters of credit outstanding under the facility) under our revolving credit facility, subject to borrowing conditions, including a borrowing base and covenants; and

our debt service payments for the 12-month period ended April 30, 2005, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on non-recourse secured debt and debt of our financial subsidiaries), would have been \$98.3 million.

In addition, we have substantial contractual commitments and contingent obligations, including \$272.5 million of performance letters of credit and \$843.8 million of performance bonds as of April 30, 2005. See "Contractual Obligations" in our Annual Report on Form 10-K incorporated by reference herein.

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

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

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

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

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

make us more vulnerable in the event of a downturn in our business or in general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by 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, because borrowings under our revolving credit facilities bear interest at floating rates. A higher interest rate on our debt service obligations could result in lower earnings.

Our business may not generate sufficient cash flow from operations and borrowings may not be available to us under our revolving credit facility in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

The indentures governing the notes and our other outstanding debt and our revolving credit facility impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, sales of assets and cash distributions by us and require us to comply with certain financial covenants listed in those indentures and our revolving credit facility. If we fail to comply with any of these restrictions or covenants, the trustees or the banks, as appropriate, could cause our debt to become due and payable prior to maturity.

***The terms of our indentures allow us to incur additional indebtedness.***

Under the terms of our indebtedness under our existing 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.

***The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets and weather 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 and could result in cancellation of sales contracts.***

Market conditions in the housing industry have been strong in recent years. However, the homebuilding industry is cyclical, has from time to time experienced significant difficulties and is significantly affected by changes in general and local economic conditions such as:

employment levels and job growth;

availability of financing for home buyers;

interest rates;

consumer confidence; and

housing demand.

An oversupply of alternatives to new homes, such as rental properties and used homes, could depress prices and reduce margins for the sale of new homes. We have substantially increased our inventory in 2003, 2004 and 2005, which requires significant cash outlays and could increase our exposure to this risk as the cycle turns.

Weather conditions, such as the severe wet weather in California, and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires can harm the local homebuilding business.

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 twelve 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.

***Our success depends on the availability of suitable undeveloped land and improved lots at acceptable prices.***

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.

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

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. In addition, we contract with subcontractors to construct our homes. Therefore, the timing and quality of our construction depends on the availability, skill and cost of our





subcontractors. Delays or cost increases caused by shortages and price fluctuations could harm our operating results, the impact of which may be further affected by our ability to raise sales prices.

***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.

***Home prices and sales activities in the California, New Jersey, Texas, North Carolina, Virginia, Maryland, Florida and Illinois markets have a large impact on our profitability because we conduct a significant portion of our business in these markets.***

We presently conduct a significant portion of our business in the California, New Jersey, Texas, North Carolina, Virginia, Maryland, Florida and Illinois markets. Home prices and sales activities in these markets, including in some of the markets in which we operate, have declined from time to time, particularly as a result of slow economic growth. 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 profits may be reduced.

***Because almost all of our customers require mortgage financing, increases in interest rates or the 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 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 his 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.

In addition, we believe that the availability of FNMA, FHLMC, FHA and VA mortgage financing is an important factor in marketing many of our homes. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

***Homebuilders are subject to a number of federal, local, state and foreign laws and regulations concerning the development of land, the home building, sales and customer financing processes and 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 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 home building.

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 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 can prohibit or severely restrict development and homebuilding activity in certain environmentally sensitive regions or areas.

It can be anticipated 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.

Our sales process is subject to the jurisdiction of the U.S. Department of Housing and Urban Development ("HUD"). In connection with the Real Estate Settlement Procedures Act, HUD has recently inquired about our process of referring business to our affiliated mortgage company. We are currently in the process of responding to HUD's inquiry.

***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 could result in:

difficulty in acquiring suitable land at acceptable prices;

increased selling incentives;

lower sales; or

delays in construction.

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

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

Our operations require significant amounts of cash, and we will be required to seek additional capital, whether from sales of equity or borrowing more money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indenture governing the notes and the indentures for our other outstanding debt contain provisions that may restrict the debt we may incur in the future. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations.

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

Acquisitions have contributed to our growth and are a component of our growth strategy. In March 2005, we announced the Cambridge Homes and Town & Country Homes acquisitions and in

August 2005, we announced the Oster Homes and First Home Builders of Florida acquisitions. Consistent with this strategy, we continue to engage in discussions with and evaluate potential acquisition targets, some of which may be significant, although we currently have no binding definitive agreements for any significant acquisitions. In the future, we may acquire other businesses. As a result of these acquisitions, 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 manage future acquisitions could harm our operating results.

***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, such as the blackout that occurred in 2003 in the Northeast, 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 Iraq, 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 Iraq, terrorism and related geopolitical risks have created many economic and political uncertainties, some of which may have additional material adverse effects on the U.S. economy, our customers and, in turn, our results of operations and financial condition.

**Risks Related to the Notes**

***After completion of this offering, we will have a significant amount of indebtedness and we may incur additional indebtedness.***

At April 30, 2005, assuming we had completed the offering of the outstanding notes at that date and on a pro forma basis for the application of the net proceeds thereof and after giving effect to the use of proceeds from the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005, the Issuer and the guarantors would have had approximately \$1,563.3 million (\$1,556.4 million net of discount) of debt (including the outstanding notes) outstanding. We and our subsidiaries may incur additional indebtedness in the future. Subject to certain conditions, the terms of the indenture under which the outstanding notes were, and the exchange notes will be, issued and our other existing debt instruments do not prohibit us or our subsidiaries from incurring additional indebtedness. If indebtedness is added to our current debt levels, the risks related to the notes and our indebtedness generally that we and our subsidiaries now face could intensify.

***The notes are unsecured obligations.***

The outstanding notes are not, and the exchange notes will not be, secured by any of our assets, and the outstanding notes are, and the exchanges notes will be, subordinated to any of our existing and future secured indebtedness. Accordingly, in the event of our bankruptcy, liquidation or any similar proceeding, holders of the notes will be entitled to payment only after the holders of any of our

secured indebtedness have been paid. As of April 30, 2005, assuming we had completed the offering of the outstanding notes at that date and on a pro forma basis for the application of the net proceeds thereof and after giving effect to the use of proceeds from the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005, we would have had approximately \$58.1 million of secured indebtedness outstanding. Subject to certain limits in the indenture under which the outstanding notes were, and the exchange notes will be, issued and our other existing debt instruments, we will be able to incur additional secured obligations.

***The notes will be structurally junior to indebtedness of our non-guarantor subsidiaries.***

You will not have any claim as a creditor against any of our non-guarantor subsidiaries, and indebtedness and other liabilities, including trade payables, of those subsidiaries will effectively be senior to your claims against those subsidiaries. At April 30, 2005, our non-guarantor subsidiaries had \$158.7 million of outstanding liabilities, including trade payables. In addition, the indenture under which the outstanding notes were, and the exchange notes will be, issued will, subject to certain limitations, permit these subsidiaries to incur additional indebtedness and does not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

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

If a change of control occurs as described in the section "Description of the Notes Certain Covenants," we would be required to offer to purchase your notes at 101% of their principal amount together with all accrued and unpaid interest, if any, to the date of purchase. If a purchase offer obligation arises under the indenture governing your notes, a change of control will have also occurred under other indentures governing our debt. Our revolving credit facility currently provides that certain change of control events will constitute a default and could result in the acceleration of the indebtedness outstanding thereunder. Any of our future debt agreements may contain similar restrictions and provisions. If a purchase offer were required under the indentures for our debt, we may not have sufficient funds to pay the purchase price for all debt that we are required to repurchase or repay. After giving effect to the offering of the outstanding notes, we do not have sufficient funds available to purchase all of such outstanding debt.

***An active trading market may not develop for the exchange notes.***

We are offering the exchange notes to the holders of the outstanding notes. The exchange notes are a new issue of securities. There is no active public trading market for the exchange notes. We do not intend to apply for listing of the exchange notes on a security exchange. The initial purchasers of the outstanding notes have informed us that they intend to make a market in the exchange notes. However, the initial purchasers may cease their market-making at any time. We cannot assure you that an active trading market will develop for the exchange notes or that the exchange notes will trade as one class with the outstanding notes. In addition, the liquidity of the trading market in the exchange notes and the market prices quoted for the exchange notes may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a consequence, an active trading market may not develop for your exchange notes, you may not be able to sell your exchange notes, or, even if you can sell your exchange notes, you may not be able to sell them at an acceptable price.

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

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

the guarantee was incurred with fraudulent intent; or

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

was insolvent at the time of the guarantee;

was rendered insolvent by reason of the guarantee;

was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business; or

intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

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

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

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

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

**RATIO OF EARNINGS TO FIXED CHARGES**

For purposes of computing the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes, plus fixed charges, less interest capitalized. Fixed charges consist of all interest incurred plus the amortization of debt issuance costs and bond discounts.

The following table sets forth the ratio of earnings to fixed charges for Hovnanian for each of the periods indicated.

	Six Months Ended April 30, 2005	Year Ended October 31,				
		2004	2003	2002	2001	2000
Ratio of earnings to fixed charges	7.3	6.3	6.7	4.7	3.1	2.1

### USE OF PROCEEDS

The exchange offer is intended to satisfy our obligations under the registration rights agreement that we entered into in connection with the private offering of the outstanding notes. We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. As consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of outstanding notes, the terms of which are identical in all material respects to the exchange notes, except that the exchange notes will be registered under the Securities Act and will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The outstanding notes that are surrendered in exchange for the exchange notes will be retired and cancelled and cannot be reissued. As a result, the issuance of the exchange notes will not result in any increase or decrease in our capitalization.

The net proceeds from the private offering of the outstanding notes were used to repay amounts outstanding under our revolving credit facility as of August 8, 2005 and for general corporate purposes, including acquisitions. The revolving credit facility is used for general corporate purposes, including acquisitions, and amounts repaid will be available for re-borrowing for such purposes. Our revolving credit facility provides a revolving credit line through July 2009 and has an interest rate equal to an applicable margin that varies based on our leverage, plus a floating rate set, at our option, at either a rate equal to (1) the higher of the prime rate, or the federal funds rate plus 0.50%, or (2) LIBOR for one, two, three or six months. At July 31, 2005, the outstanding balance of \$43.1 million under the revolving credit facility was bearing interest at 6.25%.



## CAPITALIZATION

The following table sets forth our capitalization as of April 30, 2005 and on an as adjusted basis to give effect to the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005 and the sale of the outstanding notes and the application of the net proceeds thereof. This table should be read in conjunction with our consolidated financial statements and the related notes thereto and the other financial information included and incorporated by reference in this prospectus.

	As of April 30, 2005	
	Actual	As Adjusted
	(unaudited)	
	(In thousands)	
<b>Debt (1):</b>		
Revolving Credit Facility (2)	\$ 105,100	\$
Nonrecourse Land Mortgages	33,419	33,419
Nonrecourse Mortgages Secured by Operating Property	24,650	24,650
10 <sup>1</sup> / <sub>2</sub> % Senior Notes due 2007	138,703	138,703
8% Senior Notes due 2012	99,343	99,343
6 <sup>1</sup> / <sub>2</sub> % Senior Notes due 2014	215,000	215,000
6 <sup>3</sup> / <sub>8</sub> % Senior Notes due 2014	150,000	150,000
6 <sup>1</sup> / <sub>4</sub> % Senior Notes due 2015	200,000	200,000
6.25% Senior Notes due 2016		295,287
6% Senior Subordinated Notes due 2010	100,000	100,000
8 <sup>7</sup> / <sub>8</sub> % Senior Subordinated Notes due 2012	150,000	150,000
7 <sup>3</sup> / <sub>4</sub> % Senior Subordinated Notes due 2013	150,000	150,000
	<u>1,366,215</u>	<u>1,556,402</u>
<b>Total Debt</b>	<b>\$ 1,366,215</b>	<b>\$ 1,556,402</b>
<b>Stockholders' Equity:</b>		
Preferred Stock, \$.01 par value; 100,000 Shares Authorized; Actual None Issued and as Adjusted 5,600 Issued	\$	\$
Common Stock, Class A, \$.01 par value; 200,000,000 Shares Authorized; 57,421,990 Issued (Including 10,695,656 Held in Treasury)	574	574
Common Stock, Class B, \$.01 par value (Convertible to Class A at Time of Sale); 30,000,000 Shares Authorized; 15,373,497 Issued (Including 691,748 Held in Treasury)	154	154
Paid in Capital	205,197	341,012
Retained Earnings	1,241,481	1,241,481
Deferred Compensation	(9,093)	(9,093)
Treasury Stock at Cost	(65,984)	(65,984)
	<u>1,372,329</u>	<u>1,508,144</u>
<b>Total Stockholders' Equity</b>	<b>\$ 1,372,329</b>	<b>\$ 1,508,144</b>
	<u>2,738,544</u>	<u>3,064,546</u>
<b>Total Capitalization</b>	<b>\$ 2,738,544</b>	<b>\$ 3,064,546</b>

(1) References to our consolidated debt in this prospectus exclude debt under our mortgage warehouse line and bonds collateralized by mortgages receivable.

(2)

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On June 14, 2005, we entered into an amended and restated revolving credit agreement, which provides for \$1.2 billion of borrowings, subject to customary borrowing conditions, including a borrowing base. As of July 31, 2005, we had \$43.1 million outstanding under our revolving credit facility.

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data for each of the fiscal years ended October 31, 2004, 2003, 2002, 2001 and 2000 have been derived from the audited consolidated financial statements of Hovnanian Enterprises, Inc.

The following selected historical consolidated financial data for the six month periods ended April 30, 2005 and 2004 have been derived from the unaudited condensed consolidated financial statements of Hovnanian Enterprises, Inc. The unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals and deferrals, which management considers necessary for a fair presentation of the consolidated financial position and the results of operations for these periods. Operating results for the six month period ended April 30, 2005 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2005. Per common share data and weighted average number of common shares outstanding reflect all stock splits.

You should read the following data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2004, which is incorporated by reference herein, for the impact of our 2004, 2003, 2002 and 2001 acquisitions on our operating results, and with the consolidated financial statements, related notes, and other financial information incorporated by reference herein.

	Six Months Ended April 30,		Year Ended October 31,				
	2005	2004	2004	2003	2002	2001	2000

(unaudited)

(Dollars in thousands, except per share data)

<b>Income Statement Data</b>							
Revenues	\$ 2,272,605	\$ 1,694,023	\$ 4,160,403	\$ 3,201,857	\$ 2,551,106	\$ 1,741,990	\$ 1,135,559
Expenses	1,996,172	1,489,171	3,610,631	2,790,339	2,325,376	1,635,636	1,083,741
Income before income taxes	306,433	204,852	549,772	411,518	225,730	106,354	51,818
State and federal income taxes	118,815	76,669	201,091	154,138	88,034	42,668	18,655
Net Income	\$ 187,618	\$ 128,183	\$ 348,681	\$ 257,380	\$ 137,696	\$ 63,686	\$ 33,163
<b>Per Share Data</b>							
<b>Basic:</b>							
Net Income	\$ 3.01	\$ 2.05	\$ 5.63	\$ 4.16	\$ 2.26	\$ 1.19	\$ 0.76
Weighted average number of common shares outstanding	62,237	62,473	61,892	61,920	60,810	53,620	43,866
<b>Assuming Dilution:</b>							
Net Income	\$ 2.87	\$ 1.93	\$ 5.35	\$ 3.93	\$ 2.14	\$ 1.15	\$ 0.75
Weighted average number of common shares outstanding	65,459	66,393	65,133	65,538	64,310	55,584	44,086
<b>Balance sheet data</b>							
Total assets	\$ 3,574,539	\$ 2,835,304	\$ 3,156,267	\$ 2,332,371	\$ 1,678,128	\$ 1,064,258	\$ 873,541
Mortgages, term loans, revolving credit agreements and notes payable	\$ 287,495	\$ 141,306	\$ 354,055	\$ 326,216	\$ 215,365	\$ 111,795	\$ 78,206
Senior notes and senior subordinated notes	\$ 1,203,046	\$ 1,052,444	\$ 902,737	\$ 687,166	\$ 546,390	\$ 396,544	\$ 396,430
Stockholders' equity	\$ 1,372,329	\$ 970,185	\$ 1,192,394	\$ 819,712	\$ 562,549	\$ 375,646	\$ 263,359

## THE EXCHANGE OFFER

### General

K. Hovnanian hereby offers to exchange a like principal amount of exchange notes for any or all outstanding notes on the terms and subject to the conditions set forth in this prospectus and accompanying letter of transmittal. We refer to this offer as the "exchange offer." You may tender some or all of your outstanding notes pursuant to the exchange offer.

As of the date of this prospectus, \$300,000,000 aggregate principal amount of the outstanding notes is outstanding. This prospectus, together with the letter of transmittal, is first being sent to all holders of outstanding notes known to us on or about September 9, 2005. K. Hovnanian's obligation to accept outstanding notes for exchange pursuant to the exchange offer is subject to certain conditions set forth under " Conditions to the Exchange Offer" below. K. Hovnanian currently expects that each of the conditions will be satisfied and that no waivers will be necessary.

### Purpose and Effect of the Exchange Offer

We entered into a registration rights agreement with the initial purchasers of the outstanding notes in which we agreed, under certain circumstances, to file a registration statement relating to an offer to exchange the outstanding notes for exchange notes by November 6, 2005. We also agreed to use our reasonable best efforts to cause such offer to be consummated on the earliest practicable date after the registration statement has become effective but in no event later than 40 business days thereafter. The exchange notes will have terms substantially identical to the terms of the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The outstanding notes were issued on August 8, 2005.

Under the circumstances set forth below, we will use our reasonable best efforts to cause the Securities and Exchange Commission, or the SEC, to declare effective a shelf registration statement with respect to the resale of the outstanding notes within the time periods specified in the registration rights agreement and to keep the shelf registration statement effective for up to two years after the effective date of the shelf registration statement. These circumstances include:

if applicable law or interpretations of the staff of the SEC do not permit K. Hovnanian and the guarantors to effect this exchange offer after we have sought a no-action letter or other favorable decision from the SEC and after we have taken all such other actions as may be requested by the SEC or otherwise required in connection with such decision; and

if any holder of the outstanding notes notifies us within 20 business days following the consummation deadline of the exchange offer that:

based on an opinion of counsel, such holder was prohibited by law or SEC policy from participating in the exchange offer; or

such holder is a broker-dealer and holds the outstanding notes acquired directly from us or our affiliates.

If we fail to comply with certain obligations under the registration rights agreement, we will be required to pay additional interest to holders of the outstanding notes and the exchange notes required to be registered on a shelf registration statement. Please read the section "Exchange Offer; Registration Rights" for more details regarding the registration rights agreement.

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Each holder of outstanding notes that wishes to exchange their outstanding notes for exchange notes in the exchange offer will be required to make the following written representations:

such holder is not an affiliate of K. Hovnanian or the guarantors within the meaning of Rule 405 of the Securities Act, or, if it is an affiliate, it will comply with all applicable registration and prospectus delivery requirements of the Securities Act;

such holder is not engaged in, does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution (within the meaning of the Securities Act) of the exchange notes in violation of the provisions of the Securities Act; and

such holder is acquiring the exchange notes in the ordinary course of its business.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where the broker-dealer acquired the outstanding notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See "Plan of Distribution."

### Resale of Exchange Notes

Based on interpretations by the staff of the SEC set forth in no-action letters issued to third parties referred to below, we believe that you may resell or otherwise transfer exchange notes issued in the exchange offer without complying with the registration and prospectus delivery provisions of the Securities Act, if:

you are acquiring the exchange notes in your ordinary course of business;

you do not have an arrangement or understanding with any person to participate in a distribution of the exchange notes;

you are not an affiliate of K. Hovnanian or any guarantor as defined by Rule 405 of the Securities Act; and

you are not engaged in, and do not intend to engage in, a distribution of the exchange notes.

If you are an affiliate of K. Hovnanian or any guarantor, or are engaged in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business:

you cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co., Inc.* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC's letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters; and

in the absence of an exception from the position stated immediately above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

This prospectus may be used for an offer to resell, for resale or for other retransfer of exchange notes only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the outstanding notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. Please read "Plan of Distribution" for more details regarding the transfer of exchange notes.



### **Terms of the Exchange Offer**

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept for exchange in the exchange offer outstanding notes that are validly tendered and not validly withdrawn prior to the expiration date. Outstanding notes may only be tendered in multiples of \$1,000. We will issue \$1,000 principal amount of exchange notes in exchange for each \$1,000 principal amount of outstanding notes surrendered in the exchange offer.

The form and terms of the exchange notes will be substantially identical to the form and terms of the outstanding notes, except that the exchange notes will be registered under the Securities Act and will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The exchange notes will evidence the same debt as the outstanding notes. The exchange notes will be issued under and entitled to the benefits of the same indenture under which the outstanding notes were issued and the exchange notes and the outstanding notes will constitute a single class and series of notes for all purposes under the indenture. For a description of the indenture, see "Description of the Notes."

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange.

As of the date of this prospectus, \$300,000,000 aggregate principal amount of the outstanding notes is outstanding. This prospectus and a letter of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer.

We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the SEC. Outstanding notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits that such holders have under the indenture relating to such holders' outstanding notes, except for any rights under the registration rights agreement that by their terms terminate upon the consummation of the exchange offer.

We will be deemed to have accepted for exchange properly tendered outstanding notes when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from us and delivering exchange notes to holders. Subject to the terms of the registration rights agreement, we expressly reserve the right to amend or terminate the exchange offer and to refuse to accept outstanding notes not previously accepted upon the occurrence of any of the conditions specified below under " Conditions to the Exchange Offer."

Holders who tender outstanding notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses, other than certain applicable taxes described below, in connection with the exchange offer. It is important that you read " Fees and Expenses" below for more details regarding fees and expenses incurred in the exchange offer.

### **Expiration Date; Extensions, Amendments**

As used in this prospectus, the term "expiration date" means 5:00 p.m., New York City time, on October 12, 2005. However, if we, in our sole discretion, extend the period of time for which the exchange offer is open, the term "expiration date" will mean the latest time and date to which we shall have extended the expiration of the exchange offer.

To extend the period of time during which the exchange offer is open, we will notify the exchange agent of any extension, followed by notification to the registered holders of the outstanding notes no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date.

We reserve the right, in our sole discretion:

to delay accepting for exchange any outstanding notes;

to extend the exchange offer or to terminate the exchange offer and to refuse to accept outstanding notes not previously accepted if any of the conditions set forth below under " Conditions to the Exchange Offer" have not been satisfied, by giving oral or written notice of such delay, extension or termination to the exchange agent; and

subject to the terms of the registration rights agreement, to amend the terms of the exchange offer in any manner.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of the outstanding notes. If we amend the exchange offer in a manner that we determine to constitute a material change, we will promptly disclose the amendment in a manner reasonably calculated to inform the holders of outstanding notes of that amendment.

#### **Conditions to the Exchange Offer**

Despite any other term of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes, and we may terminate or amend the exchange offer as provided in this prospectus before accepting any outstanding notes for exchange if:

the exchange offer, or the making of any exchange by a holder of outstanding notes, violates any applicable law or interpretation of the staff of the SEC;

any action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair our ability to proceed with the exchange offer, and any material adverse development shall have occurred in any existing action or proceeding with respect to us; or

all governmental approvals shall not have been obtained, which approvals we deem necessary for the consummation of the exchange offer.

In addition, we will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us:

the representations described under " Purpose and Effect of the Exchange Offer" and " Procedures for Tendering"; and

any other representations as may be reasonably necessary under applicable SEC rules, regulations, or interpretations to make available to us an appropriate form for registration of the exchange notes under the Securities Act.

We expressly reserve the right at any time or at various times to extend the period of time during which the exchange offer is open. Consequently, we may delay acceptance of any outstanding notes by giving oral or written notice of such extension to their holders. During any such extensions, all outstanding notes previously tendered will remain subject to the exchange offer and we may accept them for exchange. We will return any outstanding notes that we do not accept for exchange for any reason without expense to their tendering holder as promptly as practicable after the expiration or termination of the exchange offer.





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We expressly reserve the right to amend or terminate the exchange offer and to reject for exchange any outstanding notes not previously accepted for exchange upon the occurrence of any of the conditions of the exchange offer specified above. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date.

These conditions are for our sole benefit, and we may assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times in our sole discretion. If we fail at any time to exercise any of the foregoing rights, this failure will not constitute a waiver of such right. Each such right will be deemed an ongoing right that we may assert at any time or at various times.

### Procedures for Tendering

Only a holder of outstanding notes may tender their outstanding notes in the exchange offer. To tender in the exchange offer, a holder must comply with either of the following:

complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature on the letter of transmittal guaranteed if required by the letter of transmittal and mail or deliver such letter of transmittal or facsimile to the exchange agent prior to the expiration date; or

comply with DTC's Automated Tender Offer Program procedures described below.

In addition, either:

the exchange agent must receive outstanding notes along with the letter of transmittal; or

prior to the expiration date, the exchange agent must receive a timely confirmation of book-entry transfer of outstanding notes into the exchange agent's account at DTC according to the procedure for book-entry transfer described below or a properly transmitted agent's message; or

the holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the exchange agent must receive any physical delivery of the letter of transmittal and other required documents at the address set forth below under " Exchange Agent" prior to the expiration date.

A tender to us that is not withdrawn prior to the expiration date constitutes an agreement between us and the tendering holder upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of outstanding notes, letter of transmittal, and all other required documents to the exchange agent is at the holder's election and risk. Rather than mail these items, we recommend that holders use an overnight or hand delivery service. In all cases, holders should allow sufficient time to assure timely delivery to the exchange agent before the expiration date. Holders should not send letters of transmittal or certificates representing outstanding notes to us. Holders may request that their respective brokers, dealers, commercial banks, trust companies or other nominees effect the above transactions for them.

If you are a beneficial owner whose outstanding notes are held in the name of a broker, dealer, commercial bank, trust company, or other nominee and you wish to participate in the exchange offer, you should promptly contact such party and instruct such person to tender outstanding notes on your behalf.

You must make these arrangements or follow these procedures before completing and executing the letter of transmittal and delivering your outstanding notes.

Signatures on the letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the NASD, a commercial bank or trust company having an office or correspondent in the United States or another "Eligible Guarantor Institution" within the meaning of Rule 17Ad-15 under the Exchange Act unless the outstanding notes surrendered for exchange are tendered:

by a registered holder of the outstanding notes who has not completed the box entitled "Special Registration Instructions" or "Special Delivery Instructions" on the letter of transmittal; or

for the account of an Eligible Guarantor Institution.

If the letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed on the outstanding notes, such outstanding notes must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder's name appears on the outstanding notes and an Eligible Guarantor Institution must guarantee the signature on the bond power.

If the letter of transmittal or any certificates representing outstanding notes, or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, those persons should also indicate when signing and, unless waived by us, they should also submit evidence satisfactory to us of their authority to so act.

#### **Book-Entry Delivery Procedures**

Promptly after the date of this prospectus, the exchange agent will establish an account with respect to the outstanding notes at DTC for purposes of the exchange offer. Any financial institution that is a participant in DTC's systems may make book-entry delivery of the outstanding notes by causing DTC to transfer those outstanding notes into the exchange agent's account at DTC in accordance with DTC's procedures for such transfer. To be timely, book-entry delivery of outstanding notes requires receipt of a confirmation of a book-entry transfer, a "book-entry confirmation," prior to the expiration date. In addition, although delivery of outstanding notes may be effected through book-entry transfer into the exchange agent's account at DTC, the letter of transmittal or a manually signed facsimile thereof, together with any required signature guarantees and any other required documents, or an "agent's message," as defined below, in connection with a book-entry transfer, must, in any case, be delivered or transmitted to and received by the exchange agent at its address set forth on the cover page of the letter of transmittal prior to the expiration date to receive exchange notes for tendered outstanding notes, or the guaranteed delivery procedure described below must be complied with. Tender will not be deemed made until such documents are received by the exchange agent. Delivery of documents to DTC does not constitute delivery to the exchange agent. Holders of outstanding notes who are unable to deliver confirmation of the book-entry tender of their outstanding notes into the exchange agent's account at DTC or all other documents required by the letter of transmittal to the exchange agent on or prior to the expiration date must tender their outstanding notes according to the guaranteed delivery procedures described below.

#### **Tender of Outstanding Notes Held Through The Depository Trust Company**

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing DTC to transfer the outstanding notes to the exchange agent in accordance with DTC's Automated Tender

Offer Program procedures for transfer. DTC will then send an agent's message to the exchange agent. The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that it is tendering outstanding notes that are the subject of the book-entry confirmation;

the participant has received and agrees to be bound by the terms of the letter of transmittal, or, in the case of an agent's message relating to guaranteed delivery, that such participant has received and agrees to be bound by the applicable notice of guaranteed delivery; and

we may enforce that agreement against such participant.

### Acceptance of Exchange Notes

In all cases, we will issue exchange notes for outstanding notes that we have accepted for exchange under the exchange offer only after the exchange agent timely receives:

outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at DTC; and

a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent's message.

By tendering outstanding notes pursuant to the exchange offer, each holder will represent to us that, among other things:

the holder is not an affiliate of K. Hovnanian or the guarantors within the meaning of Rule 405 of the Securities Act;

the holder is not engaged in, does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the exchange notes; and

the holder is acquiring the exchange notes in the ordinary course of its business.

If the holder is an affiliate of K. Hovnanian or any guarantor, or is engaging in, or intends to engage in, or has any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or is not acquiring the exchange notes in the ordinary course of its business:

the holder cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co., Inc.* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC's letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters; and

in the absence of an exception from the position stated immediately above, the holder must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

In addition, each broker-dealer that is to receive exchange notes for its own account in exchange for outstanding notes must represent that such outstanding notes were acquired by that broker-dealer as a result of market-making activities or other trading activities and must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it

is an "underwriter" within the meaning of the Securities Act. See "Plan of Distribution."

We will interpret the terms and conditions of the exchange offer, including the letter of transmittal and the instructions to the letter of transmittal, and will resolve all questions as to the validity, form, eligibility, including time of receipt, and acceptance of outstanding notes tendered for exchange. Our determinations in this regard will be final and binding on all parties. We reserve the absolute right to reject any and all tenders of any particular outstanding notes not properly tendered or to not accept any particular outstanding notes if the acceptance might, in our or our counsel's judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any particular outstanding notes either before or after the expiration date, including the right to waive the ineligibility of any holder who seeks to tender outstanding notes in the exchange offer.

Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within a reasonable period of time as we determine. Neither we, the exchange agent, nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of them incur any liability for any failure to give notification. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, without cost to the holder, unless otherwise provided in the letter of transmittal, as soon as practicable after the expiration date.

### **Guaranteed Delivery Procedures**

Holders wishing to tender their outstanding notes but whose outstanding notes are not immediately available or who cannot deliver their outstanding notes, the letter of transmittal or any other required documents to the exchange agent or comply with the applicable procedures under DTC's Automatic Tender Offer Program prior to the expiration date may still tender if:

the tender is made through an Eligible Guarantor Institution;

prior to the expiration date, the exchange agent receives from such Eligible Guarantor Institution either (i) a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery or (ii) a properly transmitted agent's message and notice of guaranteed delivery:

setting forth the name and address of the holder, the registered number(s) of such outstanding notes and the principal amount of outstanding notes tendered;

stating that the tender is being made thereby;

guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal, will be deposited by the Eligible Guarantor Institution with the exchange agent; and

the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, as well as certificate(s) representing all tendered outstanding notes in proper form for transfer or a book-entry confirmation of transfer of the outstanding notes into the exchange agent's account at DTC, and all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the expiration date.

### **Withdrawal Rights**

Except as otherwise provided in this prospectus, holders of outstanding notes may withdraw their tender of outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective:

the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at one of the addresses set forth below under " Exchange Agent"; or

holders must comply with the appropriate procedures of DTC's Automated Tender Offer Program system.

Any notice of withdrawal must:

specify the name of the person who tendered the outstanding notes to be withdrawn;

identify the outstanding notes to be withdrawn, including the principal amount of the outstanding notes; and

where certificates for outstanding notes have been transmitted, specify the name in which such outstanding notes were registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, the withdrawing holder must also submit:

the serial numbers of the particular certificates to be withdrawn; and

a signed notice of withdrawal with signatures guaranteed by an Eligible Guarantor Institution unless such holder is an Eligible Guarantor Institution.

If outstanding notes have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of the facility. We will determine all questions as to the validity, form, and eligibility, including time of receipt, of notices of withdrawal, and our determination will be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder, without cost to the holder or, in the case of book-entry transfer, will be credited to an account maintained with DTC, as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn outstanding notes may be retendered by following the procedures described under " Procedures for Tendering" above at any time on or prior to the expiration date.

#### **Exchange Agent**

Wachovia Bank, National Association has been appointed as the exchange agent for the exchange offer. Wachovia Bank, National Association also acts as trustee under the indenture governing the outstanding notes, which is the same indenture that will govern the exchange notes. You should direct all executed letters of transmittal and all questions and requests for assistance, for additional copies of

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this prospectus or the letter of transmittal, or for notices of guaranteed delivery to the exchange agent addressed as follows:

Delivery to: Wachovia Bank, National Association, Exchange Agent

<i>By Mail:</i>	<i>By Overnight Mail or Courier Delivery:</i>	<i>By Hand:</i>
Wachovia Bank, N.A. Attn: Marsha Rice NC 1153 Corporate Trust Operations Reorg. 1525 West W.T. Harris Blvd. 3C3 Charlotte, NC 28262-8522	Wachovia Bank, N.A. Attn: Marsha Rice NC 1153 Corporate Trust Operations Reorg. 1525 West W.T. Harris Blvd. 3C3 Charlotte, NC 28262-8522	Wachovia Bank, N.A. Attn: Marsha Rice NC 1153 Corporate Trust Operations Reorg. 1525 West W.T. Harris Blvd. 3C3 Charlotte, NC 28262-8522

*By Facsimile Transmission:*  
(704) 590-7628

*Confirm by Telephone:*  
(704) 590-7413

*For Information:*  
(704) 590-7413

IF YOU DELIVER THE LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMIT INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, THAT DELIVERY OR THOSE INSTRUCTIONS WILL NOT BE EFFECTIVE.

### **Fees and Expenses**

We will bear the expenses of soliciting tenders. The principal solicitation is being made by mail by the exchange agent. We may make additional solicitations by facsimile, telephone or in person by our officers and regular employees and our affiliates.

We have not retained any dealer-manager in connection with the exchange offer and will not make any payment to broker-dealers or others for soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and reimburse it for its related, reasonable out-of-pocket expenses.

We will pay the estimated cash expenses to be incurred in connection with the exchange offer. The expenses are estimated in the aggregate to be approximately \$190,000. They include:

SEC registration fees;

fees and expenses of the exchange agent and trustee;

accounting and legal fees and printing costs; and

related fees and expenses.

### **Accounting Treatment**

We will record the exchange notes in our accounting records at the same carrying value as the outstanding notes, which is the aggregate principal amount as reflected in our accounting records on the date of exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will capitalize the expenses of the exchange offer and amortize them over the life of the notes.





## Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchange of outstanding notes under the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

certificates representing outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of outstanding notes tendered; or

tendered outstanding notes are registered in the name of any person other than the person signing the letter of transmittal; or

a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offer.

If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

Holders who tender their outstanding notes for exchange will not be required to pay any transfer taxes. However, holders who instruct us to register exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer tax.

## Consequences of Failure to Exchange

Holders of outstanding notes who do not exchange their outstanding notes for exchange notes under the exchange offer will remain subject to the restrictions on transfer of such outstanding notes:

as set forth in the legend printed on the notes as a consequence of the issuance of the outstanding notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

otherwise set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes.

In general, you may not offer or sell the outstanding notes unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. Based on interpretations of the staff of the SEC, exchange notes issued pursuant to the exchange offer may be offered for resale, resold or otherwise transferred by their holders without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

the holder is not an affiliate of K. Hovnanian or any guarantor within the meaning of Rule 405 of the Securities Act;

the holder is not engaged in, does not intend to engage in, and does not have an arrangement or understanding with any person to participate in, a distribution of the exchange notes; and

the holder is acquiring the exchange notes in the ordinary course of its business.

Any holder who tenders outstanding notes in the exchange offer for the purpose of participating in a distribution of the exchange notes:

cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co., Inc.* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as



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interpreted in the SEC's letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters; and

in the absence of an exception from the position stated immediately above, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

### **Other**

Participating in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes.

## DESCRIPTION OF THE NOTES

*In this section, references to the "Company" mean Hovnanian Enterprises, Inc., a Delaware corporation, and do not include any of its subsidiaries or K. Hovnanian Enterprises, Inc., a California corporation; references to the "Issuer," "us," "we" or "our" mean K. Hovnanian Enterprises, Inc.; and references to the "Senior Notes" mean the outstanding notes and the exchange notes, collectively.*

The Issuer issued the outstanding notes, and will issue the exchange notes described in this prospectus, under an indenture, dated as of August 8, 2005 (the "**Senior Indenture**"), among the Issuer, the Company, the other guarantors party thereto and Wachovia Bank, National Association, as trustee (the "**Senior Trustee**"). The following is a summary of the material terms and provisions of the Senior Notes. The terms of the Senior Notes include those stated in the Senior Indenture and those made part of the Senior Indenture by reference to the Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**"), as in effect on the date of the Senior Indenture. The Senior Notes are subject to all such terms, and prospective participants in the exchange offer should refer to the Senior Indenture and the Trust Indenture Act for a statement of such terms. The form and terms of the exchange notes and the outstanding notes are identical in all material respects, except that the exchange notes will be registered under the Securities Act and will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement.

This description of the Senior Notes contains definitions of terms, including those defined under the heading "Definitions of Certain Terms Used in the Senior Indenture." Capitalized terms that are used herein but not otherwise defined herein have the meanings assigned to them in the Senior Indenture.

Any outstanding notes that remain outstanding after consummation of this exchange offer and the exchange notes will constitute a single series of debt securities under the Senior Indenture. Holders of outstanding notes who do not exchange their notes in this exchange offer will vote together with the holders of exchange notes for all relevant purposes under the Senior Indenture. Accordingly, when determining whether the required holders have given notice, consent or waiver or taken any other action permitted under the Senior Indenture, any outstanding notes that are not exchanged pursuant to the exchange offer will be aggregated with the exchange notes. All references herein to specified percentages in aggregate principal amount of Senior Notes outstanding shall be deemed to mean, at any time after this exchange offer is consummated, percentages in aggregate principal amount of outstanding notes and exchange notes outstanding.

### General

The Senior Notes will bear interest from August 8, 2005 at the rate *per annum* shown on the cover page of this prospectus, payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2006, to Holders of record at the close of business on January 1 or July 1, as the case may be, immediately preceding each such interest payment date. The Senior Notes will mature on January 15, 2016, and will be issued in denominations of \$1,000 and integral multiples thereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Senior Indenture does not limit the maximum aggregate principal amount of securities that the Issuer may issue thereunder. The Issuer will issue an aggregate principal amount of \$300.0 million of exchange notes in this offering. The Issuer may issue additional notes of the same series as the outstanding notes and the exchange notes (the "**Additional Senior Notes**") from time to time after the offering. The Senior Notes and any Additional Senior Notes subsequently issued under the Senior Indenture would be treated as a single series for all purposes under the Senior Indenture including, without limitation, waivers, amendments, redemption and offers to purchase. Any offering of Additional Senior Notes under the Senior Indenture is subject to the covenant described below under the caption "Certain Covenants Limitations on Indebtedness."

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The outstanding notes are, and the exchange notes will be, guaranteed by the Company and each of the Guarantors (together, the "Guarantors") pursuant to the Guarantees (the "Senior Guarantees") described below.

### Ranking

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

Secured creditors of the Company, the Issuer and the other Guarantors have a claim on the assets which secure the obligations of the Company and the Guarantors to such creditors prior to claims of Holders of the Senior Notes against those assets. At April 30, 2005, assuming we had completed the offering of the outstanding notes and on a pro forma basis to give effect to the use of proceeds from the sale of 5,600 shares of Hovnanian's Series A Preferred Stock on July 12, 2005, and for the application of the estimated net proceeds from the offering of the Notes, the Issuer and the Guarantors would have had approximately \$1,563.3 million (\$1,556.4 million net of discount) (including the outstanding notes) of Indebtedness outstanding, \$58.1 million of which would have been secured by certain assets of the Company and the Guarantors and \$400 million of which would have been subordinated to the Senior Notes.

### The Senior Guarantees

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

The Senior Indenture requires that each existing and future Restricted Subsidiary of the Company (other than KHL, Inc., the Issuer (for so long as it remains the Issuer) and K. Hovnanian Poland, sp.z.o.o.) be a Guarantor. The Company is permitted to cause any Unrestricted Subsidiary to be a Guarantor.

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

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

"**Applicable Debt**" means all Indebtedness of the Company or any of its Restricted Subsidiaries (i) under Credit Facilities or (ii) that is publicly traded (including in the Rule 144A market), including, without limitation, the Issuer's senior notes and senior subordinated notes outstanding on the Issue Date. For purposes of the above provision, Applicable Debt secured by a Lien on such Restricted Subsidiary's Property or issued by such Restricted Subsidiary shall be deemed guaranteed by such Restricted Subsidiary.

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

A sale of assets or Capital Stock of a Guarantor may constitute an Asset Disposition subject to the "Limitations on Dispositions of Assets" covenant.

### **Redemption**

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

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

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

- (1) the aggregate present value as of the date of such redemption of each dollar of principal being redeemed and the amount of interest (exclusive of interest accrued to the redemption

date) that would have been payable in respect of such dollar if such prepayment had not been made, determined by discounting, on a semiannual basis, such principal and interest at the Treasury Rate (determined on the business day preceding the date of such redemption) plus 0.50%, from the respective dates on which such principal and interest would have been payable if such payment had not been made; over

(2)

the principal amount of the Senior Note being redeemed.

**"Treasury Rate"** means, in connection with the calculation of any Make-Whole Amount with respect to any Senior Note, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity, as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data), equal to the then remaining maturity of the Senior Note being prepaid. If no maturity exactly corresponds to such maturity, yields for the published maturities occurring prior to and after such maturity most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month.

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

### **Selection and Notice**

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

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

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

### **Certain Covenants**

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

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

On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail or cause to be mailed, to all Holders of record of Senior Notes, a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the Senior Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of



Manhattan, The City of New York. To exercise such right, the Holder of such Senior Note must deliver, at least ten days prior to the Repurchase Date, written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder's exercise of such right, together with the Senior Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Issuer.

The Issuer will comply with applicable law, including Section 14(e) of the Securities Exchange Act of 1934 (the "**Exchange Act**") and Rule 14e-1 thereunder, if applicable, if the Issuer is required to give a notice of a right of repurchase as a result of a Change of Control.

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

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

The Senior Indenture will require the payment of money for Senior Notes or portions thereof validly tendered to, and accepted for payment by, the Issuer pursuant to a Change of Control offer. In the event that a Change of Control has occurred under the Senior Indenture, a change of control will also have occurred under the indentures governing the Issuer's 6<sup>1</sup>/<sub>4</sub>% Senior Notes due 2015, 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2014, 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2014, 8% Senior Notes due 2012, 6% Senior Subordinated Notes due 2010, 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2013, 8<sup>7</sup>/<sub>8</sub>% Senior Subordinated Notes due 2012, 10<sup>1</sup>/<sub>2</sub>% Senior Notes due 2007 and under the revolving credit facility. If a Change of Control were to occur, there can be no assurance that the Issuer would have sufficient funds to pay the purchase price for all Senior Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay or that the Company or the other Guarantors would be able to make such payments. In the event that the Issuer were required to purchase outstanding Senior Notes pursuant to a Change of Control offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to enable the Issuer to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

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

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

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

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

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

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

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

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

*Limitations on Restricted Payments.* The Senior Indenture will provide that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;
- (2) immediately after giving effect to such Restricted Payment, the Company could incur at least \$1.00 of Indebtedness pursuant to the first paragraph of the "Limitations on Indebtedness" covenant; and
- (3) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made after May 4, 1999 does not exceed the sum of:
  - (a) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including February 1, 1999 and ending on the last day of the Company's fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, *minus* 100% of such deficit), *plus*

(b)

100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after February 1, 1999 or any issue or sale after February 1, 1999 of Qualified Stock (other than to any Subsidiary of the Company) and (2) the issue or sale after February 1, 1999 of any Indebtedness or other securities of the Company convertible into or exercisable for

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Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*

- (c) in the case of the disposition or repayment of any Investment constituting a Restricted Payment made after May 4, 1999, an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (a)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (a)), *plus*
- (d) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after May 4, 1999, in accordance with the definition of Unrestricted Subsidiary (so long as the designation of such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after the Issue Date, and only to the extent not included in the calculation of Consolidated Net Income referred to in (a)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value thereof, over (II) the total liabilities of such Subsidiary, determined in accordance with GAAP, and (y) the Designation Amount at the time of such Subsidiary's designation as an Unrestricted Subsidiary, *plus*
- (e) \$17 million, *minus*
- (f) the aggregate amount of all Restricted Payments (other than Restricted Payments referred to in clause (C) of the immediately succeeding paragraph) made after February 1, 1999 through May 4, 1999.

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

- (A) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the Senior Indenture;
- (B) the repurchase, redemption or retirement of any shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, other shares of Qualified Stock; and
- (C) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed \$10 million in the aggregate since May 4, 1999;

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

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

In determining the "Fair Market Value of Property" for purposes of clause (3) of the first paragraph of this covenant, Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the "equity value" of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the

number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq National Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than \$10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

*Limitations on Transactions with Affiliates.* The Senior Indenture will provide that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the benefit of, or sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company's Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or series of related transactions (each, an "**Affiliate Transaction**"), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm's length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company's Subsidiaries.

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

- (1) with respect to any such Affiliate Transaction involving or having a value of more than \$1 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) either obtained the approval of a majority of the Company's disinterested directors or obtained an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view, and
- (2) with respect to any such Affiliate Transaction involving or having a value of more than \$10 million, the Company shall have (x) obtained the approval of a majority of the Board of Directors of the Company and (y) delivered to the Senior Trustee an opinion of a qualified independent financial advisor to the effect that such Affiliate Transaction is fair to the Company, the Issuer or such Restricted Subsidiary, as the case may be, from a financial point of view.

The Senior Indenture will also provide that notwithstanding the foregoing, an Affiliate Transaction will not include:

- (1) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,
- (2) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,
- (3) any Restricted Payment otherwise permitted under the "Limitations on Restricted Payments" covenant,
- (4) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (*provided, however*, no such transaction shall involve any other Affiliate of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by the Senior Indenture)),

- (5) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously divided, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,
- (6) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and
- (7) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

*Limitations on Dispositions of Assets.* The Senior Indenture will provide that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any Asset Disposition unless:

- (a) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and
- (b) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities.

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

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

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

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

*Limitations on Restrictions Affecting Restricted Subsidiaries.* The Senior Indenture will provide that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, assume or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction (other than encumbrances or restrictions imposed by law or by judicial or regulatory action or by provisions of agreements that restrict the assignability thereof) on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,
- (2) make loans or advances to the Company or any other Restricted Subsidiary, or
- (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary,

except for:

- (a) encumbrances or restrictions existing under or by reason of applicable law,
- (b) contractual encumbrances or restrictions in effect on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof, provided that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect on the Issue Date,
- (c) any restrictions or encumbrances arising under Acquired Indebtedness; *provided*, that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,
- (d) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided, however*, that any restrictions and encumbrances of the type described in this clause (d) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,
- (e) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the Senior Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,
- (f) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the Senior Indenture,
- (g) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

(h)

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



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- (i) encumbrances or restrictions existing under or by reason of the Senior Indenture or the Senior Notes,
- (j) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph,
- (k) Liens permitted under the Senior Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,
- (l) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,
- (m) customary provisions of any franchise, distribution or similar agreements,
- (n) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and
- (o) any encumbrance or restrictions of the type referred to in clauses (1), (2) or (3) of the first paragraph of this section imposed by any amendments, modifications, restatements, renewals, supplements, refinancings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (n) of this paragraph, provided that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company's Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

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

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

The foregoing provisions shall not apply to:

- (a) a transaction involving the sale or disposition of Capital Stock of a Guarantor, or the consolidation or merger of a Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor, that in any such case



results in such Guarantor being released from its Senior Guarantee as provided under "The Senior Guarantees" above, or

(b)

a transaction the purpose of which is to change the state of incorporation of the Company, the Issuer or any Guarantor.

*Reports to Holders of Senior Notes.* The Company shall file with the Commission the annual reports and the information, documents and other reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act. The Company shall file with the Senior Trustee and mail to each Holder of record of Senior Notes such reports, information and documents within 15 days after it files them with the Commission. In the event that the Company is no longer subject to these periodic requirements of the Exchange Act, it will nonetheless continue to file reports with the Commission and the Senior Trustee and mail such reports to each Holder of Senior Notes as if it were subject to such reporting requirements. Regardless of whether the Company is required to furnish such reports to its stockholders pursuant to the Exchange Act, the Company will cause its consolidated financial statements and a "Management's Discussion and Analysis of Results of Operations and Financial Condition" written report, similar to those that would have been required to appear in annual or quarterly reports, to be delivered to Holders of Senior Notes.

#### **Limitation of Applicability of Certain Covenants if Senior Notes Rated Investment Grade**

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

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

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

#### **Condition for Release of K. Hovnanian**

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

**Events of Default**

The following are Events of Default under the Senior Indenture:

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

(b) appoints a Custodian of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary or a Custodian for all or substantially all of the property of the Company or any Restricted Subsidiary that is a Significant Subsidiary, or

(c) orders the liquidation of the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary,

and the order or decree remains unstayed and in effect for 60 days, or

(9) any Senior Guarantee of a Guarantor which is a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Senior Guarantee and the Senior Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Guarantee (other than by reason of release of a Guarantor from its Guarantee in accordance with the terms of the Senior Indenture and the Senior Guarantee).

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

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

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

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

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

#### **Discharge and Defeasance of Senior Indenture**

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

The Senior Indenture will permit the Company, the Issuer and the Guarantors to terminate all of their respective obligations under the Senior Indenture with respect to the Senior Notes and the Senior Guarantees, other than the obligation to pay interest on and the principal of the Senior Notes and certain other obligations ("**legal defeasance**"), at any time by

- (1) depositing in trust with the Senior Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and premium, interest and additional interest, if any, on the Senior Notes to their maturity or redemption, as the case may be, and
- (2) complying with certain other conditions, including delivery to the Senior Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise, which opinion of counsel is based upon a change in the applicable federal tax law since the date of the Senior Indenture.

In addition, the Senior Indenture will permit the Company, the Issuer and the Guarantors to terminate all of their obligations under the Senior Indenture with respect to certain covenants and events of default specified in the Senior Indenture, and the Guarantors will be released ("**covenant defeasance**"), at any time by

- (1) depositing in trust with the Senior Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of, premium and interest and additional interest, if any, on the Senior Notes to their maturity or redemption, as the case may be, and
- (2) complying with certain other conditions, including delivery to the Senior Trustee of an opinion of counsel or a ruling, received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the Company's exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

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

rights of registration of transfer and exchange of Senior Notes;

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

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

rights, obligations, duties and immunities of the Senior Trustee;

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

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

The Company, the Issuer or the Guarantors may exercise the legal defeasance option with respect to the Senior Notes notwithstanding the prior exercise of the covenant defeasance option with respect to the Senior Notes. If the Company, the Issuer or the Guarantors exercise the legal defeasance option with respect to the Senior Notes, payment of the Senior Notes may not be accelerated due to an Event of Default with respect to the Senior Notes. If the Company, the Issuer or the Guarantors exercise the covenant defeasance option with respect to the Senior Notes, payment of the Senior Notes may not be accelerated due to an Event of Default with respect to the covenants to which such covenant defeasance is applicable. However, if acceleration were to occur by reason of another Event of Default, the realizable value at the acceleration date of the cash and U.S. Government Obligations in the defeasance trust could be less than the principal of, premium, if any, and interest and additional interest, if any, then due on the Senior Notes, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

### **Transfer and Exchange**

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

### **Amendment, Supplement and Waiver**

Subject to certain exceptions, the Senior Indenture or the Senior Notes may be amended or supplemented with the consent (which may include written consents obtained in connection with a tender offer or exchange offer for Senior Notes) of the Holders of at least a majority in principal amount of the Senior Notes then outstanding, and future compliance with any provision of the Senior Indenture or the Senior Notes may be waived (other than any continuing Default or Event of Default in the payment of interest on or the principal of the Senior Notes) with the consent (which may include waivers obtained in connection with a tender offer or exchange offer for Senior Notes) of the Holders of a majority in principal amount of the Senior Notes then outstanding. Without the consent of any Holder, the Company, the Issuer, the Guarantors and the Senior Trustee may amend or supplement the Senior Indenture or the Senior Notes to cure any ambiguity, defect or inconsistency; to comply with the "Limitations on Mergers, Consolidations and Sales of Assets" covenant set forth in the Senior Indenture; to comply with any requirements of the Commission in connection with the qualification of

the Senior Indenture under the Trust Indenture Act; to evidence and provide for the acceptance of appointment under the Senior Indenture by a successor Senior Trustee; to provide for uncertificated Senior Notes in addition to or in place of certificated Senior Notes; to provide for any Guarantee of the Senior Notes; to secure the Senior Notes or to confirm and evidence the release, termination or discharge of any Senior Guarantee of or Lien securing the Senior Notes when such release, termination or discharge is permitted by the Senior Indenture; to make any change that does not adversely affect the legal rights of any Holder; to evidence the assumption by the Company (or its successor entity) or a successor entity of the Issuer of the obligations of the Issuer under the Senior Indenture and the Senior Notes; to add covenants or new events of default for the protection of the Holders of the Senior Notes; or to designate a bank or trust company other than the Senior Trustee to act as trustee.

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

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

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

#### **Governing Law**

The Senior Indenture, the Senior Notes and the Senior Guarantees will be governed by the laws of the State of New York.

#### **Definitions of Certain Terms Used in the Senior Indenture**

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



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

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

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

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

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

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- (6) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business.

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

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

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

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

**"Cash Equivalents"** means

- (1) U.S. dollars;
- (2) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any domestic commercial bank having capital and surplus in excess of \$500 million;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper rated P-1, A-1 or the equivalent thereof by Moody's or S&P, respectively, and in each case maturing within six months after the date of acquisition; and
- (6) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (1) through (5).

**"Change of Control"** means

- (1) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); *provided, however*, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;
- (2) a "person" or "group" (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders)) becomes the "beneficial owner"



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(as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;

- (3) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;
- (4) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however,* that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (1) above shall not constitute a Change of Control; or
- (5) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

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

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

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

- (1) income taxes,
- (2) Consolidated Interest Expense,
- (3) depreciation and amortization expenses and other non-cash charges to earnings, and
- (4) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

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

**"Consolidated Fixed Charge Coverage Ratio"** means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the **"Four Quarter Period"**) for which financial results have been reported immediately preceding the determination date (the **"Transaction Date"**), to (y) the aggregate Consolidated Interest Incurred for the Four Quarter Period. For purposes of this definition, **"Consolidated Cash Flow Available for Fixed Charges"** and **"Consolidated Interest Incurred"** shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

- (1) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, **"repayment"**) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the

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first day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the Four Quarter Period (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

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

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

- (a) interest on Indebtedness in respect of which a *pro forma* calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate *per annum* equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and
- (b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate *per annum* resulting after giving effect to the operation of such agreements.

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

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

**"Consolidated Net Income"** for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with

GAAP; *provided*, that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

- (1) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company's, the Issuer's or such Restricted Subsidiary's (as applicable) *pro rata* share of such Unrestricted Subsidiary's or such other Person's net income earned during such period,
- (2) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such redesignation) or (b) the assets of such Person are acquired by the Company or any Restricted Subsidiary,
- (3) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,
- (4) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (a) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (b) any Asset Disposition by the Company or any Restricted Subsidiary,
- (5) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary, and
- (6) any non-recurring expense recorded by the Company, the Issuer or any Restricted Subsidiary in connection with a merger accounted for as a "pooling-of-interests" transaction;

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

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

**"Continuing Director"** means a director who either was a member of the Board of Directors of the Company on the date of the Senior Indenture or who became a director of the Company subsequent to such date and whose election or nomination for election by the Company's stockholders, was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement

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issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

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

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

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

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

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

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

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

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

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

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

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

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

**"Guarantors"** means (i) initially, the Company and each of the Company's Restricted Subsidiaries in existence on the Issue Date, other than the Issuer, KHL, Inc. and K. Hovnanian Poland, sp.zo.o., and (ii) each of the Company's Subsidiaries which becomes a Guarantor of the Senior Notes pursuant to the provisions of the Senior Indenture, and their successors, in each case until released from its respective Senior Guarantee pursuant to the Senior Indenture.

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

**"Indebtedness"** of any Person means, without duplication,

(1)

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

(2)

any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided, however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the Company or a Restricted Subsidiary



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under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to the "Limitations on Restricted Payments" covenant,

(3)

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

(4)

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

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

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

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

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

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

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

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

**"Issue Date"** means August 8, 2005.

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

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

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

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

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

**"Non-Recourse Indebtedness"** with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred

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

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

**"Permitted Indebtedness"** means

- (1) Indebtedness under Credit Facilities which does not exceed \$1.0 billion principal amount outstanding at any one time;
- (2) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;
- (3) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; provided, however, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of the first paragraph of the covenant described under "Limitations on Indebtedness" at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;
- (4) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;
- (5) Purchase Money Indebtedness;
- (6) Capitalized Lease Obligations;
- (7) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;
- (8) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed \$10 million aggregate principal amount outstanding at any one time;
- (9) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and

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

### **"Permitted Investment"** means

- (1) Cash Equivalents;
- (2) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;
- (3) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the Senior Indenture;
- (4) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the Senior Indenture;
- (5) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness;
- (6) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; provided, however, that any such loan or advance exceeding \$1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;
- (7) Investments in joint ventures in a Real Estate Business with unaffiliated third parties in an aggregate amount at any time outstanding not to exceed 10% of Consolidated Tangible Assets at such time;
- (8) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;
- (9) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and
- (10) Investments in an aggregate amount outstanding not to exceed \$10 million.

### **"Permitted Liens"** means

- (1) Liens for taxes, assessments or governmental or quasi-government charges or claims that (a) are not yet delinquent, (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required, or (c) encumber solely property abandoned or in the process of being abandoned,
- (2) statutory Liens of landlords and carriers', warehousemen's, mechanics', suppliers', materialmen's, repairmen's or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the

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extent applicable, either (a) are not yet delinquent or (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

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- (3) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security,
- (4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contracts, utility services, developer's or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (1)(a) of the definition of "Indebtedness"), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (5) attachment or judgment Liens not giving rise to a Default or an Event of Default,
- (6) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (7) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,
- (8) Liens securing Indebtedness incurred pursuant to clause (8) or (9) of the definition of Permitted Indebtedness,
- (9) Liens securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary permitted to be incurred under the Senior Indenture; provided, that the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (9) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof),
- (10) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; provided, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,
- (11) Liens securing Purchase Money Indebtedness; *provided*, that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,
- (12) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries,
- (13) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,

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

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

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

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



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

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

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

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

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

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

**"Restricted Payment"** means any of the following:

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

- (2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary); and
- (3) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (2) of the definition of Indebtedness.

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

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

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

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

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

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

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided, however*, that (1) the net amount (the **"Designation Amount"**) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under the "Limitations on Restricted Payments" covenant set forth in the Senior Indenture, to the extent provided therein, (2) the Company must be permitted under the "Limitations on Restricted Payments" covenant set forth in the Senior Indenture to make the Restricted Payment deemed to have been made pursuant to clause (1), and (3) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance

with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person's merger with the Company or any Restricted Subsidiary (but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that (1) the Indebtedness of such Unrestricted Subsidiary as of the date of such redesignation could then be incurred under the "Limitations on Indebtedness" covenant and (2) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur \$1.00 of additional Indebtedness under the first paragraph of the "Limitations on Indebtedness" covenant. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the Senior Trustee by the filing with the Senior Trustee of a certified copy of the resolution of the Board of Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers' Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers' Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided, however*, that the ownership of the general partnership interest (or a similar member's interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

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

#### **Concerning the Senior Trustee**

The Senior Trustee is also trustee with respect to the Issuer's 6<sup>1</sup>/<sub>4</sub>% Senior Notes due 2015, 10<sup>1</sup>/<sub>2</sub>% Senior Notes due 2007, 8% Senior Notes due 2012, 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2014, 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2014, 6% Senior Subordinated Notes due 2010, 8<sup>7</sup>/<sub>8</sub>% Senior Subordinated Notes due 2012 and 7<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2013. The Senior Indenture will contain certain limitations on the rights of the Senior Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Senior Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest during the continuance of any Default, it must, so long as such Default has not been cured or duly waived, eliminate that conflicting interest within 90 days, apply to the Commission for permission to continue or resign.

The holders of a majority in principal amount of the outstanding Senior Notes will have the right to direct the Senior Trustee, subject to certain exceptions. The Senior Indenture will provide that in case an Event of Default shall occur (which shall not be cured), the Senior Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Senior Trustee will be under no obligation to exercise any of its rights or powers under the Senior Indenture at the request of any holder of Senior Notes, unless that holder shall have offered to the Senior Trustee security and indemnity satisfactory to it against any loss, liability or expense.

**EXCHANGE OFFER; REGISTRATION RIGHTS**

The Issuer, the Company, the other guarantors party thereto and the initial purchasers of the outstanding notes entered into a registration rights agreement on August 8, 2005, which we refer to as the "**Registration Rights Agreement**." Pursuant to the Registration Rights Agreement, the Issuer, the Company and the other guarantors party thereto agreed to file with the SEC the Exchange Offer Registration Statement on the appropriate form under the Securities Act with respect to the exchange offer. Upon the effectiveness of the Exchange Offer Registration Statement and pursuant to the exchange offer, the Issuer will offer to the holders of Transfer Restricted Securities (as defined below) who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for exchange notes. Capitalized terms used in this section but not otherwise defined have the meanings given to them in the Registration Rights Agreement.

Under the Registration Rights Agreement:

- (1) the Issuer, the Company and the other guarantors agreed to file an Exchange Offer Registration Statement with the SEC on or prior to 90 days after August 8, 2005;
- (2) the Issuer, the Company and the other guarantors agreed to use their reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to 150 days after August 8, 2005;
- (3) unless the exchange offer would not be permitted by applicable law or SEC policy, the Issuer, the Company and the other guarantors agreed to commence the exchange offer, keep the exchange offer open for a period of not less than 20 business days and use their reasonable best efforts to issue, on or prior to 30 business days after the date on which the Exchange Offer Registration Statement was declared effective by the SEC, exchange notes in exchange for all outstanding notes tendered prior thereto in the exchange offer; and
- (4) if obligated to file the Shelf Registration Statement, the Issuer, the Company and the other guarantors will file the Shelf Registration Statement with the SEC on or prior to 30 days after that filing obligation arises and use their reasonable best efforts to cause the Shelf Registration Statement to be declared effective by the SEC on or prior to 90 days after that obligation arises.

In the event that:

- (1) the Issuer is not permitted to file the Exchange Offer Registration Statement or permitted to consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy; or
- (2) any holder of Transfer Restricted Securities notifies the Issuer in writing prior to the 20th business day following consummation of the exchange offer that:
  - (a) based on an opinion of counsel, it is prohibited by law or SEC policy from participating in the exchange offer; or
  - (b) it is a broker-dealer and owns notes acquired directly from the Issuer,

then, the Issuer, the Company and the other guarantors have agreed to file with the SEC a Shelf Registration Statement to cover resales of the notes by the holders thereof who satisfy certain conditions relating to the provisions of information in connection with the Shelf Registration Statement.

The Company, the Issuer and the other guarantors have agreed to use their reasonable best efforts to cause the applicable registration statement to be declared effective as promptly as possible by the SEC.

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For purposes of the preceding, "**Transfer Restricted Securities**" means:

- (1) each outstanding note, until the earliest to occur of:
  - (a) the date on which that outstanding note is exchanged in the exchange offer for an exchange note which is entitled to be resold to the public by the holder thereof without complying with the prospectus delivery requirements of the Securities Act;
  - (b) the date on which that outstanding note has been disposed of in accordance with a Shelf Registration Statement (and purchasers thereof have been issued new exchange notes); or
  - (c) the date on which the outstanding note is distributed to the public pursuant to Rule 144 or Regulation S under the Securities Act (and purchasers thereof have been issued new exchange notes); and
- (2) new exchange notes issued to a broker-dealer until the date on which those exchange notes are disposed of by that broker-dealer pursuant to the "Plan of Distribution" contemplated by the Exchange Offer Registration Statement (including the delivery of the prospectus contained therein).

The Issuer, the Company and other guarantors have agreed to pay additional interest to each holder of Transfer Restricted Securities upon the occurrence of any of the following:

- (1) the Issuer, the Company and the other guarantors fail to file any of the Registration Statements required by the Registration Rights Agreement on or before the date specified for that filing;
- (2) any of such Registration Statements is not declared effective by the SEC on or prior to the date specified for that effectiveness, which we refer to as the "**Effectiveness Target Date**";
- (3) the Issuer, the Company and the other guarantors fail to consummate the exchange offer within 40 business days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or
- (4) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable (without being succeeded immediately by a post-effective amendment to such Registration Statement) in connection with resales of Transfer Restricted Securities during the periods specified in the Registration Rights Agreement.

We refer to each event referred to in clauses (1) through (4) above as a "**Registration Default**."

Such additional interest shall be:

- (1) with respect to the first 90-day period immediately following the occurrence of the first Registration Default, an amount equal to \$.05 per week per \$1,000 principal amount of Transfer Restricted Securities held by that holder; and
- (2) an additional \$.05 per week per \$1,000 principal amount of Transfer Restricted Securities held by that holder with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of additional interest for all Registration Defaults of \$.25 per week per \$1,000 principal amount of Transfer Restricted Securities.

All accrued additional interest will be paid on each Interest Payment Date at the same time and in the same manner as interest. Following the cure of all Registration Defaults, the accrual of additional interest will cease. Additional interest will only be payable in respect of one Registration Default at any time.

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Holders of Transfer Restricted Securities will be required to make certain representations to the Issuer, the Company and the other guarantors (as described in the Registration Rights Agreement) in

order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the Registration Rights Agreement in order to have their notes included in the Shelf Registration Statement and to benefit from the provisions regarding additional interest set forth above with respect to the Shelf Registration Statement.

The outstanding notes and the exchange notes will constitute a single series of debt securities under the Senior Indenture. If an Exchange Offer is consummated, holders of outstanding notes who do not exchange their outstanding notes in that Exchange Offer will vote together with the holders of the exchange notes for all relevant purposes under the Senior Indenture. Accordingly, when determining whether the required holders have given notice, consent or waiver or taken any other action permitted under the Senior Indenture, any outstanding notes that remain outstanding after the Exchange Offer will be aggregated with the exchange notes. All references herein to specified percentages in aggregate principal amount of notes outstanding shall be deemed to mean, at any time after the Exchange Offer is consummated, percentages in aggregate principal amount of outstanding notes and exchange notes outstanding.

## BOOK-ENTRY, DELIVERY AND FORM

### Book-Entry Procedures for the Global Notes

The exchange notes will initially be represented in the form of one or more global notes in fully-registered book-entry form without interest coupons that will be deposited upon issuance with the trustee under the indenture, Wachovia Bank, National Association, as custodian for The Depository Trust Company, or "DTC," and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant as described below.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See " Exchange of Global Notes for Certificated Notes." In addition, transfer of beneficial interests in the global notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time. The notes may be presented for registration of transfer and exchange at the Corporate Trust Office of the trustee.

### Depository Procedures

DTC has advised the Issuer that it is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "**Participants**") and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of Participants. The Participants include securities brokers and dealers (including the initial purchasers of the outstanding notes), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "**Indirect Participants**"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it,

- (1) upon deposit of the global notes, DTC will credit the accounts of Participants with an interest in the global notes; and
- (2) ownership of such interests in the global notes will be shown on, and the transfer of ownership thereof, will be effected only through, records maintained by DTC (with respect to Participants) or by Participants and the Indirect Participants (with respect to other owners of beneficial interests in the global notes).

The laws of some states require that certain persons take physical delivery in definitive form of securities they own. Consequently, the ability to transfer beneficial interest in a global note to such persons may be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see " Exchange of Global Notes for Certificated Notes."

**Except as described below, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose.**



Payments in respect of the principal and premium and additional interest, if any, and interest on a global note registered in the name of DTC or its nominee will be payable by the trustee to DTC or its nominee in its capacity as the registered holder under the indenture. Under the terms of the indenture, the indenture and the trustee will treat the persons in whose names the notes, including the global notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever.

Consequently, none of the Issuer, the trustee nor any agent of the Issuer or the trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the global notes, or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the global notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the exchange notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by Participants and the Indirect Participants to the beneficial owners of exchange notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or the Issuer. Neither the Issuer nor the trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the exchange notes, and the Issuer and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream participants, interests in the global notes will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants.

Transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, crossmarket transfers between Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities accounts of a Euroclear or Clearstream Participant purchasing an interest in a note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream Participant, during the securities settlement

processing day (which must be a business day for Euroclear or Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interests in an exchange note by or through a Euroclear or Clearstream Participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of exchange notes only at the direction of one or more Participants to whose account DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange global notes for legended exchange notes in certificated form, and to distribute such exchange notes to its Participants.

The information in this section concerning DTC, Euroclear and Clearstream and their book-entry systems has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among Participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the initial purchasers of the outstanding notes or the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

#### **Exchange of Global Notes for Certificated Notes**

A global note is exchangeable for a certificated exchange note if:

- (1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depository for the global notes and the Issuer thereupon fails to appoint a successor depository within 90 days or (b) has ceased to be a clearing agency registered under the Exchange Act;
- (2) the Issuer, at its option, notifies the trustee in writing that it elects to cause the issuance of the notes in certificated form (provided that the Issuer understands that under current industry practices, DTC would notify Participants of the Issuer's determination in this clause (2), but would only withdraw beneficial interests from a global note at the request of Participants); or
- (3) there shall have occurred and be continuing to occur a default or an event of default with respect to the notes.

In addition, beneficial interests in a global note may be exchanged for certificated exchange notes upon request but only upon at least 20 days' prior written notice given to the trustee by or on behalf of DTC in accordance with customary procedures. In all cases, certificated exchange notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures).

#### **Same Day Settlement And Payment**

The indenture requires that payments in respect of exchange notes represented by the global notes (including principal, premium, if any, interest and additional interest, if any) be made by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. With respect to certificated exchange notes, we will make all payments of principal, premium, if any, interest and additional interest, if any, by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address. The exchange notes represented by the global notes are eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such exchange notes will, therefore, be required by DTC to be settled in immediately available funds. We expect that secondary trading in any certificated exchange notes will also be settled in immediately available funds.

**UNITED STATES FEDERAL INCOME TAX CONSEQUENCES  
OF THE EXCHANGE OFFER**

The exchange of outstanding notes for exchange notes in the exchange offer will not constitute a taxable event to holders for United States federal income tax purposes. Consequently, no gain or loss will be recognized by a holder upon receipt of an exchange note, the holding period of the exchange note will include the holding period of the outstanding note exchanged therefor, and the basis of the exchange note will be the same as the basis of the outstanding note immediately before the exchange.

**In any event, persons considering the exchange of outstanding notes for exchange notes should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

### PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where the outstanding notes were acquired as a result of market-making activities or other trading activities. To the extent that any such broker-dealer participates in the exchange offer and so notifies us, or causes us to be so notified in writing, we have agreed that for a period of up to 180 days after the consummation of this offer to use our best efforts to make this prospectus, as amended or supplemented, available to such broker-dealer for use in connection with any such resale and will deliver as many additional copies of this prospectus and each amendment or supplement to this prospectus and any documents incorporated by reference in this prospectus as such broker-dealer may reasonably request.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own accounts pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of these methods of resale at market prices prevailing at the time of resale, at prices related to the prevailing market prices or at negotiated prices. Any resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any broker-dealer or the purchasers of any exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by these persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

We have also agreed to pay all expenses incident to the exchange offer, including the expenses of one counsel for the holders of all of the sellers of the outstanding notes, and will indemnify the holders of the outstanding notes, including any broker-dealers, against certain liabilities under the Securities Act.

### **LEGAL MATTERS**

The validity of the exchange notes offered hereby will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York.

### **EXPERTS**

The consolidated financial statements of Hovnanian Enterprises, Inc. appearing in Hovnanian Enterprises, Inc.'s Annual Report on Form 10-K for the year ended October 31, 2004 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of said firm as experts in accounting and auditing.

### **AVAILABLE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934, and file reports, proxy statements and other information with the SEC. You may read, free of charge, and copy, at the prescribed rates, any reports, proxy statements and other information at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such material also can be obtained by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington, D.C. 20549, at the prescribed rates. The SEC also maintains a website that contains reports, proxy and information statements and other information. The website address is: <http://www.sec.gov>. Hovnanian's Class A common stock is listed on the New York Stock Exchange, and reports, proxy statements and other information also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

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

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

Annual Report on Form 10-K for the fiscal year ended October 31, 2004, Registration File No. 1-8551 (including information specifically incorporated by reference into the Annual Report on Form 10-K from Hovnanian's definitive proxy statement filed on February 7, 2005, Registration File No. 1-8551);

Quarterly Report on Form 10-Q, as amended, for the quarter ended January 31, 2005, and Quarterly Report on Form 10-Q for the quarter ended April 30, 2005, Registration File Nos. 1-8551; and

Current Reports on Form 8-K filed on January 19, 2005, June 20, 2005, July 5, 2005 and July 13, 2005, Registration File Nos. 1-8551.

This prospectus is part of a registration statement filed with the SEC. The SEC allows us to "incorporate by reference" selected documents that we file with it, which means that we can disclose important information to you by referring to those documents. The information in the documents incorporated by reference is considered to be a part of this prospectus, and information in documents that we file later with the SEC will automatically update and supercede this information. We incorporate by reference the documents listed above filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act.

All documents filed by Hovnanian pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of the offerings made by this

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

Hovnanian will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the information incorporated by reference in this prospectus, other than exhibits to such information (unless such exhibits are specifically incorporated by reference into the information that this prospectus incorporates). Requests for such copies should be directed to Paul W. Buchanan, Senior Vice President - Corporate Controller, Hovnanian Enterprises, Inc., 10 Highway 35, P.O. Box 500, Red Bank, New Jersey 07701, telephone: (732) 747-7800.

**\$300,000,000**

**K. Hovnanian Enterprises, Inc.**

Guaranteed by  
**Hovnanian Enterprises, Inc.**

**Offer to Exchange All Outstanding  
6.25% Senior Notes due 2016  
(\$300,000,000 aggregate principal amount outstanding)  
for 6.25% Senior Notes due 2016, which have been registered  
under the Securities Act of 1933**

Until December 5, 2005, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters with respect to their unsold allotments or subscriptions.

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**PROSPECTUS**

**September 6, 2005**

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