HOVNANIAN ENTERPRISES INC
Form 10-Q
March 09, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended JANUARY 31, 2018

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-8551

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)

22-1851059 (I.R.S. Employer Identification No.)

90 Matawan Road, 5th Floor, Matawan, NJ 07747 (Address of Principal Executive Offices)

732-747-7800 (Registrant's Telephone Number, Including Area Code)

110 West Front Street, P.O. Box 500, Red Bank, NJ 07701 (Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes [X] No [ ]

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

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

Large Accelerated Filer [ ] Accelerated Filer [X]

Non-Accelerated Filer [ ] (Do not check if smaller reporting company) Smaller Reporting Company [ ]
Emerging Growth Company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 132,643,015 shares of Class A Common Stock and 15,470,480 shares of Class B Common Stock were outstanding as of March 2, 2018.

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	January 31, 2018 (Unaudited)	October 31, 2017
ASSETS		
Homebuilding:		
Cash and cash equivalents	$*278,158*	$*463,697*
Restricted cash and cash equivalents	*3,213*	*2,077*
Inventories:		
Sold and unsold homes and lots under development	*807,714*	*744,119*
Land and land options held for future development or sale	*151,925*	*140,924*
Consolidated inventory not owned	*93,875*	*124,784*
Total inventories	*1,053,514*	*1,009,827*
Investments in and advances to unconsolidated joint ventures	*92,262*	*115,090*
Receivables, deposits and notes, net	*53,816*	*58,149*
Property, plant and equipment, net	*19,505*	*52,919*
Prepaid expenses and other assets	*43,544*	*37,026*
Total homebuilding	*1,544,012*	*1,738,785*
Financial services cash and cash equivalents	*4,130*	*5,623*
Financial services other assets	*97,795*	*156,490*
Total assets	$*1,645,937*	$*1,900,898*
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse mortgages secured by inventory, net of debt issuance costs	$*64,450*	$*64,512*
Accounts payable and other liabilities	*289,099*	*335,057*
Customers' deposits	*34,389*	*33,772*
Nonrecourse mortgages secured by operating properties	-	*13,012*
Liabilities from inventory not owned, net of debt issuance costs	*68,040*	*91,101*
Revolving credit facility	*52,000*	*52,000*
Notes payable and term loan (net of discount and debt issuance costs) and accrued interest	*1,545,324*	*1,627,674*
Total homebuilding	*2,053,302*	*2,217,128*
Financial services	*81,638*	*141,914*
Income taxes payable	*2,186*	*2,227*
Total liabilities	*2,137,126*	*2,361,269*

Stockholders' equity deficit:		
Preferred stock, $0.01 par value - authorized 100,000 shares; issued and outstanding 5,600 shares with a liquidation preference of $140,000 at January 31, 2018 and at October 31, 2017	*135,299*	*135,299*
Common stock, Class A, $0.01 par value – authorized 400,000,000 shares; issued 144,403,778 shares at January 31, 2018 and 144,046,073 shares at October 31, 2017	*1,444*	*1,440*
Common stock, Class B, $0.01 par value (convertible to Class A at time of sale) – authorized 60,000,000 shares; issued 16,162,230 shares at January 31, 2018 and 15,999,355 shares at October 31, 2017	*162*	*160*
Paid in capital – common stock	*706,451*	*706,466*
Accumulated deficit	*(1,219,185)*	*(1,188,376)*
Treasury stock – at cost – 11,760,763 shares of Class A common stock and 691,748 shares of Class B common stock at January 31, 2018 and October 31, 2017	*(115,360)*	*(115,360)*
Total stockholders' equity deficit	*(491,189)*	*(460,371)*
Total liabilities and equity	$*1,645,937*	$*1,900,898*

See notes to condensed consolidated financial statements (unaudited).

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands Except Share and Per Share Data)

(Unaudited)

	Three Months Ended January 31, 2018	2017
Revenues:		
Homebuilding:		
Sale of homes	$*401,577*	$*531,415*
Land sales and other revenues	*4,701*	*7,745*
Total homebuilding	*406,278*	*539,160*
Financial services	*10,888*	*12,849*
Total revenues	*417,166*	*552,009*
Expenses:		
Homebuilding:		
Cost of sales, excluding interest	*329,527*	*445,027*
Cost of sales interest	*12,292*	*18,322*
Inventory impairment loss and land option write-offs	*414*	*3,184*
Total cost of sales	*342,233*	*466,533*
Selling, general and administrative	*43,231*	*44,408*
Total homebuilding expenses	*385,464*	*510,941*
Financial services	*8,341*	*6,855*
Corporate general and administrative	*19,135*	*15,656*
Other interest	*29,131*	*22,627*
Other operations	*390*	*1,587*
Total expenses	*442,461*	*557,666*
Gain on extinguishment of debt	-	*7,646*
(Loss) from unconsolidated joint ventures	*(5,176*)	*(1,666*)
(Loss) income before income taxes	*(30,471*)	*323*
State and federal income tax provision (benefit):		
State	*338*	*(18*)
Federal	-	*484*
Total income taxes	*338*	*466*
Net (loss)	$*(30,809*)	$*(143*)
Per share data:		
Basic:		
Net (loss) per common share	$*(0.21*)	$*(0.00*)

Weighted-average number of common shares outstanding	*148,028*	*147,535*
Assuming dilution:		
Net (loss) per common share	$*(0.21*)	$*(0.00*)
Weighted-average number of common shares outstanding	*148,028*	*147,535*

See notes to condensed consolidated financial statements (unaudited).

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In Thousands Except Share Amounts)

(Unaudited)

	A Common Stock		B Common Stock		Preferred Stock					
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balance, October 31, 2017	*132,285,310*	$*1,440*	*15,307,607*	$*160*	*5,600*	$*135,299*	$*706,466*	$*(1,188,376)*	$*(115,360)*	$*(460,3*
Stock options, amortization and issuances	*24,000*						*210*			*210*
Restricted stock amortization, issuances and forfeitures	*332,264*	*4*	*164,316*	*2*			*(225*)			*(219*
Conversion of Class B to Class A common stock	*1,441*		*(1,441*)							-
Net (loss)								*(30,809*)		*(30,80*
Balance, January 31, 2018	*132,643,015*	$*1,444*	*15,470,482*	$*162*	*5,600*	$*135,299*	$*706,451*	$*(1,219,185)*	$*(115,360)*	$*(491,1*

See notes to condensed consolidated financial statements (unaudited).

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended January 31, 2018	2017
Cash flows from operating activities:		
Net (loss)	$(30,809)	$(143)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation	790	1,013
Compensation from stock options and awards	1,039	452
Amortization of bond discounts and deferred financing costs	2,337	4,129
Gain on sale and retirement of property and assets	(3,628)	(56)
Loss from unconsolidated joint ventures	5,176	1,666
Distributions of earnings from unconsolidated joint ventures	-	185
Gain on extinguishment of debt	-	(7,646)
Inventory impairment and land option write-offs	414	3,184
Deferred income tax provision	-	20
(Increase) decrease in assets:		
Origination of mortgage loans	(198,878)	(229,537)
Sale of mortgage loans	251,055	312,027
Restricted cash, receivables, prepaids, deposits and other assets	3,011	4,833
Inventories	(31,063)	(13,526)
(Decrease) increase in liabilities:		
State income tax payable	(41)	291
Customers’ deposits	617	(1,476)
Accounts payable, accrued interest and other accrued liabilities	(82,544)	(49,500)
Net cash (used in) provided by operating activities	(82,524)	25,916
Cash flows from investing activities:		
Proceeds from sale of property and assets	38,170	60
Purchase of property, equipment and other fixed assets and acquisitions	(1,916)	(560)
Decrease (increase) in restricted cash related to mortgage company	174	(2,324)
Decrease (increase) in restricted cash related to letters of credit	9	(1)
Investments in and advances to unconsolidated joint ventures	(2,032)	(14,639)
Distributions of capital from unconsolidated joint ventures	6,646	1,939
Net cash provided by (used in) investing activities	41,051	(15,525)
Cash flows from financing activities:		
Proceeds from mortgages and notes	33,802	54,396
Payments related to mortgages and notes	(46,596)	(63,307)

Proceeds from model sale leaseback financing programs	746	747
Payments related to model sale leaseback financing programs	(16,934)	(4,268)
Proceeds from land bank financing programs	2,204	4,788
Payments related to land bank financing programs	(9,449)	(27,650)
Payments for senior notes and senior amortizing notes	(56,002)	(33,086)
Net payments related to mortgage warehouse lines of credit	(51,487)	(86,058)
Deferred financing costs from land bank financing program and note issuances	(1,843)	(938)
Net cash used in financing activities	(145,559)	(155,376)
Net decrease in cash and cash equivalents	(187,032)	(144,985)
Cash and cash equivalents balance, beginning of period	469,320	346,765
Cash and cash equivalents balance, end of period	$282,288	$201,780

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands - Unaudited)

(Continued)

	Three Months Ended	
	January 31,	
	2018	2017
Supplemental disclosure of cash flow:		
Cash paid during the period for:		
Interest, net of capitalized interest (see Note 3 to the Condensed Consolidated Financial Statements)	$*56,482*	$*24,019*
Income taxes	$*379*	$*154*

See notes to condensed consolidated financial statements (unaudited).

Supplemental disclosure of noncash investing activities:

In the first quarter of fiscal 2018, we acquired the remaining assets of one of our joint ventures, resulting in a $13.6 million reduction in our investment in the joint venture and a corresponding increase to inventory.

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HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. Basis of Presentation

Hovnanian Enterprises, Inc. and Subsidiaries (the "Company", "we", "us" or "our") has reportable segments consisting of *six* Homebuilding segments (Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West) and the Financial Services segment (see Note *16*).

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts and those of all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form *10*-Q and Article *10* of Regulation S-*X* and accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form *10*-K for the fiscal year ended *October 31, 2017*. In the opinion of management, all adjustments for interim periods presented have been made, which include normal recurring accruals and deferrals necessary for a fair presentation of our condensed consolidated financial position, results of operations and cash flows. The preparation of Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the Condensed Consolidated Financial Statements. Results for interim periods are *not* necessarily indicative of the results which might be expected for a full year.

2. Stock Compensation

The Company's total stock-based compensation expense was *$1.0* million and *$0.5* million for the *three* months ended *January 31, 2018* and *2017,* respectively. Included in this total stock-based compensation expense was the vesting of stock options of *$0.2* million and *$0.1* million for the *three* months ended *January 31, 2018* and *2017,* respectively.

***3.* Interest**

Interest costs incurred, expensed and capitalized were:

	Three Months Ended January 31,	
(In thousands)	2018	2017
Interest capitalized at beginning of period	$*71,051*	$*96,688*
Plus interest incurred(1)	*41,165*	*38,699*
Less cost of sales interest expensed	*12,292*	*18,322*
Less other interest expensed(2)(3)	*29,131*	*22,627*
Interest capitalized at end of period(4)	$*70,793*	$*94,438*

(*1*) Data does *not* include interest incurred by our mortgage and finance subsidiaries.

(*2*) Other interest expensed includes interest that does *not* qualify for interest capitalization because our assets that qualify for interest capitalization (inventory under development) do *not* exceed our debt, which amounted to *$19.6* million and *$13.3* million for the *three* months ended *January 31, 2018* and *2017,* respectively. Other interest also includes interest on completed homes, land in planning and fully developed lots without homes under construction, which does *not* qualify for capitalization, and therefore, is expensed. This component of other interest was *$9.6* million and *$9.3* million for the *three* months ended *January 31, 2018* and *2017,* respectively.

(*3*) Cash paid for interest, net of capitalized interest, is the sum of other interest expensed, as defined above, and interest paid by our mortgage and finance subsidiaries adjusted for the change in accrued interest on notes payable, which is calculated as follows:

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	Three Months Ended January 31,	
(In thousands)	2018	2017
Other interest expensed	$*29,131*	$*22,627*
Interest paid by our mortgage and finance subsidiaries	*601*	*629*
Decrease in accrued interest	*26,750*	*763*
Cash paid for interest, net of capitalized interest	$*56,482*	$*24,019*

(*4*) Capitalized interest amounts are shown gross before allocating any portion of impairments, if any, to capitalized interest.

4. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they *may* be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. In the *first* quarter of fiscal *2018,* we did *not* record impairment losses, therefore, *no* discount rate was used for impairments. In the *first* quarter of fiscal *2017,* our discount rate used for impairments recorded ranged from *18.3%* to *19.8%.* Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we *may* need to recognize additional impairments.

During the *three* months ended *January 31, 2018* and *2017,* we evaluated inventories of all *387* and *390* communities under development and held for future development or sale, respectively, for impairment indicators through preparation and review of detailed budgets or other market indicators of impairment. During the *three* months ended *January 31, 2018, we did not find any indicators of impairment and therefore did not perform any detailed impairment calculations.*We performed detailed impairment calculations during the *three* months ended *January 31, 2017* for *six* of those communities (i.e., those with a projected operating loss or other impairment indicators), with an aggregate carrying value of *$13.8* million. Of those communities tested for impairment during the *three* months ended *January 31, 2017, one* community with an aggregate carrying value of *$1.2* million, had undiscounted future cash flow that only exceeded the carrying amount by less than *20%.* As a result of our impairment analysis, we recorded impairment losses for the *three* months ended *January 31, 2017,* which are included in the Condensed Consolidated Statement of Operations on the line entitled "Homebuilding: Inventory impairment loss and land option write-offs" and deducted from inventory, of *$2.7* million for *five* communities, with a pre-impairment value of *$12.6* million. The pre-impairment value represents the carrying value, net of prior period impairments, if any, at the time of recording the impairment.

The Condensed Consolidated Statement of Operations line entitled “Homebuilding: Inventory impairment loss and land option write-offs” also includes write-offs of options and approval, engineering and capitalized interest costs that we record when we redesign communities and/or abandon certain engineering costs and we do *not* exercise options in various locations because the communities' pro forma profitability is *not* projected to produce adequate returns on investment commensurate with the risk. Total aggregate write-offs related to these items were *$0.4* million and *$0.5* million for the *three* months ended *January 31, 2018* and *2017,* respectively. Occasionally, these write-offs are offset by recovered deposits (sometimes through legal action) that had been written off in a prior period as walk-away costs. Historically, these recoveries have *not* been significant in comparison to the total costs written off. The number of lots walked away from during the *three* months ended *January 31, 2018* and *2017* were *627* and *1,061,* respectively. The walk-aways were located in all segments except the Southeast in the *first* quarter of fiscal *2018* and located in all segments except the Southwest and West in the *first* quarter of *2017.*

We decide to mothball (or stop development on) certain communities when we determine that the current performance does *not* justify further investment at the time. When we decide to mothball a community, the inventory is reclassified on our Condensed Consolidated Balance Sheets from “Sold and unsold homes and lots under development” to “Land and land options held for future development or sale.” During the *first* quarter of fiscal *2018,* we did *not* mothball any additional communities, or sell any previously mothballed communities, but we re-activated *one* previously mothballed community. As of *January 31, 2018* and *October 31, 2017,* the net book value associated with our *21* and *22* total mothballed communities was *$35.6* million and *$36.7* million, respectively, which was net of impairment charges recorded in prior periods of *$206.5* million and *$214.1* million, respectively.

From time to time we enter into option agreements that include specific performance requirements whereby we are required to purchase a minimum number of lots. Because of our obligation to purchase these lots, for accounting purposes in accordance with Accounting Standards Codification (“ASC”) *360-20-40-38,* we are required to record this inventory on our Condensed Consolidated Balance Sheets. As of *January 31, 2018* and *October 31, 2017,* we had *no* specific performance options.

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We sell and lease back certain of our model homes with the right to participate in the potential profit when each home is sold to a *third* party at the end of the respective lease. As a result of our continued involvement, for accounting purposes in accordance with ASC *360-20-40-38,* these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Condensed Consolidated Balance Sheets, at *January 31, 2018* and *October 31, 2017,* inventory of *$39.4* million and *$58.5* million, respectively, was recorded to “Consolidated inventory *not* owned,” with a corresponding amount of *$35.8* million and *$51.8* million (net of debt issuance costs), respectively, recorded to “Liabilities from inventory *not* owned” for the amount of net cash received from the transactions.

We have land banking arrangements, whereby we sell our land parcels to the land bankers and they provide us an option to purchase back finished lots on a predetermined schedule. Because of our options to repurchase these parcels, for accounting purposes, in accordance with ASC *360-20-40-38,* these transactions are considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheets, at *January 31, 2018* and *October 31, 2017,* inventory of *$54.5* million and *$66.3* million, respectively, was recorded to “Consolidated inventory *not* owned,” with a corresponding amount of *$32.2* million and *$39.3* million (net of debt issuance costs), respectively, recorded to “Liabilities from inventory *not* owned” for the amount of net cash received from the transactions.

5. Variable Interest Entities

The Company enters into land and lot option purchase contracts to procure land or lots for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but *not* the obligation, to purchase land or lots at a future point in time with predetermined terms. Under the terms of the option purchase contracts, many of the option deposits are *not* refundable at the Company's discretion. Under the requirements of ASC *810,* certain option purchase contracts *may* result in the creation of a variable interest in the entity (“VIE”) that owns the land parcel under option.

In compliance with ASC *810,* the Company analyzes its option purchase contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does *not* have legal title to the underlying land, ASC *810* requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. As a result of its analyses, the Company determined that as of *January 31, 2018* and *October 31, 2017,* it was *not* the primary beneficiary of any VIEs from which it is purchasing land under option purchase contracts.

We will continue to secure land and lots using options, some of which are with VIEs. Including deposits on our unconsolidated VIEs, at *January 31, 2018,* we had total cash deposits amounting to *$56.3* million to purchase land and lots with a total purchase price of *$1.0* billion. The maximum exposure to loss with respect to our land and lot options is limited to the deposits plus any pre-development costs invested in the property, although some deposits are refundable at our request or refundable if certain conditions are *not* met.

6. **Warranty Costs**

General liability insurance for homebuilding companies and their suppliers and subcontractors is very difficult to obtain. The availability of general liability insurance is limited due to a decreased number of insurance companies willing to underwrite for the industry. In addition, those few insurers willing to underwrite liability insurance have significantly increased the premium costs. To date, we have been able to obtain general liability insurance but at higher premium costs with higher deductibles. Our subcontractors and suppliers have advised us that they have also had difficulty obtaining insurance that also provides us coverage. As a result, we have an owner controlled insurance program for certain of our subcontractors whereby the subcontractors pay us an insurance premium (through a reduction of amounts we would otherwise owe such subcontractors for their work on our homes) based on the risk type of the trade. We absorb the liability associated with their work on our homes as part of our overall general liability insurance at *no* additional cost to us because our existing general liability and construction defect insurance policy and related reserves for amounts under our deductible covers construction defects regardless of whether we or our subcontractors are responsible for the defect. For the *three* months ended *January 31, 2018* and *2017,* we received *$1.0* million and *$0.9* million, respectively, from subcontractors related to the owner controlled insurance program, which we accounted for as a reduction to inventory.

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We accrue for warranty costs that are covered under our existing general liability and construction defect policy as part of our general liability insurance deductible. This accrual is expensed as selling, general and administrative costs. For homes delivered in fiscal *2018* and *2017,* our deductible under our general liability insurance is a *$20* million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal *2018* and *2017* is *$0.25* million, up to a *$5* million limit. Our aggregate retention for construction defect, warranty and bodily injury claims is $20 million for fiscal 2018 and $21 million for fiscal 2017. In addition, we establish a warranty accrual for lower cost related issues to cover home repairs, community amenities and land development infrastructure that are *not* covered under our general liability and construction defect policy. We accrue an estimate for these warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. Additions and charges in the warranty reserve and general liability reserve for the *three* months ended *January 31, 2018* and *2017* were as follows:

	Three Months Ended January 31,	
(In thousands)	2018	2017
Balance, beginning of period	$*127,702*	$*121,144*
Additions – Selling, general and administrative	*2,169*	*2,908*
Additions – Cost of sales	*5,745*	*3,487*
Charges incurred during the period	*(6,302*)	*(9,526*)
Changes to pre-existing reserves	-	-
Balance, end of period	$*129,314*	$*118,013*

Warranty accruals are based upon historical experience. We engage a *third*-party actuary that uses our historical warranty and construction defect data to assist our management in estimating our unpaid claims, claim adjustment expenses and incurred but *not* reported claims reserves for the risks that we are assuming under the general liability and construction defect programs. The estimates include provisions for inflation, claims handling and legal fees.

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were less than *$0.1* million for both the *three* months ended *January 31, 2018* and *2017* for prior year deliveries.

7. Commitments and Contingent Liabilities

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

We also are subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment, including those regulating the emission or discharge of materials into the environment, the management of storm water runoff at construction sites, the handling, use, storage and disposal of hazardous substances, impacts to wetlands and other sensitive environments, and the remediation of contamination at properties that we have owned or developed or currently own or are developing ("environmental laws"). The particular environmental laws that apply to a site *may* vary greatly according to the community site, for example, due to the community, the environmental conditions at or near the site, 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 addition, noncompliance with these laws and regulations could result in fines and penalties, obligations to remediate, permit revocations or other sanctions; and contamination or other environmental conditions at or in the vicinity of our developments *may* result in claims against us for personal injury, property damage or other losses.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. For example, for a number of years, the EPA and U.S. Army Corps of Engineers have been engaged in rulemakings to clarify the scope of federally regulated wetlands, which included a *June 2015* rule many affected businesses contend impermissibly expanded the scope of such wetlands that was challenged in court, stayed, and remains in litigation, a proposal in *June 2017* to formally rescind the *June 2015* rule and reinstate the rule scheme previously in place while the agencies initiate a new substantive rulemaking on the issue and a February 2018 rule delaying the effective date of the June 2015 rule until February 2020 (which is being challenged in federal court by a number of states). It is unclear how these and related developments, including at the state or local level, ultimately *may* affect the scope of regulated wetlands where we operate. Although we cannot reliably predict the extent of any effect these developments regarding wetlands, or any other requirements that *may* take effect *may* have on us, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. In addition, our ability to obtain or renew permits or approvals and the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond our control, such as changes in policies, rules and regulations and their interpretations and application.

In *March 2013,* we received a letter from the Environmental Protection Agency ("EPA") requesting information about our involvement in a housing redevelopment project in Newark, New Jersey that a Company entity undertook during the *1990s.* We understand that the development is in the vicinity of a former lead smelter and that tests on soil samples from properties within the development conducted by the EPA showed elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re-development project. We responded to the EPA's request. In *August 2013,* we were notified that the EPA considers us a potentially responsible party (or "PRP") with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and/or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution but do *not* know the scope or extent of the Company's obligations, if any, that *may* arise from the site and therefore cannot provide any assurance that this matter will *not* have a material impact on the Company. The EPA requested additional information in *April 2014* and again in *March 2017* and the Company has responded to its information requests.

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The Grandview at Riverwalk Port Imperial Condominium Association, Inc. (the "Grandview Plaintiff") filed a construction defect lawsuit against Hovnanian Enterprises, Inc. and several of its affiliates, including K. Hovnanian at Port Imperial Urban Renewal II, LLC, K. Hovnanian Construction Management, Inc., K. Hovnanian Companies, LLC, K. Hovnanian Enterprises, Inc., K. Hovnanian North East, Inc. aka and/or dba K. Hovnanian Companies North East, Inc., K. Hovnanian Construction II, Inc., K. Hovnanian Cooperative, Inc., K. Hovnanian Developments of New Jersey, Inc., and K. Hovnanian Holdings NJ, LLC, as well as the project architect, the geotechnical engineers and various construction contractors for the project alleging various construction defects, design defects and geotechnical issues totaling approximately *$41.3* million. The lawsuit included claims against the geotechnical engineers for differential soil settlement under the building, against the architects for failing to design the correct type of structure allowable under the New Jersey Building Code, and against the Hovnanian-affiliated developer entity (K. Hovnanian at Port Imperial Urban Renewal II, LLC) alleging that it: (*1*) had knowledge of and failed to disclose the improper building classification to unit purchasers and was therefore liable for treble damages under the New Jersey Consumer Fraud Act; and (*2*) breached an express warranty set forth in the Public Offering Statements that the common elements at the building were fit for their intended purpose. The Grandview Plaintiff further alleged that Hovnanian Enterprises, Inc., K. Hovnanian Holdings NJ, LLC, K. Hovnanian Developments of New Jersey, Inc., and K. Hovnanian Developments of New Jersey II, Inc. were jointly liable for any damages owed by the Hovnanian development entity under a veil piercing theory.

The parties reached a settlement on the construction defect issues prior to trial, but attempts to settle the subsidence, building classification issue and Consumer Fraud Act claims were unsuccessful. The trial commenced on *April 17, 2017* in Hudson County, New Jersey. In the *third* week of the trial, all of the Hovnanian defendants resolved the geotechnical claims for an amount immaterial to the Company, but the balance of the case continued to be tried before the jury. On *June 1, 2017,* the jury rendered a verdict against K. Hovnanian at Port Imperial Urban Renewal II, LLC on the breach of warranty and New Jersey Consumer Fraud claims in the total amount of *$3* million, which resulted in a total verdict of *$9* million against that entity due to statutory trebling, plus a to-be-determined portion of Grandview Plaintiff's counsel fees, per the statute. The jury also found in favor of Grandview Plaintiff on its veil piercing theory. Certain Hovnanian-affiliated defendants filed post-trial motions on *three* issues: (*1*) a motion for a judgment notwithstanding the verdict or a new trial; (*2*) a motion addressing whether any of the Hovnanian-affiliated entities could be jointly liable under a veil piercing theory for the damages awarded against K. Hovnanian at Port Imperial Urban Renewal II, LLC; and (*3*) a motion for contractual indemnification against the project architect. On *October 27, 2017,* the Court addressed a number of post-trial motions. The Court denied the motion for a judgment notwithstanding the verdict or a new trial, and held that Hovnanian Enterprises, Inc. and its affiliate, K. Hovnanian Developments of New Jersey, Inc., are jointly liable for the damages awarded against K. Hovnanian at Port Imperial Urban Renewal II, LLC. On *November 18, 2017,* the Court awarded approximately *$1.8* million in attorney fees and costs to Grandview Plaintiff out of the approximately *$4.8* million it had sought. Certain Hovnanian-affiliated defendants filed a motion for reconsideration of the Court's decision on attorney fees and costs. In an order dated December 15, 2017, the Court granted the motion for reconsideration and reduced its award of attorney fees and costs to approximately $1.4 million. Final judgement in the amount of approximately $10.4 million was entered on January 12, 2018.

On January 24, 2018, the relevant Hovnanian-affiliated defendants filed a notice of appeal of all aspects of the verdict against them and a motion seeking a stay of execution of the judgement pending appeal. On February 16, 2018, the Court entered an order staying execution of the judgement provided that the Hovnanian-affiliated defendants post a supersedeas bond in the amount of approximately $11.1 million. On February 23, 2018, the Hovnanian-affiliated defendants timely submitted the bond for the Court's approval. With respect to this case, depending on the outcome of all appeals, the range of loss is between *$0* and *$11.1* million, inclusive of attorney fees and costs. Management believes that a loss is probable and reasonably estimable and that the Company has reserved for its estimated probable loss amount in its construction defect reserves. However, our assessment of the probable loss *may* differ from the ultimate resolution of this matter.

In *2014,* the condominium association of the Grandview II at Riverwalk Port Imperial condominium building (the “Grandview II Plaintiff”) filed a lawsuit in the Superior Court of New Jersey, Law Division, Hudson County (the “Court”) alleging various construction defects, design defects, and geotechnical issues relating to the building along with a claim for piercing the corporate veil as to certain defendants. The operative complaint (“Complaint”) brought claims against Hovnanian Enterprises, Inc. and several of its affiliates, including K. Hovnanian at Port Imperial Urban Renewal III, LLC, PI Investments I, LLC, K. Hovnanian Investments, LLC, K. Hovnanian Homes (*not* a legal entity but named as a defendant), K. Hovnanian Shore Acquisitions, LLC, K. Hovnanian Construction Management, Inc., K. Hovnanian Companies, LLC, K. Hovnanian Northeast, Inc., K. Hovnanian Enterprises, Inc., K. Hovnanian Construction III, Inc. and K. Hovnanian Cooperative, Inc. The Complaint also brought claims against various other design professionals and contractors. Grandview II Plaintiff asserted damages of approximately *$69* million to *$79* million, which amount was potentially subject to treble damages. On *December 7, 2017,* the Court issued orders adjudicating various parties’ motions for summary judgment. The Court issued an order that granted Grandview II Plaintiff’s motion for partial summary judgment on the claim seeking to pierce the corporate veil of K. Hovnanian at Port Imperial Urban Renewal III, LLC and ordered that Hovnanian Enterprises, Inc. shall be jointly and severally liable for any damages awarded against K. Hovnanian at Port Imperial Urban Renewal III, LLC, including any treble damages and attorney fees and costs. The Court also issued an order dismissing Grandview II Plaintiff’s claims for negligence and breach of implied warranties against certain Hovnanian-affiliated defendants. As of *December 14, 2017,* the Hovnanian-affiliated defendants reached a settlement with Grandview II Plaintiff that resolved all claims in the case involving the Hovnanian-affiliated defendants. As of *October 31, 2017,* the Company had fully reserved for this settlement amount. On *December 15, 2017,* the Court issued an order dismissing the action.

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On *December 21, 2016,* the members of the Company's Board were named as defendants in a derivative and class action lawsuit filed in the Delaware Court of Chancery by Plaintiff Joseph Hong ("Plaintiff Hong"). Plaintiff Hong had previously made a demand for inspection of the books and records of the Company pursuant to Delaware law. The Company had provided certain company documents in response to Plaintiff Hong's demand. The complaint relates to the Board of Directors' decisions to grant Ara K. Hovnanian equity awards in the form of Class B Common Stock, alleging that the defendants breached their fiduciary duties to the Company and its stockholders; that the equity awards granted in Class B Common Stock amounted to corporate waste; and that Ara. K Hovnanian was unjustly enriched by equity awards granted to him in Class B Common Stock. The complaint seeks a declaration that the equity awards granted to Ara K. Hovnanian in Class B Common Stock between *June 13, 2014* and *June 10, 2016* were ultra vires, invalidation or rescission of those awards, injunctive relief, and unspecified damages.

On *Dec*ember *18, 2017,* the parties finalized a settlement agreement to resolve the litigation. Pursuant to the settlement agreement, which remains subject to approval by the Chancery Court, the Company will submit for stockholder approval at the next Annual Meeting of Stockholders a resolution to amend the Company's Certificate of Incorporation to affirm that in the event of a merger, consolidation, acquisition, tender offer, recapitalization, reorganization or other business combination, the same consideration will be provided for shares of Class A Common Stock and Class B Common Stock unless different treatment of the shares of each such class is approved separately by a majority of each class. The Company has also agreed to implement certain operational and corporate governance measures regarding the granting of equity awards in Class B Common Stock and, further, that it will *not* oppose an application by Plaintiff Hong for attorney's fees up to *$275,000,* the amount of which is subject to approval by the Court.

On January 11, 2018, Solus Alternative Asset Management LP ("Solus") filed a complaint in the United States District Court for the Southern District of New York against GSO Capital Partners L.P., Hovnanian Enterprises, Inc. ("Hovnanian"), K. Hovnanian Enterprises, Inc. ("K. Hovnanian"), K. Hovnanian at Sunrise Trail III, LLC, Ara K. Hovnanian and J. Larry Sorsby. The complaint related to K. Hovnanian's offer to exchange up to $185.0 million aggregate principal amount of its 8.0% Senior Notes due 2019 for a combination of (i) cash, (ii) K. Hovnanian's newly issued 13.5% Senior Notes due 2026 and (iii) K. Hovnanian's newly issued 5.0% Senior Notes due 2040 and related transactions that were previously disclosed in Hovnanian's Current Report on Form 8-K filed on December 28, 2017. The complaint alleged, among other things, inadequate disclosure in the exchange offer documents, improper and fraudulent structuring of the transactions to impact the credit default swap market, violations of Sections 10(b), 14(e) and 20(a) of the Securities Exchange Act of 1934, and tortious interference with prospective economic advantage. Solus sought, among other things, additional disclosures regarding the transactions, compensatory and punitive damages, and a preliminary and permanent injunction to stop the transactions from going forward. The court held a hearing on Solus' motion for a preliminary injunction on January 25, 2018. On January 29, 2018, the court denied the motion, finding that Solus failed to show that it would be irreparably harmed in the absence of an injunction.

Solus filed an amended complaint on February 1, 2018, against the same defendants. Like the initial complaint, the amended complaint alleges improper and fraudulent structuring of the transactions to impact the credit default swap market, violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and tortious interference with prospective economic advantage. Solus no longer asserts inadequate disclosure claims under Sections 10(b) and 14(e). In place of injunctive relief, Solus seeks a declaratory judgment that Sunrise Trail III, LLC has waived its entitlement to interest payments under the indenture governing the 8.0% Senior Notes due 2019 and that the exchange offer breached this indenture. The defendants moved to dismiss the amended complaint on March 2, 2018.

Hovnanian believes that the claims and allegations set forth in the Solus complaint are without merit and intends to defend against them vigorously. Hovnanian is actively seeking insurance coverage for the litigation costs related to the Solus claims.

8. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents and Customer's Deposits

Cash represents cash deposited in checking accounts. Cash equivalents include certificates of deposit, Treasury bills and government money–market funds with maturities of 90 days or less when purchased. Our cash balances are held at a few financial institutions and may, at times, exceed insurable amounts. We believe we help to mitigate this risk by depositing our cash in major financial institutions. At January 31, 2018 and October 31, 2017, $12.5 million and $13.3 million, respectively, of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

Homebuilding - Restricted cash and cash equivalents on the Condensed Consolidated Balance Sheets totaled $3.2 million and $2.1 million as of January 31, 2018 and October 31, 2017, respectively, which included cash collateralizing our letter of credit agreements and facilities as discussed in Note 11. Also included in this balance were homebuilding customers' deposits of $0.5 million and $0.4 million at January 31, 2018 and October 31, 2017, respectively, which are subject to restrictions on our use.

Financial services restricted cash and cash equivalents, which are included in Financial services other assets on the Condensed Consolidated Balance Sheets, totaled $15.9 million and $22.3 million as of January 31, 2018 and October 31, 2017, respectively. Included in this balance were (1) financial services customers' deposits of $13.9 million at January 31, 2018 and $20.0 million as of October 31, 2017 which are subject to restrictions on our use, and (2) $2.0 million at January 31, 2018 and $2.3 million at October 31, 2017, respectively, of restricted cash under the terms of our mortgage warehouse lines of credit.

Total Homebuilding Customers' deposits are shown as a liability on the Condensed Consolidated Balance Sheets. These liabilities are significantly more than the applicable periods' restricted cash balances because in some states the deposits are not restricted from use and, in other states, we are able to release the majority of these customer deposits to cash by pledging letters of credit and surety bonds.

***9.* Mortgage Loans Held for Sale**

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“ K. Hovnanian Mortgage”) originates mortgage loans, primarily from the sale of our homes. Such mortgage loans are sold in the secondary mortgage market within a short period of time of origination. Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. We have elected the fair value option to record loans held for sale and therefore these loans are recorded at fair value with the changes in the value recognized in the Condensed Consolidated Statements of Operations in “Revenues: Financial services.” We currently use forward sales of mortgage-backed securities (“MBS”), interest rate commitments from borrowers and mandatory and/or best efforts forward commitments to sell loans to *third*-party purchasers to protect us from interest rate fluctuations. These short-term instruments, which do *not* require any payments to be made to the counterparty or purchaser in connection with the execution of the commitments, are recorded at fair value. Gains and losses on changes in the fair value are recognized in the Condensed Consolidated Statements of Operations in “Revenues: Financial services.”

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At *January 31, 2018* and *October 31, 2017, $64.5* million and *$119.6* million, respectively, of mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note *10*). We *may* incur losses with respect to mortgages that were previously sold that are delinquent and which had underwriting defects, but only to the extent the losses are *not* covered by mortgage insurance or resale value of the home. The reserves for these estimated losses are included in the "Financial services" balances on the Condensed Consolidated Balance Sheets. As of *January 31, 2018* and *2017,* we had reserves specifically for *45* and *93* identified mortgage loans, respectively, as well as reserves for an estimate for future losses on mortgages sold but *not* yet identified to us. In fiscal *2017,* the adjustment to pre-existing provisions for losses from changes in estimates is primarily due to the settlement of a dispute for significantly less than the amount that had been previously reserved.

The activity in our loan origination reserves during the *three* months ended *January 31, 2018* and *2017* was as follows:

	Three Months Ended January 31,	
(In thousands)	2018	2017
Loan origination reserves, beginning of period	$*3,158*	$*8,137*
Provisions for losses during the period	*30*	*34*
Adjustments to pre-existing provisions for losses from changes in estimates	*0*	*(3,094*)
Loan origination reserves, end of period	$*3,188*	$*5,077*

10. Mortgages

We have nonrecourse mortgage loans for certain communities totaling *$64.5* million (net of debt issuance costs) at both *January 31, 2018* and *October 31, 2017,* respectively, which are secured by the related real property, including any improvements, with an aggregate book value of *$172.7* million and *$157.8* million, respectively. The weighted-average interest rate on these obligations was *5.3%* at both *January 31, 2018* and *October 31, 2017* and the mortgage loan payments on each community primarily correspond to home deliveries. We also had nonrecourse mortgage loans on our corporate headquarters totaling *$13.0* million at *October 31, 2017.* On *November 1, 2017,* these loans were paid in full in connection with the sale of our corporate headquarters building.

K. Hovnanian Mortgage originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. In certain instances, we retain the servicing rights for a small amount of loans. K. Hovnanian Mortgage finances the origination of mortgage loans through various master repurchase agreements, which are recorded in financial services liabilities on the Condensed Consolidated Balance Sheets.

Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. ("Chase Master Repurchase Agreement"), which was amended on *January 31, 2018* to extend the maturity to *January 31, 2019,* is a short-term borrowing facility that provides up to *$50.0* million through maturity. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at an adjusted LIBOR rate, which was *1.58%* at *January 31, 2018,* plus the applicable margin of *2.5%* or *2.63%* based upon type of loan. As of *January 31, 2018* and *October 31, 2017,* the aggregate principal amount of all borrowings outstanding under the Chase Master Repurchase Agreement was *$21.3* million and *$41.5* million, respectively.

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K. Hovnanian Mortgage has another secured Master Repurchase Agreement with Customers Bank ("Customers Master Repurchase Agreement"), which was amended on *February 16, 2018.* The Customers Master Repurchase Agreement is a short-term borrowing facility that provides up to *$50.0* million through its maturity on *February 15, 2019.* The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR rate, plus the applicable margin ranging from *2.375%* to *5.125%* based on the type of loan and the number of days outstanding on the warehouse line. As of *January 31, 2018* and *October 31, 2017,* the aggregate principal amount of all borrowings outstanding under the Customers Master Repurchase Agreement was *$29.6* million and *$40.7* million, respectively.

K. Hovnanian Mortgage also has a secured Master Repurchase Agreement with Comerica Bank ("Comerica Master Repurchase Agreement"), which was amended on *December 22, 2017,* that is a short-term borrowing facility that provides up to *$50.0* million through *December 20, 2018.* The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly at the current LIBOR rate, subject to a floor of *0.25%,* plus the applicable margin of *2.375%.* As of *January 31, 2018* and *October 31, 2017,* the aggregate principal amount of all borrowings outstanding under the Comerica Master Repurchase Agreement was *$12.1* million and *$32.4* million, respectively.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Comerica Master Repurchase Agreement (together, the "Master Repurchase Agreements") require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the applicable agreement, we do *not* consider any of these covenants to be substantive or material. As of *January 31, 2018,* we believe we were in compliance with the covenants under the Master Repurchase Agreements.

11. Senior Notes and Credit Facilities

Senior notes and credit facilities balances as of *January 31, 2018* and *October 31, 2017,* were as follows:

(In thousands)	**January 31, 2018(1)(2)**	**October 31, 2017(1)(2)**
Senior Secured Term Loan due 2019, net of debt issuance costs	$*73,275*	$*72,987*
Senior Secured Notes:		

9.5% Senior Secured Notes due November 15, 2020	$*74,403*	$*74,350*
2.0% Senior Secured Notes due November 1, 2021 (net of discount)	*53,067*	*53,058*
5.0% Senior Secured Notes due November 1, 2021 (net of discount)	*134,185*	*133,732*
10.0% Senior Secured Notes due July 15, 2022	*434,620*	*434,543*
10.5% Senior Secured Notes due July 15, 2024	*394,111*	*394,953*
Total Senior Secured Notes, net of debt issuance costs	$*1,090,386*	$*1,090,636*
Senior Notes:		
7.0% Senior Notes due January 15, 2019	$*132,074*	$*131,957*
8.0% Senior Notes due November 1, 2019	*234,501*	*234,293*
Total Senior Notes, net of debt issuance costs	$*366,575*	$*366,250*
11.0% Senior Amortizing Notes due December 1, 2017, net of debt issuance costs	$-	$*2,045*
Senior Exchangeable Notes due December 1, 2017, net of debt issuance costs	$-	$*53,919*
Unsecured Revolving Credit Facility	$52,000	$52,000

(*1*) “Notes payable and term loan” on our Condensed Consolidated Balance Sheets as of *January 31, 2018* and *October 31, 2017* consists of the total senior secured, senior, senior amortizing and senior exchangeable notes and senior secured term loan shown above, as well as accrued interest of *$15.1* million and *$41.8* million, respectively.

(*2*) Debt issuance costs at both *January 31, 2018* and *October 31, 2017* were *$16.1* million.

General

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures and certain of our title insurance subsidiaries, we and each of our subsidiaries are guarantors of the Existing Term Loan Facility (as defined below), the Unsecured Revolving Credit Facility (as defined below) and senior secured notes and senior notes outstanding at *January 31, 2018 (*collectively, the “Notes Guarantors”). In addition to the Notes Guarantors, the *5.0%* Senior Secured Notes due *2021* (the *“5.0% 2021* Notes”), the *2.0%* Senior Secured Notes due *2021* (the *“2.0% 2021* Notes” and together with the *5.0% 2021* Notes, the *“2021* Notes”) and the *9.5% 2020* Notes (defined below) collectively with the *2021* Notes, the “JV Holdings Secured Group Notes”) are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries, except for certain joint ventures and joint venture holding companies (collectively, the “JV Holdings Secured Group”). Members of the JV Holdings Secured Group do *not* guarantee K. Hovnanian's other indebtedness.

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The credit agreement governing the Existing Term Loan Facility, the Unsecured Revolving Credit Facility and the indentures governing the notes outstanding at *January 31, 2018* do *not* contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than nonrecourse indebtedness, certain permitted indebtedness and refinancing indebtedness (under the Existing Term Loans (as defined below) and the *9.5% 2020* Notes, any new or refinancing indebtedness *may not* be scheduled to mature earlier than *January 15, 2021 (*so long as *no* member of the JV Holdings Secured Group is an obligor thereon), or *February 15, 2021 (*if otherwise), and under the *10.0%* Senior Secured Notes due *2022* (the *"10.0% 2022* Notes"), any refinancing indebtedness of the *7.0%* Senior Notes due *2019* (the *"7.0%* Notes") and *8.0%* Senior Notes due *2019* (the *"8.0%* Notes" and together with the *7.0%* Notes, the *"2019* Notes") *may not* be scheduled to mature earlier than *July 16, 2024 (such restrictive covenant in respect of the 10.5% Senior Secured Notes due 2024 (the "10.5% 2024 Notes") was eliminated pursuant to the Supplemental Indenture (as defined below) to the indenture governing the 10.0% 2022 Notes and 10.5% 2024 Notes as described below under "—Fiscal 2018")),* pay dividends and make distributions on common and preferred stock, repurchase subordinated indebtedness (with respect to the Existing Term Loans, the Unsecured Revolving Credit Facility and certain of the senior secured and senior notes) and common and preferred stock, make other restricted payments, including investments, sell certain assets (including in certain land banking transactions), incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets, enter into certain transactions with affiliates and make cash repayments of the *2019* Notes and refinancing indebtedness in respect thereof (with respect to the *10.0% 2022* Notes). The credit agreements governing the Existing Term Loan Facility and the Unsecured Revolving Credit Facility and the indentures also contain events of default which would permit the lenders/holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Existing Term Loan Facility (the "Existing Term Loans") and loans made under the Unsecured Revolving Credit Facility (the Unsecured Loans")/notes to be immediately due and payable if *not* cured within applicable grace periods, including the failure to make timely payments on the Existing Term Loans or Unsecured Loans/notes or other material indebtedness, cross default to other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy and insolvency, with respect to the Existing Term Loans and the Unsecured Loans, material inaccuracy of representations and warranties and with respect to the Existing Term Loans, a change of control, and, with respect to the Existing Term Loans and senior secured notes, the failure of the documents granting security for the Existing Term Loans and senior secured notes to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the Existing Term Loans and senior secured notes to be valid and perfected. As of *January 31, 2018,* we believe we were in compliance with the covenants of the Existing Term Loan Facility, the Unsecured Revolving Credit Facility and the indentures governing our outstanding notes.

If our consolidated fixed charge coverage ratio, as defined in the agreements governing our debt instruments, is less than *2.0* to *1.0,* we are restricted from making certain payments, including dividends, and from incurring indebtedness other than certain permitted indebtedness, refinancing indebtedness and nonrecourse indebtedness. As a result of this ratio restriction, we are currently restricted from paying dividends, which are *not* cumulative, on our *7.625%* Series A Preferred Stock. We anticipate that we will continue to be restricted from paying dividends for the foreseeable future. Our inability to pay dividends is in accordance with covenant restrictions and will *not* result in a default under our debt instruments or otherwise affect compliance with any of the covenants contained in our debt instruments.

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

Any liquidity-enhancing transaction will depend on identifying counterparties, negotiation of documentation and applicable closing conditions and any required approvals. Due to covenant restrictions in our debt instruments, we are currently limited in the amount of debt we can incur that does *not* qualify as refinancing indebtedness with certain maturity requirements as discussed above (a limitation that we expect to continue for the foreseeable future), even if market conditions would otherwise be favorable, which could also impact our ability to grow our business.

Fiscal 2018

On *December 1, 2017, our 6.0% Senior Exchangeable Note Units were paid in full, which units consisted of $53.9* million principal amount of our Senior Exchangeable Notes that matured and the final installment payment of *$2.1* million on our *11.0%* Senior Amortizing Notes.

On December 28, 2017*,* the Company and K. Hovnanian announced that they had entered into a commitment letter (the “Commitment Letter”) in respect of certain financing transactions with GSO Capital Partners LP on its own behalf and on behalf of one or more funds managed, advised or sub-advised by GSO (collectively, the “GSO Entities”), and had commenced a private offer to exchange with respect to the *8.0%* Notes (the “Exchange Offer”).

Pursuant to the Commitment Letter, the GSO Entities agreed to, among other things, provide the principal amount of the following: (i) a senior unsecured term loan credit facility (the “New Term Loan Credit Facility”) to be borrowed by K. Hovnanian and guaranteed by the Company and the Notes Guarantors, pursuant to which the GSO Entities committed to lend K. Hovnanian $132.5 million of initial term loans (the “Initial Term Loans”) on the settlement date of the Exchange Offer for purposes of refinancing K. Hovnanian’s 7.0% Notes, and up to $80.0 million of delayed draw term loans (the “Delayed Draw Term Loans” and together with the Initial Term Loans, the “New Term Loans”) for purposes of refinancing certain of K. Hovnanian’s 8.0% Notes, in each case, upon the terms and subject to the conditions set forth therein, and (ii) a senior secured first lien credit facility (the “New Secured Credit Facility” and together with the New Term Loan Credit Facility, the “New Credit Facilities”) to be borrowed by K. Hovnanian and guaranteed by the Notes Guarantors, pursuant to which the GSO Entities have committed to lend to K. Hovnanian up to $125.0 million of senior secured first priority loans (the “New Secured Loans”) to fund the repayment of K. Hovnanian’s Existing Term Loans and for general corporate purposes, upon the terms and subject to the conditions set forth therein. In addition, pursuant to the Commitment Letter, the GSO Entities have committed to purchase, and K. Hovnanian has agreed to issue and sell, on January 15, 2019 (or such later date within five business days as mutually agreed by the parties working in good faith), $25.0 million in aggregate principal amount of additional 10.5% 2024 Notes (the “Additional 10.5% 2024 Notes”) at a purchase price, for each $1,000 principal amount of Additional 10.5% 2024 Notes, that would imply a yield equal to (a) the volume weighted average yield to maturity (calculated based on the yield to maturity during the 30 calendar day period ending on one business day prior to January 15, 2019) for the 10.5% 2024 Notes, minus (b) 0.50%, upon the terms and subject to conditions set forth therein.

On January 29, 2018, K. Hovnanian, the Company, the Notes Guarantors, Wilmington Trust, National Association, as administrative agent (the “New Term Loan Administrative Agent”), and the GSO Entities entered into the New Term Loan Credit Facility. As discussed in Note 21, K. Hovnanian borrowed the Initial Term Loans on February 1, 2018 to fund, together with cash on hand, the redemption on February 1, 2018 of all $132.5 million aggregate principal amount of 7.0% Notes. The New Term Loans bear interest at a rate equal to 5.0% per annum and interest will be payable in arrears, on the last business day of each fiscal quarter. The New Term Loans will mature on February 1, 2027, which is the ninth anniversary of the first closing date of the New Term Loan Credit Facility.

The New Term Loan Credit Facility contains representations and warranties, with the accuracy of