UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 31, 2021
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)

N/A (Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.01 par value per share	HOV	New York Stock Exchange
Preferred Stock Purchase Rights(1)	N/A	New York Stock Exchange
Depositary Shares each representing 1/1,000th of a share of 7.625% Series A Preferred Stock	HOVNP	The Nasdaq Stock Market LLC

(1) Each share of Common Stock includes an associated Preferred Stock Purchase Right. Each Preferred Stock Purchase Right initially represents the right, if such Preferred Stock Purchase Right becomes exercisable, to purchase from the Company one ten-thousandth of a share of its Series B Junior Preferred Stock for each share of Common Stock. The Preferred Stock Purchase Rights currently cannot trade separately from the underlying Common Stock.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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 ☒	Nonaccelerated Filer ☐	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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 5,595,610 shares of Class A Common Stock and 659,219 shares of Class B Common Stock were outstanding as of September 2, 2021.

HOVNANIAN ENTERPRISES, INC.

FORM 10-Q

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	July 31, 2021	October 31, 2020
	(Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 172,748	$ 262,489
Restricted cash and cash equivalents	15,100	14,731
Inventories:		
Sold and unsold homes and lots under development	1,119,876	921,594
Land and land options held for future development or sale	95,416	91,957
Consolidated inventory not owned	98,053	182,224
Total inventories	1,313,345	1,195,775
Investments in and advances to unconsolidated joint ventures	68,900	103,164
Receivables, deposits and notes, net	37,735	33,686
Property, plant and equipment, net	17,974	18,185
Prepaid expenses and other assets	58,571	58,705
Total homebuilding	1,684,373	1,686,735
Financial services	180,218	140,607
Deferred tax assets, net	447,453	-
Total assets	$ 2,312,044	$ 1,827,342
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse mortgages secured by inventory, net of debt issuance costs	$ 118,020	$ 135,122
Accounts payable and other liabilities	401,283	359,274
Customers’ deposits	76,729	48,286
Liabilities from inventory not owned, net of debt issuance costs	69,627	131,204
Senior notes and credit facilities (net of discounts, premiums and debt issuance costs)	1,317,524	1,431,110
Accrued Interest	47,460	35,563
Total homebuilding	2,030,643	2,140,559
Financial services	158,226	119,045
Income taxes payable	2,484	3,832
Total liabilities	2,191,353	2,263,436
Equity:		
Hovnanian Enterprises, Inc. 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 July 31, 2021 and October 31, 2020	135,299	135,299
Common stock, Class A, $0.01 par value - authorized 16,000,000 shares; issued 6,064,070 shares at July 31, 2021 and 5,990,310 shares at October 31, 2020	61	60
Common stock, Class B, $0.01 par value (convertible to Class A at time of sale) - authorized 2,400,000 shares; issued 686,888 shares at July 31, 2021 and 649,886 shares at October 31, 2020	7	7
Paid in capital - common stock	719,770	718,110
Accumulated deficit	(619,708)	(1,175,045)
Treasury stock - at cost – 470,430 shares of Class A common stock and 27,669 shares of Class B common stock at July 31, 2021 and October 31, 2020	(115,360)	(115,360)
Total Hovnanian Enterprises, Inc. stockholders’ equity (deficit)	120,069	(436,929)
Noncontrolling interest in consolidated joint ventures	622	835
Total equity (deficit)	120,691	(436,094)
Total liabilities and equity	$ 2,312,044	$ 1,827,342

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Revenues:				
Homebuilding:				
Sale of homes	$ 663,279	$ 605,933	$ 1,894,159	$ 1,608,513
Land sales and other revenues	7,559	908	13,280	2,360
Total homebuilding	670,838	606,841	1,907,439	1,610,873
Financial services	19,845	21,295	61,070	49,670
Total revenues	690,683	628,136	1,968,509	1,660,543
Expenses:				
Homebuilding:				
Cost of sales, excluding interest	521,868	499,695	1,498,040	1,324,077
Cost of sales interest	19,240	21,814	58,130	58,539
Inventory impairment loss and land option write-offs	1,309	2,364	3,267	6,202
Total cost of sales	542,417	523,873	1,559,437	1,388,818
Selling, general and administrative	42,988	40,608	125,417	121,887
Total homebuilding expenses	585,405	564,481	1,684,854	1,510,705
Financial services	11,238	10,493	32,953	29,677
Corporate general and administrative	17,284	19,321	81,149	54,340
Other interest	19,158	27,072	65,166	78,944
Other operations	504	266	1,233	674
Total expenses	633,589	621,633	1,865,355	1,674,340
(Loss) gain on extinguishment of debt	(306)	4,055	(306)	13,337
Income from unconsolidated joint ventures	5,011	5,658	9,568	13,419
Income before income taxes	61,799	16,216	112,416	12,959
State and federal income tax provision (benefit):				
State	1,476	853	(89,272)	2,665
Federal	12,621	-	(353,649)	-
Total income taxes	14,097	853	(442,921)	2,665
Net income	$ 47,702	$ 15,363	$ 555,337	$ 10,294
Per share data:				
Basic:				
Net income per common share	$ 6.85	$ 2.27	$ 80.02	$ 1.52
Weighted-average number of common shares outstanding	6,315	6,201	6,263	6,178
Assuming dilution:				
Net income per common share	$ 6.72	$ 2.16	$ 78.51	$ 1.44
Weighted-average number of common shares outstanding	6,434	6,518	6,370	6,502

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
NINE MONTH PERIOD ENDED JULY 31, 2021
(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	Noncontrolling Interest	Total
Balance, October 31, 2020	5,519,880	$ 60	622,217	$ 7	5,600	$135,299	$718,110	$ (1,175,045)	$(115,360)	$ 835	$(436,094)
Stock options, amortization and issuances							54				54
Restricted stock amortization, issuances and forfeitures	7,207		2,370				668				668
Conversion of Class B to Class A common stock	45		(45)								-
Changes in noncontrolling interest in consolidated joint ventures										78	78
Net income								18,959			18,959
Balance, January 31, 2021	5,527,132	$ 60	624,542	$ 7	5,600	$135,299	$718,832	$ (1,156,086)	$(115,360)	$ 913	$(416,335)
Stock options, amortization and issuances	33,316		5,368				(255)				(255)
Restricted stock amortization, issuances and forfeitures							770				770
Conversion of Class B to Class A common stock	25		(25)								-
Changes in noncontrolling interest in consolidated joint ventures										(142)	(142)
Net income								488,676			488,676
Balance, April 30, 2021	5,560,473	$ 60	629,885	$ 7	5,600	$135,299	$719,347	$ (667,410)	$(115,360)	$ 771	$ 72,714
Stock options, amortization and issuances	6,806						128				128
Restricted stock amortization, issuances and forfeitures	26,357	1	29,338				295				296
Conversion of Class B to Class A common stock	4		(4)								-
Changes in noncontrolling interest in consolidated joint ventures										(149)	(149)
Net income								47,702			47,702
Balance, July 31, 2021	5,593,640	$ 61	659,219	$ 7	5,600	$135,299	$719,770	$ (619,708)	$(115,360)	$ 622	$ 120,691

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
NINE MONTH PERIOD ENDED JULY 31, 2020
(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	Noncontrolling Interest	Total
Balance, October 31, 2019	5,503,297	$ 60	622,694	$ 7	5,600	$135,299	$715,504	$ (1,225,973)	$(115,360)	$ 687	$(489,776)
Stock options, amortization and issuances							162				162
Restricted stock amortization, issuances and forfeitures	3,000		1,796				(330)				(330)
Conversion of Class B to Class A common stock	4		(4)								-
Changes in noncontrolling interest in consolidated joint ventures										13	13
Net (loss)								(9,148)			(9,148)
Balance January 31, 2020	5,506,301	$ 60	624,486	$ 7	5,600	$135,299	$715,336	$ (1,235,121)	$(115,360)	$ 700	$(499,079)
Stock options, amortization and issuances							96				96
Restricted stock amortization, issuances and forfeitures	869						(189)				(189)
Conversion of Class B to Class A common stock	1		(1)								-
Changes in noncontrolling interest in consolidated joint ventures										20	20
Net income								4,079			4,079
Balance, April 30, 2020	5,507,171	$ 60	624,485	$ 7	5,600	$135,299	$715,243	$ (1,231,042)	$(115,360)	$ 720	$(495,073)
Stock options, amortization and issuances							79				79
Restricted stock amortization, issuances and forfeitures	7,077						82				82
Conversion of Class B to Class A common stock											-
Changes in noncontrolling interest in consolidated joint ventures										30	30
Net income								15,363			15,363
Balance, July 31, 2020	5,514,248	$ 60	624,485	$ 7	5,600	$135,299	$715,404	$ (1,215,679)	$(115,360)	$ 750	$(479,519)

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Cash flows from operating activities:		
Net income	$ 555,337	$ 10,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,091	3,897
Compensation from stock options and awards	5,309	38
Amortization of bond discounts, premiums and deferred financing costs	490	1,718
Gain on sale and retirement of property and assets	(11)	(84)
Income from unconsolidated joint ventures	(9,568)	(13,419)
Distributions of earnings from unconsolidated joint venture	8,933	30,411
Loss (gain) on extinguishment of debt	306	(13,337)
Noncontrolling interest in consolidated joint ventures	310	63
Inventory impairment and land option write-offs	3,267	6,202
(Increase) decrease in assets:		
Origination of mortgage loans	(1,087,731)	(931,602)
Sale of mortgage loans	1,060,423	998,935
Receivables, prepaids, deposits and other assets	(1,972)	14,381
Inventories	(96,576)	72,780
Deferred tax assets	(447,453)	-
(Decrease) increase in liabilities:		
State income tax payable	(1,348)	256
Customers' deposits	28,443	5,120
Accounts payable, accrued interest and other accrued liabilities	60,022	7,181
Net cash provided by operating activities	82,272	192,834
Cash flows from investing activities:		
Proceeds from sale of property and assets	30	104
Purchase of property, equipment, and other fixed assets and acquisitions	(3,889)	(2,648)
Investment in and advances to unconsolidated joint ventures	(16,337)	(19,924)
Distributions of capital from unconsolidated joint ventures	27,175	4,161
Net cash provided by (used in) investing activities	6,979	(18,307)
Cash flows from financing activities:		
Proceeds from mortgages and notes	160,604	210,498
Payments related to mortgages and notes	(178,251)	(235,498)
Proceeds from model sale leaseback financing programs	5,638	18,355
Payments related to model sale leaseback financing programs	(18,233)	(16,764)
Proceeds from land bank financing programs	27,636	57,120
Payments related to land bank financing programs	(77,313)	(55,173)
Proceeds from partner distributions to consolidated joint venture	40	-
Payments for partner distributions to consolidated joint venture	(563)	-
Net proceeds (payments) related to mortgage warehouse lines of credit	29,216	(55,030)
Net borrowings from senior secured credit facility	-	125,000
Payments related to senior secured credit facility	-	(125,000)
Payments related to senior secured notes, net of discount	(111,214)	(21,240)
Deferred financing costs from land banking financing programs and note issuances	(1,205)	(12,801)
Net cash used in financing activities	(163,645)	(110,533)
Net (decrease) increase in cash and cash equivalents, and restricted cash and cash equivalents	(74,394)	63,994
Cash and cash equivalents, and restricted cash and cash equivalents balance, beginning of period	309,460	182,266
Cash and cash equivalents, and restricted cash and cash equivalents balance, end of period	$ 235,066	$ 246,260
Supplemental disclosures of cash flows:		
Cash paid received during the period for:		
Interest, net of capitalized interest (see Note 3 to the Condensed Consolidated Financial Statements)	$ 54,823	$ 49,395
Income taxes	$ 5,847	$ 2,478
Reconciliation of Cash, cash equivalents and restricted cash		
Homebuilding: Cash and cash equivalents	$ 172,748	$ 198,098
Homebuilding: Restricted cash and cash equivalents	15,100	13,433
Financial Services: Cash and cash equivalents, included in Financial services assets	6,187	7,536
Financial Services: Restricted cash and cash equivalents, included in Financial services assets	41,031	27,193
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 235,066	$ 246,260

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands - Unaudited)
(Continued)

Supplemental disclosure of noncash investing and financing activities:

In the third quarter of fiscal 2021, we acquired the remaining assets of one of our unconsolidated joint ventures, resulting in a $24.3 million reduction in our investment in the joint venture and a corresponding increase to inventory.

In accordance with the adoption of ASU 2016-02, in the first quarter of fiscal 2020, we recorded a beginning right-of-use asset of $23.3 million and a right-of-use lease liability of $24.4 million.

In the first quarter of fiscal 2020, K. Hovnanian, the issuer of our notes, completed a debt for debt exchange whereby it issued $158.5 million aggregate principal amount of 10.0% 1.75 Lien Notes due 2025 in exchange for $23.2 million in aggregate principal amount of its outstanding 10.0% Senior Secured Notes due 2022 and $141.7 million in aggregate principal amount of its outstanding 10.5% Senior Secured Notes due 2024. K. Hovnanian also exchanged $163.0 million in aggregate principal amount of its unsecured term loans for $81.5 million in aggregate principal amount of 1.75 Lien secured term loans made under a new Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028.

In the second quarter of fiscal 2020, K. Hovnanian, the issuer of our notes, completed a debt for debt exchange whereby it issued $59.1 million aggregate principal amount of 11.25% Senior Secured 1.5 Lien Notes due 2026 in exchange for $59.1 million aggregate principal amount of 10.0% Senior Secured Notes due 2022.

See Note 12 for further information.

1. Basis of Presentation

Hovnanian Enterprises, Inc. (“HEI”) conducts all of its homebuilding and financial services operations through its subsidiaries (references herein to the “Company,” “we,” “us” or “our” refer to HEI and its consolidated subsidiaries and should be understood to reflect the consolidated business of HEI’s subsidiaries). HEI has reportable segments consisting of six Homebuilding segments (Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West) and the Financial Services segment (see Note 17).

The accompanying unaudited Condensed Consolidated Financial Statements include HEI's accounts and those of all of its consolidated subsidiaries after elimination of all of its significant intercompany balances and transactions. Noncontrolling interest represents the proportionate equity interest in a consolidated joint venture that is not 100% owned by the Company. One of HEI's subsidiaries owns a 99% controlling interest in the consolidated joint venture, and therefore HEI is required to consolidate the joint venture within its Condensed Consolidated Financial Statements. The 1% that we do not own is accounted for as noncontrolling interest. Another one of HEI's subsidiaries owns an 80% controlling interest in a consolidated joint venture, and therefore HEI is required to consolidate the joint venture within its Condensed Consolidated Financial Statements. The 20% that we do not own is accounted for as noncontrolling interest.

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, 2020. 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

For the three and nine months ended July 31, 2021, the Company’s total stock-based compensation expense was $3.6 million ($2.7 million net of tax) and $5.3 million ($4.1 million net of tax), respectively. For the three and nine months ended July 31, 2020, the Company’s total stock-based compensation expense was $0.2 million (pre and post-tax) and $38 thousand ($30 thousand net of tax), respectively. These amounts are net of any credits to expense as a result of the cancellation of certain Market Stock Units based on performance conditions which were not met. Included in total stock-based compensation expense was the vesting of stock options of $0.1 million and $0.2 million for the three and nine months ended July 31, 2021, respectively, and $0.1 million and $0.3 million for the three and nine months ended July 31, 2020, respectively. See Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operation" for a discussion of our phantom stock awards under our 2019 Long Term Incentive Plan (“2019 LTIP”), the expense for which varies depending on our common stock price, which has significantly increased. As these awards are cash-settled, such awards are not included in the above expense amounts.

3. Interest

Interest costs incurred, expensed and capitalized were:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2021	2020	2021	2020
Interest capitalized at beginning of period	$ 59,772	$ 67,744	$ 65,010	$ 71,264
Plus interest incurred(1)	39,181	45,140	122,508	134,797
Less cost of sales interest expensed	19,240	21,814	58,130	58,539
Less other interest expensed(2)(3)	19,158	27,072	65,166	78,944
Less interest contributed to unconsolidated joint venture(4)	-	-	3,667	4,580
Plus interest acquired from unconsolidated joint venture(5)	3,118	-	3,118	-
Interest capitalized at end of period(6)	$ 63,673	$ 63,998	$ 63,673	$ 63,998

(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 $14.4 million and $15.9 million for the three months ended July 31, 2021 and 2020, respectively, and $48.1 million and $44.6 million for the nine months ended July 31, 2021 and 2020, 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 $4.8 million and $11.2 million for the three months ended July 31, 2021 and 2020, respectively, and $17.1 million and $34.3 million for the nine months ended July 31, 2021 and 2020, 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:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2021	2020	2021	2020
Other interest expensed	$ 19,158	$ 27,072	$ 65,166	$ 78,944
Interest paid by our mortgage and finance subsidiaries	602	419	1,554	1,698
Increase in accrued interest	(12,139)	(13,876)	(11,897)	(31,247)
Cash paid for interest, net of capitalized interest	$ 7,621	$ 13,615	$ 54,823	$ 49,395

(4) Represents capitalized interest which was included as part of the assets contributed to joint ventures, as discussed in Note 18. There was no impact to the Condensed Consolidated Statement of Operations as a result of these transactions.
(5) Represents capitalized interest which was included as part of the assets purchased from joint ventures, as discussed in Note 18. There was no impact to the Condensed Consolidated Statement of Operations as a result of these transactions.
(6) 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. For the nine months ended July 31, 2021, our discount rates used for the impairments recorded ranged from 18.3% to 19.3%. In the first three quarters of fiscal 2020, we did not record any impairment losses. 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 nine months ended July 31, 2021 and 2020, we evaluated inventories of all 374 and 354 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. We performed undiscounted future cash flow analyses during the nine months ended July 31, 2021 for three of those communities (i.e., they had projected operating losses or other impairment indicators), with an aggregate carrying value of $11.5 million. As a result of our undiscounted future cash flow analyses, we performed discounted cash flow analyses and recorded impairment losses of $1.2 million in two communities for the three months ended July 31, 2021 and $2.0 million in three communities for the nine months ended July 31, 2021, 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. We performed undiscounted future cash flow analyses during the nine months ended July 31, 2020 for one of the 354 communities (i.e., it had projected operating losses or other impairment indicators), with an aggregate carrying value of $0.6 million. As a result of our undiscounted future cash flow analyses, the community did not require a discounted cash flow analysis to be performed, and therefore, no impairment loss was recorded for the nine months ended July 31, 2020. We did not perform undiscounted future cash flow analyses on any communities during the three months ended July 31, 2020.

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 $0.1 million and $2.4 million for the three months ended July 31, 2021 and 2020, respectively, and $1.3 million and $6.2 million for the nine months ended July 31, 2021 and 2020, 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 July 31, 2021 and 2020 were 851 and 1,131, respectively, and 1,420 and 3,495 during the nine months ended July 31, 2021 and 2020, respectively. The walk-aways were located in the Mid-Atlantic, Southeast, Southwest and West segments in the first three quarters of fiscal 2021 and in all segments in the first three quarters of fiscal 2020.

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 three quarters of fiscal 2021, we did not mothball any additional communities, but we sold two previously mothballed communities and we re-activated two previously mothballed communities and portions of two previously mothballed communities. As of July 31, 2021 and October 31, 2020, the net book value associated with our eight and 12 total mothballed communities was $4.4 million and $11.4 million, respectively, which was net of impairment charges recorded in prior periods of $61.5 million and $122.2 million, respectively.

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 606-10-55-68, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Condensed Consolidated Balance Sheets, at July 31, 2021 and October 31, 2020, inventory of $36.0 million and $48.8 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of $34.9 million and $47.2 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 606-10-55-70, these transactions are considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheets, at July 31, 2021 and October 31, 2020, inventory of $62.1 million and $133.4 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of $34.7 million and $84.0 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 July 31, 2021 and October 31, 2020, 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 July 31, 2021, we had total cash deposits amounting to $89.5 million to purchase land and lots with a total purchase price of $1.5 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 and nine months ended July 31, 2021 and 2020, we received $1.4 million and $0.8 million, respectively, and $4.5 million and $3.3 million, respectively, from subcontractors related to the owner-controlled insurance program, which we accounted for as reductions to inventory.

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 2021 and 2020, our deductible under our general liability insurance is or was a $20 million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2021 and 2020 is or was $0.25 million, up to a $5 million limit. Our aggregate retention for construction defect, warranty and bodily injury claims is or was $20 million for fiscal 2021 and 2020. 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 and nine months ended July 31, 2021 and 2020 were as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2021	2020	2021	2020
Balance, beginning of period	$ 90,025	$ 87,139	$ 86,417	$ 89,371
Additions – Selling, general and administrative	2,047	2,130	6,504	6,121
Additions – Cost of sales	6,058	3,250	10,059	7,173
Charges incurred during the period	(3,513)	(1,821)	(10,249)	(13,037)
Changes to pre-existing reserves	789	(302)	2,675	768
Balance, end of period	$ 95,406	$ 90,396	$ 95,406	$ 90,396

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. The majority of the charges incurred during the third quarter of fiscal 2020 represented a payment for construction defects related to the settlement of a litigation matter.

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were $0.1 million and less than $0.1 million, respectively, for the nine months ended July 31, 2021 and 2020 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. The significant majority of our litigation matters are related to construction defect claims. Our estimated losses from construction defect litigation matters, if any, are included in our construction defect reserves.

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 continue to be imposed on developers and homebuilders in the future. In addition, some of these laws and regulations that significantly affect how certain properties may be developed are contentious, attract intense political attention, and may be subject to significant changes over time. For example, regulations governing wetlands permitting under the federal Clean Water Act have been the subject of extensive rulemakings for many years, resulting in several major joint rulemakings by the EPA and the U.S. Army Corps of Engineers that have expanded and contracted the scope of wetlands subject to regulation; and such rulemakings have been the subject of many legal challenges, some of which remain pending. 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 responded to the information requests. On May 2, 2018 the EPA sent a letter to the Company entity demanding reimbursement for 100% of the EPA's costs to clean-up the site in the amount of $2.7 million. The Company responded to the EPA's demand letter on June 15, 2018 setting forth the Company's defenses and expressing its willingness to enter into settlement negotiations. Two other PRPs identified by the EPA are now also in negotiations with the EPA and in preliminary negotiations with the Company regarding the site. In the course of negotiations, the EPA informed the Company that the New Jersey Department of Environmental Protection ("NJDEP") has also incurred costs remediating part of the site. The EPA has since requested that the three PRPs present a joint settlement offer to the EPA. The Company and the other two PRPs are parties to a series of agreements tolling the statute of limitations on the EPA's claims for reimbursement, most recently extending the date until October 20, 2021. We believe that we have adequate reserves for this matter.

In 2015, the condominium association of the Four Seasons at Great Notch condominium community (the "Great Notch Plaintiff") filed a lawsuit in the Superior Court of New Jersey, Law Division, Passaic County (the "Court") alleging various construction defects, design defects, and geotechnical issues relating to the community. The operative complaint ("Complaint") asserts claims against Hovnanian Enterprises, Inc. and several of its affiliates, including K. Hovnanian at Great Notch, LLC, K. Hovnanian Construction Management, Inc., and K. Hovnanian Companies, LLC. The Complaint also asserts claims against various other design professionals and contractors. The Great Notch Plaintiff has also filed a motion, which remains pending, to permit it to pursue a claim to pierce the corporate veil of K. Hovnanian at Great Notch, LLC to hold its alleged parent entities liable for any damages awarded against it. To date, the Hovnanian-affiliated defendants have reached a partial settlement with the Great Notch Plaintiff as to a portion of the Great Notch Plaintiff's claims against them for an amount immaterial to the Company. On its remaining claims against the Hovnanian-affiliated defendants, the Great Notch Plaintiff has asserted damages of approximately $119.5 million, which amount is potentially subject to treble damages pursuant to the Great Notch Plaintiff's claim under the New Jersey Consumer Fraud Act. The trial is currently scheduled for December 6, 2021. Mediation was held in September 2020 with further mediation sessions anticipated in the future. The Hovnanian-affiliated defendants intend to defend these claims vigorously.

In December 2020, the NJDEP and the Administrator of the New Jersey Spill Compensation Fund (the "Spill Fund") filed a lawsuit in the Superior Court of New Jersey, Law Division, Union County against Hovnanian Enterprises, Inc. in addition to other unrelated parties, in connection with contamination at Hickory Manor, a residential condominium development. Alleged predecessors of certain defendants had used the Hickory Manor property for decades for manufacturing purposes. In 1998, NJDEP confirmed that groundwater at this site was impacted from an off-site source. The site was later remediated, resulting in the NJDEP issuing an unconditional site-wide No Further Action determination letter and Covenant Not to Sue in 1999. Subsequently, one of our affiliates was involved in redeveloping the property as a residential community. The complaint asserts claims under the New Jersey Spill Act and other state law claims and alleges that the NJDEP and the Spill Fund have incurred over $5.3 million since 2009 to investigate vapor intrusion at the development and to install vapor mitigation systems. Among other things, the complaint seeks recovery of the costs incurred, an order that defendants perform additional required remediation and disgorgement of profits on our affiliate's sales of the units in the development. No formal discovery has commenced. Hovnanian Enterprises, Inc. intends to defend these claims vigorously.

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 July 31, 2021 and October 31, 2020, $17.9 million and $15.5 million, respectively, of the total cash and cash equivalents was in cash equivalents and restricted cash equivalents, the book value of which approximates fair value.

Homebuilding - Restricted cash and cash equivalents on the Condensed Consolidated Balance Sheets totaled $15.1 million and $14.7 million as of July 31, 2021 and October 31, 2020, respectively, which primarily consists of cash collateralizing our letter of credit agreements and facilities as discussed in Note 12.

Financial services restricted cash and cash equivalents, which are included in Financial services assets on the Condensed Consolidated Balance Sheets, totaled $41.0 million and $27.4 million as of July 31, 2021 and October 31, 2020, respectively. Included in these balances were (1) financial services customers' deposits of $36.6 million at July 31, 2021 and $25.4 million as of October 31, 2020, which are subject to restrictions on our use, and (2) $4.4 million at July 31, 2021 and $2.0 million as of October 31, 2020 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. Leases

We lease certain office space for use in our operations. We assess each of these contracts to determine whether the arrangement contains a lease as defined by ASC 842 "Leases" ("ASC 842"). In order to meet the definition of a lease under ASC 842, the contractual arrangement must convey to us the right to control the use of an identifiable asset for a period of time in exchange for consideration. We recognize lease expense for these leases on a straight-line basis over the lease term and combine lease and non-lease components for all leases. Our office lease terms are generally from three to five years and generally contain renewal options. In accordance with ASC 842, our lease terms include those renewals only to the extent that they are reasonably certain to be exercised. The exercise of these lease renewal options is generally at our discretion. In accordance with ASC 842, the lease liability is equal to the present value of the remaining lease payments while the right of use ("ROU") asset is based on the lease liability, subject to adjustment, such as for lease incentives. Our leases do not provide a readily determinable implicit interest rate and therefore, we must estimate our incremental borrowing rate. In determining the incremental borrowing rate, we consider the lease period and our collateralized borrowing rates.

Our lease population at July 31, 2021 is comprised of operating leases where we are the lessee, and these leases are primarily real estate for office space for our corporate office, division offices and design centers. As allowed by ASC 842, we adopted an accounting policy election to not record leases with lease terms of twelve months or less on our Condensed Consolidated Balance Sheets.

Lease cost included in our Condensed Consolidated Statements of Operations in Selling, general and administrative expenses and payments on our lease liabilities are presented in the table below. Our short-term lease costs and sublease income are de minimis.

	Three Months Ended		Nine Months Ended	
(In thousands)	July 31, 2021	July 31, 2020	July 31, 2021	July 31, 2020
Operating lease cost	$ 2,760	$ 2,621	$ 7,970	$ 7,837
Cash payments on lease liabilities	$ 2,483	$ 2,266	$ 7,171	$ 6,890

ROU assets are classified within Prepaids and other assets on our Condensed Consolidated Balance Sheets, while lease liabilities are classified within Accounts payable and other liabilities on our Condensed Consolidated Balance Sheets. During the three and nine months ended July 31, 2021, the Company recorded an additional $0.6 million and $4.6 million, respectively, to both its ROU assets and lease liabilities as a result of new leases that commenced during the period. The following table contains additional information about our leases:

(In thousands)	At July 31, 2021	At October 31, 2020
ROU assets	$ 18,108	$ 20,016
Lease liabilities	$ 19,135	$ 21,049
Weighted-average remaining lease term (in years)	3.1	3.5
Weighted-average discount rate (incremental borrowing rate)	9.4%	9.6%

Maturities of our operating lease liabilities as of July 31, 2021 are as follows:

Year ended October 31,	(in thousands)
2021 (excluding the nine months ended July 31, 2021)	$ 2,380
2022	8,587
2023	5,341
2024	2,627
2025	2,126
Thereafter	1,162
Total payments	22,223
Less: imputed interest	(3,088)
Present value of lease liabilities	$ 19,135

10. 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.”

At July 31, 2021 and October 31, 2020, $119.1 million and $87.9 million, respectively, of mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note 11). 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 July 31, 2021 and 2020, we had reserves specifically for 16 and 21 identified mortgage loans, respectively, as well as reserves for an estimate for future losses on mortgages sold but not yet identified to us.

The activity in our loan origination reserves during the three and nine months ended July 31, 2021 and 2020 was as follows:

(In thousands)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Loan origination reserves, beginning of period	$ 1,524	$ 1,358	$ 1,458	$ 1,268
Provisions for losses during the period	58	56	167	140
Adjustments to pre-existing provisions for losses from changes in estimates	-	-	(43)	6
Loan origination reserves, end of period	$ 1,582	$ 1,414	$ 1,582	$ 1,414

11. Mortgages

Nonrecourse. We have nonrecourse mortgage loans for certain communities totaling $118.0 million and $135.1 million (net of debt issuance costs) at July 31, 2021 and October 31, 2020, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of $421.9 million and $368.1 million, respectively. The weighted-average interest rate on these obligations was 4.8% and 6.4% at July 31, 2021 and October 31, 2020, respectively, and the mortgage loan payments on each community primarily correspond to home deliveries.

Mortgage Loans. 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 July 2, 2021 to extend the maturity date to June 30, 2022, is a short-term borrowing facility that provides up to $50.0 million through its 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 0.09% at July 31, 2021, plus the applicable margin of 2.5%. As of July 31, 2021 and October 31, 2020, the aggregate principal amount of all borrowings outstanding under the Chase Master Repurchase Agreement was $39.1 million and $23.5 million, respectively.

K. Hovnanian Mortgage has another secured Master Repurchase Agreement with Customers Bank (“Customers Master Repurchase Agreement”), which is a short-term borrowing facility that provides up to $50.0 million through its maturity on March 9, 2022. 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 2.125% to 4.75% based on the type of loan and the number of days outstanding on the warehouse line. As of July 31, 2021 and October 31, 2020, the aggregate principal amount of all borrowings outstanding under the Customers Master Repurchase Agreement was $45.5 million and $31.1 million, respectively.

K. Hovnanian Mortgage also has a secured Master Repurchase Agreement with Comerica Bank (“Comerica Master Repurchase Agreement”), which was amended on July 12, 2021 to extend the maturity date to June 28, 2022, and which is a short-term borrowing facility through its maturity. The Comerica Master Repurchase Agreement provides up to $60.0 million on the 15th day of the last month of the Company's fiscal quarters, and reverts back to up to $50.0 million 30 days thereafter. 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 1.875% or 3.25% based upon the type of loan. As of July 31, 2021 and October 31, 2020, the aggregate principal amount of all borrowings outstanding under the Comerica Master Repurchase Agreement was $31.8 million and $32.6 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 July 31, 2021, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

12. Senior Notes and Credit Facilities

Senior notes and credit facilities balances as of July 31, 2021 and October 31, 2020, were as follows:

(In thousands)		July 31, 2021		October 31, 2020
Senior Secured Notes:				
10.0% Senior Secured Notes due July 15, 2022	$	-	$	111,214
10.5% Senior Secured Notes due July 15, 2024		69,683		69,683
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025		158,502		158,502
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026		350,000		350,000
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026		282,322		282,322
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026		162,269		162,269
Total Senior Secured Notes	$	1,022,776	$	1,133,990
Senior Notes:				
8.0% Senior Notes due November 1, 2027 (1)	$	-	$	-
13.5% Senior Notes due February 1, 2026		90,590		90,590
5.0% Senior Notes due February 1, 2040		90,120		90,120
Total Senior Notes	$	180,710	$	180,710
Senior Unsecured Term Loan Credit Facility due February 1, 2027	$	39,551	$	39,551
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	$	81,498	$	81,498
Senior Secured Revolving Credit Facility (2)	$	-	$	-
Subtotal notes payable	$	1,324,535	$	1,435,749
Net (discounts) premiums	$	11,661	$	17,521
Net debt issuance costs	$	(18,672)	$	(22,160)
Total notes payable, net of discounts, premiums and debt issuance costs	$	1,317,524	$	1,431,110

(1) $26.0 million of 8.0% Senior Notes due 2027 (the "8.0% 2027 Notes") are owned by a wholly-owned consolidated subsidiary of HEI. Therefore, in accordance with GAAP, such notes are not reflected on the Condensed Consolidated Balance Sheets of HEI. On November 1, 2019, the maturity of the 8.0% 2027 Notes was extended to November 1, 2027.

(2) At July 31, 2021, provides for up to $125.0 million in aggregate amount of senior secured first lien revolving loans. Availability thereunder will terminate on December 28, 2022.

General

Except for K. Hovnanian, the issuer of the notes and borrower under the Credit Facilities (as defined below), our home mortgage subsidiaries, certain of our title insurance subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, we and each of our subsidiaries are guarantors of the Credit Facilities, the senior secured notes (subject in the case of the 10.5% 2024 Notes (as defined below), to the 10.5% 2024 Notes Supplemental Indenture (as defined below)) and senior notes outstanding (except for the 8.0% 2027 Notes which are not guaranteed by K. Hovnanian at Sunrise Trail III, LLC, a wholly-owned subsidiary of the Company) at July 31, 2021 (collectively, the “Notes Guarantors”).

The credit agreements governing the Credit Facilities and the indentures governing the senior secured and senior notes (together, the “Debt Instruments”) outstanding at July 31, 2021 do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the ability of HEI and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than non-recourse indebtedness, certain permitted indebtedness and refinancing indebtedness), pay dividends and make distributions on common and preferred stock, repay/repurchase certain indebtedness prior to its respective stated maturity, repurchase (including through exchanges) 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 of their assets and enter into certain transactions with affiliates. The Debt Instruments also contain customary events of default which would permit the lenders or holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Unsecured Term Loan Facility (defined below) (the “Unsecured Term Loans”), loans made under the Secured Term Loan Facility (defined below) (the “Secured Term Loans”) and loans made under the Secured Credit Agreement (as defined below) (the “Secured Revolving Loans”) or notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the Unsecured Term Loans, Secured Term Loans, Secured Revolving Loans or 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 Unsecured Term Loans, Secured Term Loans and Secured Revolving Loans, material inaccuracy of representations and warranties and with respect to the Unsecured Term Loans, Secured Term Loans and Secured Revolving Loans, a change of control, and, with respect to the Secured Term Loans, Secured Revolving Loans and senior secured notes, the failure of the documents granting security for the obligations under the secured Debt Instruments to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the obligations under the secured Debt Instruments to be valid and perfected. As of July 31, 2021, we believe we were in compliance with the covenants of the Debt Instruments.

If our consolidated fixed charge coverage ratio is less than 2.0 to 1.0, as defined in the applicable Debt Instrument, we are restricted from making certain payments, including dividends (in the case of the payment of dividends, our secured debt leverage ratio must also be less than 4.0 to 1.0), 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. 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 Instruments, we have the right to make certain redemptions and prepayments and, depending on market conditions, our strategic priorities and covenant restrictions, may do so from time to time. We also continue to actively analyze and evaluate our capital structure and explore transactions to simplify our capital structure and to strengthen our balance sheet, including those that reduce leverage, interest rates and/or extend maturities, and will seek to do so with the right opportunity. We may also continue to make debt purchases and/or exchanges for debt or equity from time to time through tender offers, exchange offers, redemptions, open market purchases, private transactions, or otherwise, or seek to raise additional debt or equity capital, depending on market conditions and covenant restrictions.

Fiscal 2021

On July 30, 2021, K. Hovnanian redeemed in full all of the $111.2 million aggregate principal amount of 10.0% Senior Secured Notes due 2022 (the "10.0% 2022 Notes"). The aggregate purchase price for this redemption was $111.7 million, which included accrued and unpaid interest and which was funded with cash on hand. This redemption resulted in a loss on extinguishment of debt of $0.3 million for the three months ended July 31, 2021, net of the write-off of unamortized financing costs and fees. The loss from the redemption is included in the Condensed Consolidated Statement of Operations as "Loss on extinguishment of debt".

On August 2, 2021, K. Hovnanian redeemed in full all of the $69.7 million aggregate principal amount of 10.5% Senior Secured Notes due 2024 (the "10.5% 2024 Notes"). See Note 22 for further information.

Fiscal 2020

On December 10, 2019, K. Hovnanian consummated an exchange offer (the "1.75 Lien Exchange Offer") pursuant to which it issued $158.5 million aggregate principal amount of 10.0% 1.75 Lien Notes due 2025 (the “1.75 Lien Notes”) in exchange for $23.2 million in aggregate principal amount of its outstanding 10.0% 2022 Notes and $141.7 million in aggregate principal amount of its outstanding 10.5% 2024 Notes. K. Hovnanian also exchanged $163.0 million in aggregate principal amount of its Unsecured Term Loans for $81.5 million in aggregate principal amount of Secured Term Loans made under a new Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028 (the “Secured Term Loan Facility”). There was no cash consideration in these exchanges. These secured notes and term loan exchanges were accounted for in accordance with ASC 470-60, resulting in a carrying value of $164.9 million and $148.8 million, respectively, for the $158.5 million of 1.75 Lien Notes and $81.5 million of Secured Term Loans, respectively, and a net gain on extinguishment of debt of $9.2 million (including additional costs of $0.1 million incurred in the third quarter of fiscal 2020), which is included as “(Loss) gain on extinguishment of debt” on the Condensed Consolidated Statement of Operations. The effect of this gain on a per share basis, assuming dilution, for the nine months ended July 31, 2020 was $1.42, excluding the impact of taxes, as our deferred tax assets were fully reserved by a valuation allowance.

In connection with the 1.75 Lien Exchange Offer, K. Hovnanian obtained consents from a majority of the holders of the 10.5% 2024 Notes (as defined below) to amendments to the indenture under which such 10.5% 2024 Notes were issued and entered into the Tenth Supplemental Indenture dated as of December 6, 2019 among HEI, K. Hovnanian, the guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent (the “10.5% 2024 Notes Supplemental Indenture”) to provide for such amendments, which became operative on December 10, 2019. The amendments eliminate most of the restrictive covenants, certain of the affirmative covenants and certain events of default, including eliminating the obligations of subsidiaries that are formed after December 10, 2019 to become guarantors of the 10.5% 2024 Notes and to provide collateral in respect of their assets. As a result, the 10.5% 2024 Notes do not have the same guarantors or collateral as K. Hovnanian’s other secured debt obligations.

The 1.75 Lien Notes were issued under an Indenture, dated as of December 10, 2019, among HEI, K. Hovnanian, the guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent. The 1.75 Lien Notes are guaranteed by HEI and the Notes Guarantors and are secured by substantially all of the assets owned by K. Hovnanian and the Notes Guarantors, subject to permitted liens and certain exceptions. Interest on the 1.75 Lien Notes is payable semi-annually on May 15 and November 15 of each year to holders of record at the close of business on May 1 or November 1, as the case may be, immediately preceding each such interest payment date. The 1.75 Lien Notes have a maturity of November 15, 2025.

The 1.75 Lien Notes are redeemable in whole or in part at K. Hovnanian’s option at any time prior to November 15, 2021 at a redemption price equal to 100.0% of their principal amount plus an applicable “Make-Whole Amount”. At any time and from time to time on or after November 15, 2021 and prior to November 15, 2022, K. Hovnanian may redeem some or all of the 1.75 Lien Notes at a redemption price equal to 105.00% of their principal amount, at any time and from time to time after November 15, 2022 and prior to November 15, 2023, K. Hovnanian may redeem some or all of the 1.75 Lien Notes at a redemption price equal to 102.50% of their principal amount and at any time and from time to time after November 15, 2023, K. Hovnanian may redeem some or all of the 1.75 Lien Notes at a redemption price equal to 100.0% of their principal amount. In addition, K. Hovnanian may also redeem up to 35.0% of the aggregate principal amount of the 1.75 Lien Notes prior to November 15, 2021 with the net cash proceeds from certain equity offerings at 110.00% of principal.

The Secured Term Loans and the guarantees thereof are secured on a pari passu basis with the 1.75 Lien Notes by the same assets that secure the 1.75 Lien Notes, subject to permitted liens and certain exceptions. The Secured Term Loans bear interest at a rate equal to 10.0% per annum and will mature on January 31, 2028, with interest payable in arrears on the last business day of each fiscal quarter. The Secured Term Loans may be voluntarily prepaid in whole or in part at K. Hovnanian’s option at any time prior to November 15, 2021 at a prepayment price equal to 100.0% of their principal amount plus any applicable “Make-Whole Amount”. At any time and from time to time on or after November 15, 2021 and prior to November 15, 2022, K. Hovnanian may voluntarily prepay some or all of the Secured Term Loans at a prepayment price equal to 105.00% of their principal amount, at any time and from time to time after November 15, 2022 and prior to November 15, 2023, K. Hovnanian may voluntarily prepay some or all of the Secured Term Loans at a prepayment price equal to 102.50% of their principal amount and at any time and from time to time after November 15, 2023, K. Hovnanian may voluntarily prepay some or all of the Secured Term Loans at a prepayment price equal to 100.0% of their principal amount.

On March 25, 2020, K. Hovnanian consummated a private exchange (the "Exchange") pursuant to which it issued $59.1 million aggregate principal amount of additional 1.5 Lien Notes (defined below) (the "Additional 1.5 Lien Notes") in exchange for $59.1 million aggregate principal amount of 10.0% 2022 Notes held by certain participating bondholders (the "Exchange Holders") pursuant to an Exchange Agreement, dated March 25, 2020 (the "Exchange Agreement"), among the K. Hovnanian, the Notes Guarantors, the Exchanging Holders and certain holders of the Initial 1.5 Lien Notes (defined below) (the "Consenting Holders"). In connection therewith, the Consenting Holders provided their consents (the "Consents") under the Indenture under which the 1.5 Lien Notes were issued to permit the issuance of the Additional 1.5 Lien Notes.

The Additional 1.5 Lien Notes were issued as additional notes of the same series as the $103.1 million aggregate principal amount of K. Hovnanian's 11.25% Senior Secured 1.5 Lien Notes due 2026 issued on October 31, 2019 (the "Initial 1.5 Lien Notes" and, together with the Additional 1.5 Lien Notes, the "1.5 Lien Notes"). In connection with the issuance of the Additional 1.5 Lien Notes in the Exchange, K. Hovnanian, the Notes Guarantors and Wilmington Trust, National Association, as trustee (the "Trustee") and collateral agent (the "Collateral Agent"), entered into the Fourth Supplemental Indenture, dated as of March 25, 2020 (the "Supplemental Indenture"), to the Indenture, dated as of October 31, 2019 (as amended and supplemented prior to the Supplemental Indenture, the "Indenture"), among the K. Hovnanian, the Notes Guarantors, the Trustee and the Collateral Agent. The Supplemental Indenture also amends the Indenture in accordance with the Consents to permit K. Hovnanian and the Notes Guarantors to secure up to $162.3 million of 1.5 Lien Obligations (as defined in the Indenture). As of March 25, 2020, after giving effect to the issuance of the Additional 1.5 Lien Notes, $162.3 million aggregate principal amount of 1.5 Lien Obligations, which consist of the 1.5 Lien Notes, were outstanding. For a discussion of the 1.5 Lien Notes see "—Secured Obligations" below.

During the three months ended July 31, 2020, the Company repurchased in open market transactions $25.5 million aggregate principal amount of the 10.0% 2022 Notes. The aggregate purchase price for these repurchases was $21.4 million, which included accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $4.1 million for the three months ended July 31, 2020, net of the write-off of unamortized financing costs and fees. The gains from the repurchases are included in the Condensed Consolidated Statement of Operations as "Gain on extinguishment of debt".

Secured Obligations

On October 31, 2019, K. Hovnanian, HEI, the Notes Guarantors, Wilmington Trust, National Association, as administrative agent, and affiliates of certain investment managers (the "Investors"), as lenders, entered into a credit agreement (the "Secured Credit Agreement" and, together with the Unsecured Term Loan Facility (defined below) and the Secured Term Loan Facility, the "Credit Facilities") providing for up to $125.0 million in aggregate amount of Secured Revolving Loans to be used for general corporate purposes, upon the terms and subject to the conditions set forth therein. Secured Revolving Loans are to be borrowed by K. Hovnanian and guaranteed by the Notes Guarantors. Availability under the Secured Credit Agreement will terminate on December 28, 2022. The Secured Revolving Loans bear interest at a rate per annum equal to 7.75%, and interest is payable in arrears, on the last business day of each fiscal quarter.

The 10.5% 2024 Notes had a maturity of July 15, 2024 and bore interest at a rate of 10.5% per annum payable semi-annually on January 15 and July 15 of each year, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. K. Hovnanian may redeem some or all of the 10.5% 2024 Notes at 105.25% of principal commencing July 15, 2020, at 102.625% of principal commencing July 15, 2021 and at 100.0% of principal commencing July 15, 2022. On August 2, 2021, the Company redeemed in full all of the $69.7 million aggregate principal amount of 10.5% 2024 Notes. See Note 22 for further information.

The 7.75% Senior Secured 1.125 Lien Notes due 2026 (the "1.125 Lien Notes") have a maturity of February 15, 2026 and bear interest at a rate of 7.75% per annum payable semi-annually on February 15 and August 15 of each year, to holders of record at the close of business on February 1 and August 1, as the case may be, immediately preceding such interest payment dates. The 1.125 Lien Notes are redeemable in whole or in part at our option at any time prior to February 15, 2022 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." In addition, up to 35% of the original aggregate principal amount of the 1.125 Lien Notes may be redeemed with the net cash proceeds from certain equity offerings at 107.75% of principal at any time prior to February 15, 2022. K. Hovnanian may also redeem some or all of the 1.125 Lien Notes at 103.875% of principal commencing February 15, 2022, at 101.937% of principal commencing February 15, 2023 and at 100.0% of principal commencing February 15, 2024.

The 10.5% Senior Secured 1.25 Lien Notes due 2026 (the "1.25 Lien Notes") have a maturity of February 15, 2026 and bear interest at a rate of 10.5% per annum payable semi-annually on February 15 and August 15 of each year to holders of record at the close of business on February 1 and August 1, as the case may be, immediately preceding such interest payment dates. The 1.25 Lien Notes are redeemable in whole or in part at our option at any time prior to February 15, 2022 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." In addition, up to 35% of the original aggregate principal amount of the 1.25 Lien Notes may be redeemed with the net cash proceeds from certain equity offerings at 110.5% of principal at any time prior to February 15, 2022. K. Hovnanian may also redeem some or all of the 1.25 Lien Notes at 105.25% of principal commencing February 15, 2022, at 102.625% of principal commencing February 15, 2023 and at 100.0% of principal commencing February 15, 2024.

The 11.25% Senior Secured 1.5 Lien Notes due 2026 (the "1.5 Lien Notes") have a maturity of February 15, 2026 and bear interest at a rate of 11.25% per annum payable semi-annually on February 15 and August 15 of each year to holders of record at the close of business on February 1 and August 1, as the case may be, immediately preceding such interest payment dates. The 1.5 Lien Notes are redeemable in whole or in part at our option at any time prior to February 15, 2026 at 100.0% of their principal amount.

See "—*Fiscal 2020*" for a discussion of the 1.75 Lien Notes and the Secured Term Loans.

Each series of secured notes (subject in the case of the 10.5% 2024 Notes, to the 10.5% 2024 Notes Supplemental Indenture) and the guarantees thereof, the Secured Term Loans and the guarantees thereof and the Secured Credit Agreement and the guarantees thereof are secured by the same assets. Among the secured debt, the liens securing the Secured Credit Agreement are senior to the liens securing all of K. Hovnanian's other secured notes and the Secured Term Loan. The liens securing the 1.125 Lien Notes are senior to the liens securing the 1.25 Lien Notes, 1.5 Lien Notes, the 1.75 Lien Notes, the Secured Term Loans, the 10.5% 2024 Notes and any other future secured obligations that are junior in priority with respect to the assets securing the 1.125 Lien Notes, the liens securing the 1.25 Lien Notes are senior to the liens securing the 1.5 Lien Notes, the 1.75 Lien Notes, the Secured Term Loans, the 10.5% 2024 Notes and any other future secured obligations that are junior in priority with respect to the assets securing the 1.25 Lien Notes, the liens securing the 1.5 Lien Notes are senior to the liens securing the 1.75 Lien Notes, the Secured Term Loans, the 10.5% 2024 Notes and any other future secured obligations that are junior in priority with respect to the assets securing the 1.5 Lien Notes, the liens securing the 1.75 Lien Notes and the Secured Term Loans (which are secured on a pari passu basis with each other) are senior to the liens securing the 10.5% 2024 Notes and any other future secured obligations that are junior in priority with respect to the assets securing the 1.75 Lien Notes and the Secured Term Loans, in each case, with respect to the assets securing such debt.

As of July 31, 2021, the collateral securing the Secured Credit Agreement, the Secured Term Loan Facility and the secured notes (subject in the case of the 10.5% 2024 Notes, to the 10.5% 2024 Notes Supplemental Indenture) included (1) $177.7 million of cash and cash equivalents, which included $10.0 million of restricted cash collateralizing certain letters of credit (subsequent to such date, fluctuations as a result of cash uses include general business operations and real estate and other investments along with cash inflow primarily from deliveries); (2) $514.2 million aggregate book value of real property, which does not include the impact of inventory investments, home deliveries or impairments thereafter and which may differ from the value if it were appraised; and (3) equity interests in joint venture holding companies with an aggregate book value of $124.9 million.

Unsecured Obligations

The 13.5% Senior Notes due 2026 (the "13.5% 2026 Notes") bear interest at 13.5% per annum and mature on February 1, 2026. Interest on the 13.5% 2026 Notes is payable semi-annually on February 1 and August 1 of each year to holders of record at the close of business on January 15 or July 15, as the case may be, immediately preceding each such interest payment date. The 13.5% 2026 Notes are redeemable in whole or in part at K. Hovnanian's option at any time prior to February 1, 2025 at a redemption price equal to 100% of their principal amount plus an applicable "Make Whole Amount". At any time and from time to time on or after February 1, 2025, K. Hovnanian may also redeem some or all of the 13.5% 2026 Notes at a redemption price equal to 100.0% of their principal amount.

The 5.0% Senior Notes due 2040 (the "5.0% 2040 Notes") bear interest at 5.0% per annum and mature on February 1, 2040. Interest on the 5.0% 2040 Notes is payable semi-annually on February 1 and August 1 of each year to holders of record at the close of business on January 15 or July 15, as the case may be, immediately preceding each such interest payment date. At any time and from time to time after February 1, 2021, K. Hovnanian may redeem some or all of the 2040 Notes at a redemption price equal to 100.0% of their principal amount.

The Unsecured Term Loans bear interest at a rate equal to 5.0% per annum and interest is payable in arrears, on the last business day of each fiscal quarter. The Unsecured Term Loans will mature on February 1, 2027.

Other

We have certain stand-alone cash collateralized letter of credit agreements and facilities under which there was a total of $9.8 million and $11.3 million letters of credit outstanding at July 31, 2021 and October 31, 2020, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. At July 31, 2021 and October 31, 2020, the amount of cash collateral in these segregated accounts was $10.0 million and $11.6 million, respectively, which is reflected in "Restricted cash and cash equivalents" on the Condensed Consolidated Balance Sheets.

13. Per Share Calculation

Basic earnings per share is computed by dividing net income (the "numerator") by the weighted-average number of common shares outstanding, adjusted for nonvested shares of restricted stock (the "denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of options and nonvested shares of restricted stock. Any options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation.

All outstanding nonvested shares that contain nonforfeitable rights to dividends or dividend equivalents that participate in undistributed earnings with common stock are considered participating securities and are included in computing earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and participation rights in undistributed earnings in periods when we have net income. The Company's restricted common stock ("nonvested shares") are considered participating securities.

Basic and diluted earnings per share for the periods presented below were calculated as follows:

(In thousands, except per share data)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Numerator:				
Net earnings attributable to Hovnanian	$ 47,702	$ 15,363	$ 555,337	$ 10,294
Less: undistributed earnings allocated to nonvested shares	(4,426)	(1,294)	(54,165)	(902)
Numerator for basic earnings per share	$ 43,276	$ 14,069	$ 501,172	$ 9,392
Plus: undistributed earnings allocated to nonvested shares	4,426	1,294	54,165	902
Less: undistributed earnings reallocated to nonvested shares	(4,436)	(1,294)	(55,259)	(902)
Numerator for diluted earnings per share	$ 43,266	$ 14,069	$ 500,078	$ 9,392
Denominator:				
Denominator for basic earnings per share – weighted average shares outstanding	6,315	6,201	6,263	6,178
Effect of dilutive securities:				
Share based payments	119	317	107	324
Denominator for diluted earnings per share – weighted average shares outstanding	6,434	6,518	6,370	6,502
Basic earnings per share	$ 6.85	$ 2.27	$ 80.02	$ 1.52
Diluted earnings per share	$ 6.72	$ 2.16	$ 78.51	$ 1.44

Shares related to out-of-the money stock options that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share were 25 thousand for both the three and nine months ended July 31, 2021 and 0.2 million for both the three and nine months ended July 31, 2020 because to do so would have been anti-dilutive for the periods presented.

14. Preferred Stock

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000 per share. Dividends on the Series A Preferred Stock are not cumulative and are payable at an annual rate of 7.625%. The Series A Preferred Stock is not convertible into the Company's common stock and is redeemable in whole or in part at our option at the liquidation preference of the shares. The Series A Preferred Stock is traded as depositary shares, with each depositary share representing 1/1000th of a share of Series A Preferred Stock. The depositary shares are listed on The NASDAQ Stock Market LLC under the symbol "HOVNP." During the three and nine months ended July 31, 2021 and 2020, we did not pay any dividends on the Series A Preferred Stock due to covenant restrictions in our debt instruments.

15. Common Stock

Each share of Class A Common Stock entitles its holder to one vote per share, and each share of Class B Common Stock generally entitles its holder to ten votes per share. The amount of any regular cash dividend payable on a share of Class A Common Stock will be an amount equal to 110% of the corresponding regular cash dividend payable on a share of Class B Common Stock. If a shareholder desires to sell shares of Class B Common Stock, such stock must be converted into shares of Class A Common Stock at a one to one conversion rate.

On August 4, 2008, our Board of Directors adopted a shareholder rights plan (the "Rights Plan"), which was amended on January 11, 2018 and January 18, 2021, designed to preserve shareholder value and the value of certain tax assets primarily associated with net operating loss (NOL) carryforwards and built-in losses under Section 382 of the Internal Revenue Code. Our ability to use NOLs and built-in losses would be limited if there was an "ownership change" under Section 382. This would occur if shareholders owning (or deemed under Section 382 to own) 5% or more of our stock increase their collective ownership of the aggregate amount of our outstanding shares by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382. Under the Rights Plan, one right was distributed for each share of Class A Common Stock and Class B Common Stock outstanding as of the close of business on August 15, 2008. Effective August 15, 2008, if any person or group acquires 4.9% or more of the outstanding shares of Class A Common Stock without the approval of the Board of Directors, there would be a triggering event causing significant dilution in the voting power of such person or group. However, existing stockholders who owned, at the time of the Rights Plan's initial adoption on August 4, 2008, 4.9% or more of the outstanding shares of Class A Common Stock will trigger a dilutive event only if they acquire additional shares. The approval of the Board of Directors' decision to adopt the Rights Plan may be terminated by the Board of Directors at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 14, 2024, unless it expires earlier in accordance with its terms. The approval of the Board of Directors' decision to initially adopt the Rights Plan and the amendments thereto were approved by shareholders. Our stockholders also approved an amendment to our Certificate of Incorporation to restrict certain transfers of Class A Common Stock in order to preserve the tax treatment of our NOLs and built-in losses under Section 382 of the Internal Revenue Code. Subject to certain exceptions pertaining to pre-existing 5% stockholders and Class B stockholders, the transfer restrictions in our Restated Certificate of Incorporation generally restrict any direct or indirect transfer (such as transfers of our stock that result from the transfer of interests in other entities that own our stock) if the effect would be to (i) increase the direct or indirect ownership of our stock by any person (or public group) from less than 5% to 5% or more of our common stock; (ii) increase the percentage of our common stock owned directly or indirectly by a person (or public group) owning or deemed to own 5% or more of our common stock; or (iii) create a new "public group" (as defined in the applicable United States Treasury regulations). Transfers included under the transfer restrictions include sales to persons (or public groups) whose resulting percentage ownership (direct or indirect) of common stock would exceed the 5% thresholds discussed above, or to persons whose direct or indirect ownership of common stock would by attribution cause another person (or public group) to exceed such threshold.

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 0.2 million shares of Class A Common Stock. There were no shares purchased during the three and nine months ended July 31, 2021. As of July 31, 2021, the maximum number of shares of Class A Common Stock that may yet be purchased under this program is 22 thousand.

16. Income Taxes

The total income tax expense for the three months ended July 31, 2021 was $14.1 million. The federal tax expense was primarily related to pretax income generated during the quarter and state tax expense from income generated in states where we do not have net operating loss carryforwards to offset the current year income. The total benefit for the nine months ended July 31, 2021 was $442.9 million. The benefit was primarily due to the reversal of a substantial portion of our valuation allowance previously recorded against our deferred tax assets.

The total income tax expense for the three and nine months ended July 31, 2020 was $0.9 million and $2.7 million, respectively. The total income tax expense was primarily related to state tax expense from income generated that was not offset by tax benefits in states where we fully reserve the tax benefit from net operating losses. In addition, the expense for the nine months ended July 31, 2020 was related to state tax expense from the impact of a cancellation of debt income recorded for tax purposes but not for GAAP purposes, creating a permanent difference.

Our federal net operating losses of $1.3 billion expire between 2028 and 2038, and $15.7 million have an indefinite carryforward period. Of our $2.4 billion of state NOLs, $232.6 million expire between 2021 through 2025; $1.3 billion expire between 2026 through 2030; $587.9 million expire between 2031 through 2035; $238.3 million expire between 2036 through 2040; and $48.8 million have an indefinite carryforward period.

On December 27, 2020, the Consolidated Appropriations Act (CAA) was enacted and signed into U.S. law to provide additional economic relief in response to the ongoing coronavirus pandemic. The CAA did not have a material impact on the Company's consolidated financial conditions or results of operations as of and for the nine months ended July 31, 2021. We will continue to monitor additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service and various state agencies.

Deferred federal and state income tax assets ("DTAs") primarily represent the deferred tax benefits arising from NOL carryforwards and temporary differences between book and tax income which will be recognized in future years as an offset against future taxable income. If the combination of future years' income (or loss) and the reversal of the timing differences results in a loss, such losses can be carried forward to future years. In accordance with ASC 740, we evaluate our DTAs quarterly to determine if valuation allowances are required. ASC 740 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a "more likely than not" standard.

As of July 31, 2021, we considered all available positive and negative evidence to determine whether, based on the weight of that evidence, our valuation allowance for our DTAs was appropriate in accordance with ASC 740. Listed below, in order of the weighting of each factor, is the available positive and negative evidence that we considered in determining that it is more likely than not that we will realize a substantial portion of our DTAs and that a full valuation allowance is not necessary. In analyzing these factors, overall the positive evidence, both objective and subjective, outweighed the negative evidence. Based on this analysis, we determined that the current valuation allowance for deferred taxes of $102.9 million as of July 31, 2021, which partially reserves for our state DTAs, is appropriate.

1. As of July 31, 2021, on a tax basis, the Company had adjusted pre-tax income, which is income before income taxes excluding land-related charges and loss (gain) on extinguishment of debt, on a three-year cumulative basis. On a U.S. GAAP basis, the Company had generated $176.3 million of cumulative pre-tax income in the three years ended July 31, 2021, with $112.4 million of that generated in the last nine months. We also generated $55.4 million of pre-tax income for our fiscal year ended October 31, 2020. We believe this positive improvement over the last 24 months will continue given the strength of our contract backlog and the current homebuilding market conditions. (Positive Objective Evidence)
2. Over the last several years, we have completed a number of debt refinancing/restructuring transactions which, by extending our debt maturities, will enable us to allocate cash to invest in new communities and grow our community count to get back to sustained profitability. (Positive Objective Evidence)
3. On July 30, 2021 we paid off in full $111.2 million of 10.0% 2022 Notes and on August 2, 2021, we paid off in full $69.7 million of 10.5% 2024 Notes. These actions reduced our annual interest incurred by approximately $19 million, enhancing our profitability going forward. (Positive Objective Evidence)
4. We incurred pre-tax losses during the housing market decline that began in 2007 and the slower than expected housing market recovery. Given our current highly leveraged balance sheet, a downturn in the housing market, would be significantly more damaging to the Company than to other better capitalized homebuilders and would make it very difficult for the Company to avoid future losses, given our high interest burden. (Negative Objective Evidence)
5. We exited several geographic markets over the last few years that have historically had losses. By exiting these underperforming markets, the Company has been able to redeploy capital to better performing markets, which over time should improve our profitability. (Positive Subjective Evidence)
6. The historical cyclicality of the U.S. housing market, a more restrictive mortgage lending environment compared to before the housing downturn of 2007-2009, the uncertainty of the overall U.S. economy and government policies and consumer confidence, and impacts of the COVID 19 pandemic, all or any of which could continue to hamper a sustained, stronger recovery of the housing market. (Negative Subjective Evidence)

The significant positive improvement in our operations in the last 24 months, which further accelerated in the third quarter ended July 31, 2021, coupled with our contract backlog of $1.8 billion as of July 31, 2021 provided positive evidence to support the conclusion that a full valuation allowance is not necessary for all of our DTAs. As such, we used our go forward projections to estimate our usage of our existing federal and state DTAs. From that review, we concluded that we no longer needed any valuation allowance for our federal DTAs. However, with respect to our state DTAs, we concluded that a valuation allowance of $102.9 million was still necessary related to states that have shorter carryforward periods or from states where we have significantly reduced or eliminated our operations and thus are not able to project that we will fully utilize those DTAs.

As of October 31, 2020, we had a valuation allowance of $396.5 million of federal deferred tax assets related to NOLs, as well as other matters, all of which has been reversed as of July 31, 2021. We also had a valuation allowance of $181.0 million of deferred tax assets related to state NOLs as of October 31, 2020, of which $78.1 million was reversed in the second quarter of fiscal 2021 and $102.9 million remains at July 31, 2021.

17. Operating and Reporting Segments

HEI’s operating segments are components of the Company’s business for which discrete financial information is available and reviewed regularly by the chief operating decision maker, our Chief Executive Officer, to evaluate performance and make operating decisions. Based on this criteria, each of the Company's communities qualifies as an operating segment, and therefore, it is impractical to provide segment disclosures for this many segments. As such, HEI has aggregated the homebuilding operating segments into six reportable segments.

HEI’s homebuilding operating segments are aggregated into reportable segments based primarily upon geographic proximity, similar regulatory environments, land acquisition characteristics and similar methods used to construct and sell homes. HEI’s reportable segments consist of the following six homebuilding segments and a financial services segment noted below.

Homebuilding:

(1) Northeast (New Jersey and Pennsylvania)
(2) Mid-Atlantic (Delaware, Maryland, Virginia, Washington D.C. and West Virginia)
(3) Midwest (Illinois and Ohio)
(4) Southeast (Florida, Georgia and South Carolina)
(5) Southwest (Arizona and Texas)
(6) West (California)

Financial Services

Operations of the Homebuilding segments primarily include the sale and construction of single-family attached and detached homes, attached townhomes and condominiums, urban infill and active lifestyle homes in planned residential developments. In addition, from time to time, operations of the homebuilding segments include sales of land. Operations of the Financial Services segment include mortgage banking and title services provided to the homebuilding operations’ customers. Our financial services subsidiaries do not typically retain or service mortgages that we originate but rather sell the mortgages and related servicing rights to investors.

Corporate and unallocated primarily represents operations at our headquarters in New Jersey. This includes our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services, and administration of insurance, quality and safety. It also includes interest income and interest expense resulting from interest incurred that cannot be capitalized in inventory in the Homebuilding segments, as well as the gains or losses on extinguishment of debt from any debt repurchases or exchanges.

Evaluation of segment performance is based primarily on operating earnings from continuing operations before provision or benefit for income taxes (“Income (loss) before income taxes”). Income (loss) before income taxes for the Homebuilding segments consist of revenues generated from the sales of homes and land, income (loss) from unconsolidated entities, management fees and other income, less the cost of homes and land sold, selling, general and administrative expenses and interest expense. Income (loss) before income taxes for the Financial Services segment consist of revenues generated from mortgage financing, title insurance and closing services, less the cost of such services and selling, general and administrative expenses incurred by the Financial Services segment.

Operational results of each segment are not necessarily indicative of the results that would have occurred had the segment been an independent stand-alone entity during the periods presented.

Financial information relating to HEI's segment operations was as follows:

(In thousands)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Revenues:				
Northeast	$ 35,255	$ 41,370	$ 97,488	$ 133,444
Mid-Atlantic	106,419	111,402	311,564	288,899
Midwest	60,659	63,003	183,895	166,120
Southeast	68,854	65,790	195,545	158,933
Southwest	213,127	214,918	620,848	549,471
West	186,519	110,323	498,084	313,547
Total homebuilding	670,833	606,806	1,907,424	1,610,414
Financial services	19,845	21,295	61,070	49,670
Corporate and unallocated	5	35	15	459
Total revenues	$ 690,683	$ 628,136	$ 1,968,509	$ 1,660,543
Income before income taxes:				
Northeast	$ 6,765	$ 5,240	$ 16,427	$ 17,703
Mid-Atlantic	15,907	11,024	38,618	20,548
Midwest	3,358	765	11,070	(3,063)
Southeast	2,682	(253)	9,540	(4,514)
Southwest	28,523	20,072	78,848	41,744
West	27,189	226	58,729	4,560
Total homebuilding	84,424	37,074	213,232	76,978
Financial services	8,607	10,802	28,117	19,993
Corporate and unallocated (1)	(31,232)	(31,660)	(128,933)	(84,012)
Income before income taxes	$ 61,799	$ 16,216	$ 112,416	$ 12,959

(1) Corporate and unallocated for the three months ended July 31, 2021 included corporate general and administrative costs of $17.3 million, interest expense of $14.4 million (a component of Other interest on our Condensed Consolidated Statements of Operations), $0.3 million of loss on extinguishment of debt and $0.8 million of other income and expenses primarily related to interest income and stock compensation. Corporate and unallocated for the nine months ended July 31, 2021 included corporate general and administrative costs of $81.1 million, interest expense of $48.1 million (a component of Other interest on our Condensed Consolidated Statements of Operations), $0.3 million of loss on extinguishment of debt and $0.6 million of other income and expenses. Corporate and unallocated for the three months ended July 31, 2020 included corporate general and administrative costs of $19.3 million, interest expense of $15.9 million (a component of Other interest on our Condensed Consolidated Statements of Operations), $(4.1) million of gain on extinguishment of debt and $0.6 million of other income and expenses primarily related to interest income and stock compensation. Corporate and unallocated for the nine months ended July 31, 2020 included corporate general and administrative costs of $54.3 million, interest expense of $44.6 million (a component of Other interest on our Condensed Consolidated Statements of Operations), $(13.3) million of gain on extinguishment of debt and $(1.6) million of other income and expenses.

(In thousands)	July 31, 2021	October 31, 2020
Assets:		
Northeast	$ 132,020	$ 107,748
Mid-Atlantic	277,378	271,867
Midwest	99,851	106,774
Southeast	253,522	248,506
Southwest	446,355	357,444
West	240,815	278,811
Total homebuilding	1,449,941	1,371,150
Financial services (1)	180,218	140,607
Corporate and unallocated	681,885	315,585
Total assets	$ 2,312,044	$ 1,827,342

(1) Deferred tax assets for the Financial services segment are included in the Deferred tax assets, net line on the Condensed Consolidated Balance Sheets.

18. Investments in Unconsolidated Homebuilding and Land Development Joint Ventures

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

During the third quarter of fiscal 2021, we purchased the remaining equity interest in one of our unconsolidated joint ventures for $6.3 million of net cash. As a result of this transaction, we took control of four communities, including three active communities. The unconsolidated joint venture was subsequently dissolved.

During the second quarter of fiscal 2021, we contributed six communities we owned, including three active communities, to two new joint ventures for $21.2 million of net cash.

During the first quarter of fiscal 2020, we contributed eight communities we owned, including four active communities, to a new joint venture for $29.8 million of net cash.

The tables set forth below summarize the combined financial information related to our unconsolidated homebuilding and land development joint ventures that are accounted for under the equity method.

(Dollars in thousands)	July 31, 2021		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$ 118,606	$ 2,165	$ 120,771
Inventories	442,657	-	442,657
Other assets	32,271	-	32,271
Total assets	$ 593,534	$ 2,165	$ 595,699
Liabilities and equity:			
Accounts payable and accrued liabilities	$ 345,144	$ 1,873	$ 347,017
Notes payable	78,767	-	78,767
Total liabilities	423,911	1,873	425,784
Equity of:			
Hovnanian Enterprises, Inc.	66,303	266	66,569
Others	103,320	26	103,346
Total equity	169,623	292	169,915
Total liabilities and equity	$ 593,534	$ 2,165	$ 595,699
Debt to capitalization ratio	32%	0%	32%

(Dollars in thousands)	October 31, 2020		
	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$ 120,107	$ 3,454	$ 123,561
Inventories	389,001	91	389,092
Other assets	27,062	488	27,550
Total assets	$ 536,170	$ 4,033	$ 540,203
Liabilities and equity:			
Accounts payable and accrued liabilities	$ 207,277	$ 2,152	$ 209,429
Notes payable	117,179	-	117,179
Total liabilities	324,456	2,152	326,608
Equity of:			
Hovnanian Enterprises, Inc.	102,908	1,340	104,248
Others	108,806	541	109,347
Total equity	211,714	1,881	213,595
Total liabilities and equity	$ 536,170	$ 4,033	$ 540,203
Debt to capitalization ratio	36%	0%	35%

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As of July 31, 2021 and October 31, 2020, we had advances outstanding of $2.3 million and payables outstanding of $1.1 million, respectively, to these unconsolidated joint ventures. These amounts were included in the “Accounts payable and accrued liabilities” balances in the tables above. On our Condensed Consolidated Balance Sheets, our “Investments in and advances to unconsolidated joint ventures” amounted to $68.9 million and $103.2 million at July 31, 2021 and October 31, 2020, respectively. In some cases, our net investment in these unconsolidated joint ventures is less than our proportionate share of the equity reflected in the table above because of the differences between asset impairments recorded against our unconsolidated joint venture investments and any impairments recorded in the applicable unconsolidated joint venture. Impairments of unconsolidated joint venture investments are recorded at fair value while impairments recorded in the unconsolidated joint venture are recorded when undiscounted cash flows trigger the impairment. During the nine months ended July 31, 2021 and 2020, we did not write-down any of our unconsolidated joint venture investments.

	Three Months Ended July 31, 2021		
(In thousands)	Homebuilding	Land Development	Total
Revenues	$ 102,576	$ -	$ 102,576
Cost of sales and expenses	(96,622)	(31)	(96,653)
Joint venture net income (loss)	$ 5,954	$ (31)	$ 5,923
Our share of net income	$ 5,012	$ -	$ 5,012

	Three Months Ended July 31, 2020		
(In thousands)	Homebuilding	Land Development	Total
Revenues	$ 132,511	$ 3,688	$ 136,199
Cost of sales and expenses	(127,653)	(2,719)	(130,372)
Joint venture net income	$ 4,858	$ 969	$ 5,827
Our share of net income (loss)	$ 6,337	$ (238)	$ 6,099

	Nine Months Ended July 31, 2021		
(In thousands)	Homebuilding	Land Development	Total
Revenues	$ 265,566	$ 691	$ 266,257
Cost of sales and expenses	(255,591)	(208)	(255,799)
Joint venture net income	$ 9,975	$ 483	$ 10,458
Our share of net income	$ 9,560	$ 208	$ 9,768

	Nine Months Ended July 31, 2020		
(In thousands)	Homebuilding	Land Development	Total
Revenues	$ 332,287	$ 11,240	$ 343,527
Cost of sales and expenses	(323,657)	(11,120)	(334,777)
Joint venture net income	$ 8,630	$ 120	$ 8,750
Our share of net income (loss)	$ 13,952	$ (663)	$ 13,289

“Income from unconsolidated joint ventures” is reflected as a separate line in the accompanying Condensed Consolidated Statements of Operations and reflects our proportionate share of the income or loss from these unconsolidated homebuilding and land development joint ventures. The difference between our share of the income or loss from these unconsolidated joint ventures in the tables above compared to the Condensed Consolidated Statements of Operations is due primarily to the reclassification of the intercompany portion of management fee income from certain unconsolidated joint ventures and the deferral of income for lots purchased by us from certain unconsolidated joint ventures.

The reason “Our share of net income (loss)” is higher or lower than the “Joint venture net income (loss)” shown in the tables above for both the three and nine months ended July 31, 2021 and 2020, respectively, is because we have varying ownership percentages, ranging from 20% to over 50%, in our 12 unconsolidated joint ventures for both periods. Therefore, depending on mix, if the unconsolidated joint ventures in which we have higher sharing percentages are more profitable than our other unconsolidated joint ventures, that results in us having a higher overall percentage of income in the aggregate than would occur if all joint ventures had the same sharing percentage; conversely, if the unconsolidated joint ventures in which we have lower sharing percentages are more profitable than our other unconsolidated joint ventures, that results in us having a lower overall percentage of income in the aggregate than would occur if all joint ventures had the same sharing percentage. For the three months ended July 31, 2021, "Our share of net income (loss)" was lower than the "Joint venture net income (loss)" due to increased income on one of our newer unconsolidated joint ventures during the quarter for which we currently recognize no share percentage of the profit based on the joint venture agreement, and a second unconsolidated joint venture which we recognize a lower profit sharing percentage having higher profit in the current period. In addition, for the nine months ended July 31, 2021 and both the three and nine months ended July 31, 2020, we had written off our investment in two of our unconsolidated joint ventures that are generating losses and therefore we currently do not recognize those losses. Had we not fully written off our investment, our share of the net loss in these unconsolidated joint ventures would have been approximately 50%, which would have reduced our overall share of net income across all of our unconsolidated joint ventures. As a result, these unconsolidated joint ventures losses significantly reduce the profit when looking at all of our 12 unconsolidated joint ventures, in the aggregate, without having any impact on our share of net income or loss recorded in the applicable period.

To compensate us for the administrative services we provide as the manager of certain unconsolidated joint ventures, we receive a management fee based on a percentage of the applicable unconsolidated joint venture’s revenues. These management fees, which totaled $3.2 million and $4.7 million for the three months ended July 31, 2021 and 2020, respectively, and $8.5 million and $12.5 million for the nine months ended July 31, 2021 and 2020, respectively, are recorded in “Homebuilding: Selling, general and administrative” on the Condensed Consolidated Statements of Operations.

In determining whether or not we must consolidate joint ventures that we manage, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the operations and capital decisions of the partnership, including budgets in the ordinary course of business.

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing. For some of our unconsolidated joint ventures, obtaining financing was challenging; therefore, some of our unconsolidated joint ventures are capitalized only with equity. The total debt to capitalization ratio of all our unconsolidated joint ventures was 32% as of July 31, 2021. Any unconsolidated joint venture financing is on a nonrecourse basis, with guarantees from us limited only to performance and completion of development, environmental warranties and indemnification, standard indemnification for fraud, misrepresentation and other similar actions, including a voluntary bankruptcy filing. In some instances, the unconsolidated joint venture entity is considered a VIE under ASC 810-10 “Consolidation – Overall” due to the returns being capped to the equity holders; however, in these instances, we have determined that we are not the primary beneficiary, and therefore we do not consolidate these entities.

19. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides companies with optional guidance to ease the potential accounting burden associated with reference rate reform on financial reporting. This guidance became effective for the Company beginning on March 12, 2020, and we may elect to apply the amendments prospectively from now through December 31, 2022. The Company has not yet adopted this guidance and is currently evaluating the potential impact of adoption on our Condensed Consolidated Financial Statements.

20. Fair Value of Financial Instruments

ASC 820, "Fair Value Measurements and Disclosures," provides a framework for measuring fair value, expands disclosures about fair-value measurements and establishes a fair-value hierarchy which prioritizes the inputs used in measuring fair value summarized as follows:

Level 1: Fair value determined based on quoted prices in active markets for identical assets.

Level 2: Fair value determined using significant other observable inputs.

Level 3: Fair value determined using significant unobservable inputs.

Our financial instruments measured at fair value on a recurring basis are summarized below:

(In thousands)	Fair Value Hierarchy	Fair Value at July 31, 2021	Fair Value at October 31, 2020
Mortgage loans held for sale (1)	Level 2	$ 131,411	$ 104,378
Forward contracts	Level 2	(374)	(28)
Total		$ 131,037	$ 104,350
Interest rate lock commitments	Level 3	631	11
Total		$ 131,668	$ 104,361

(1) The aggregate unpaid principal balance was $126.9 million and $100.4 million at July 31, 2021 and October 31, 2020, respectively.

We elected the fair value option for our loans held for sale in accordance with ASC 825, "Financial Instruments," which permits us to measure financial instruments at fair value on a contract-by-contract basis. Management believes that the election of the fair value option for loans held for sale improves financial reporting by mitigating volatility in reported earnings caused by measuring the fair value of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. Fair value of loans held for sale is based on independent quoted market prices, where available, or the prices for other mortgage loans with similar characteristics.

The Financial Services segment had a pipeline of loan applications in process of $997.1 million at July 31, 2021. Loans in process for which interest rates were committed to the borrowers totaled $82.0 million as of July 31, 2021. Substantially all of these commitments were for periods of 60 days or less. Since a portion of these commitments is expected to expire without being exercised by the borrowers, the total commitments do not necessarily represent future cash requirements.

The Financial Services segment uses investor commitments and forward sales of mandatory MBS to hedge its mortgage-related interest rate exposure. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk is managed by entering into MBS forward commitments, option contracts with investment banks, federally regulated bank affiliates and loan sales transactions with permanent investors meeting the segment's credit standards. The segment's risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments and option contracts. At July 31, 2021, the segment had open commitments amounting to $24.0 million to sell MBS with varying settlement dates through August 19, 2021.

The assets accounted for using the fair value option are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in the Condensed Consolidated Financial Statements in "Revenues: Financial services." The fair values that are included in income are shown, by financial instrument and financial statement line item, below:

	Three Months Ended July 31, 2021		
(In thousands)	Mortgage Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net income all reflected in financial services revenues	$ 227	$ 192	$ 29

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(In thousands)	Three Months Ended July 31, 2020 Mortgage Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net income all reflected in financial services revenues	$ 1,485	$ (29)	$ 87

(In thousands)	Nine Months Ended July 31, 2021 Mortgage Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net income all reflected in financial services revenues	$ 4,484	$ 631	$ (374)

(In thousands)	Nine Months Ended July 31, 2020 Mortgage Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net income all reflected in financial services revenues	$ 3,638	$ 313	$ (367)

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the three and nine months ended July 31, 2021. The Company did not have any assets measured at fair value on a nonrecurring basis during the three and nine months ended July 31, 2020. The assets measured at fair value on a nonrecurring basis are all within the Company's Homebuilding operations and are summarized below:

Nonfinancial Assets

(In thousands)	Fair Value Hierarchy	Three Months Ended July 31, 2021 Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	$ 9,236	$ (1,166)	$ 8,070
Land and land options held for future development or sale	Level 3	$ -	$ -	$ -

(In thousands)	Fair Value Hierarchy	Nine Months Ended July 31, 2021 Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	$ 11,522	$ (2,009)	$ 9,513
Land and land options held for future development or sale	Level 3	$ -	$ -	$ -

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 its estimated future cash flows at a discount rate commensurate with the risk of the respective community. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may be required to recognize additional impairments. We recorded inventory impairments, which are included in the Condensed Consolidated Statements of Operations as “Inventory impairment loss and land option write-offs” and deducted from inventory, of $1.2 million and $2.0 million for the three and nine months ended July 31, 2021, respectively. We did not record any inventory impairments for the three and nine months ended July 31, 2020. See Note 4 for further detail of the communities evaluated for impairment.

The fair value of our cash equivalents, restricted cash and cash equivalents and customers' deposits approximates their carrying amount, based on Level 1 inputs.

The fair value of each series of our Notes and Credit Facilities are listed below. Level 2 measurements are estimated based on recent trades or quoted market prices for the same issues or based on recent trades or quoted market prices for our debt of similar security and maturity to achieve comparable yields. Level 3 measurements are estimated based on third-party broker quotes or management's estimate of the fair value based on available trades for similar debt instruments. As shown in the table below, our 10.5% 2024 Notes were a Level 2 measurement at July 31, 2021 due to recent trades on such notes (whereas such notes were a Level 3 at October 31, 2020).

	Fair Value as of July 31, 2021			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Senior Secured Notes:				
10.5% Senior Secured Notes due July 15, 2024	$ -	$ 71,564	$ -	$ 71,564
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025	-	-	166,427	166,427
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026	-	-	371,438	371,438
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026	-	-	304,908	304,908
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026	-	-	162,527	162,527
Senior Notes:				
13.5% Senior Notes due February 1, 2026	-	89,684	-	89,684
5.0% Senior Notes due February 1, 2040	-	52,270	-	52,270
Senior Credit Facilities:				
Senior Unsecured Term Loan Credit Facility due February 1, 2027	-	-	26,507	26,507
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	-	-	91,327	91,327
Total fair value	$ -	$ 213,518	$ 1,123,134	$ 1,336,652

	Fair Value as of October 31, 2020			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Senior Secured Notes:				
10.0% Senior Secured Notes due July 15, 2022	$ -	$ 107,878	$ -	$ 107,878
10.5% Senior Secured Notes due July 15, 2024	-	-	67,941	67,941
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025	-	-	132,246	132,246
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026	-	-	353,500	353,500
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026	-	-	274,558	274,558
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026	-	-	162,723	162,723
Senior Notes:				
13.5% Senior Notes due February 1, 2026	-	54,354	-	54,354
5.0% Senior Notes due February 1, 2040	-	10,814	-	10,814
Senior Credit Facilities:				
Senior Unsecured Term Loan Credit Facility due February 1, 2027	-	-	13,091	13,091
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	-	-	64,465	64,465
Total fair value	$ -	$ 173,046	$ 1,068,524	$ 1,241,570

The Senior Secured Revolving Credit Facility is not included in the above tables because there were no borrowings outstanding thereunder as of July 31, 2021 and October 31, 2020.

21. Transactions with Related Parties

From time to time, an engineering firm owned by Tavit Najarian, a relative of Ara K. Hovnanian, our Chairman of the Board of Directors and our Chief Executive Officer, provides services to the Company. During both the three months ended July 31, 2021 and 2020, the services provided by such engineering firm to the Company totaled $0.2 million. During the nine months ended July 31, 2021 and 2020, the services provided by such engineering firm to the Company totaled $0.4 million and $0.6 million, respectively. Neither the Company nor Mr. Hovnanian has a financial interest in the relative's company from whom the services were provided.

22. Subsequent Events

On August 2, 2021, K. Hovnanian redeemed in full all of the $69.7 million aggregate principal amount of 10.5% 2024 Notes. The aggregate purchase price for this redemption was $71.9 million, which included accrued and unpaid interest and which was funded with cash on hand. This redemption will result in a loss on extinguishment of debt of $3.4 million for the fourth quarter of fiscal 2021, net of the write-off of unamortized financing costs and fees.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Hovnanian Enterprises, Inc. (“HEI”) conducts all of its homebuilding and financial services operations through its subsidiaries (references herein to the “Company,” “we,” “us” or “our” refer to HEI and its consolidated subsidiaries and should be understood to reflect the consolidated business of HEI’s subsidiaries).

Key Performance Indicators

The following key performance indicators are commonly used in the homebuilding industry and by management as a means to better understand our operating performance and trends affecting our business and compare our performance with the performance of other homebuilders. We believe these key performance indicators also provide useful information to investors in analyzing our performance:

- *Net contracts* is a volume indicator which represents the number of new contracts executed during the period for the purchase of homes, less cancellations of contracts in the same period. The dollar value of net contracts represents the dollars associated with net contracts executed in the period. These values are an indicator of potential future revenues;

- *Contract backlog* is a volume indicator which represents the number of homes that are under contract, but not yet delivered as of the stated date. The dollar value of contract backlog represents the dollar amount of the homes in contract backlog. These values are an indicator of potential future revenues;

- *Active selling communities* is a volume indicator which represents the number of communities which are open for sale with ten or more home sites available as of the end of a period. We identify communities based on product type; therefore at times there are multiple communities at one land site. These values are an indicator of potential revenues;

- *Net contracts per average active selling community* is used to indicate the pace at which homes are being sold (put into contract) in active selling communities and is calculated by dividing the number of net contracts in a period by the average number of active selling communities in the same period. Sales pace is an indicator of market strength and demand; and

- *Contract cancellation rates* is a volume indicator which represents the number of sales contracts cancelled in the period divided by the number of gross sales contracts executed during the period. Contract cancellation rates as a percentage of backlog is calculated by dividing the number of cancelled contracts in the period by the contract backlog at the beginning of the period. Cancellation rates as compared to prior periods can be an indicator of market strength or weakness.

Overview

Market Conditions

The demand for new and existing homes is dependent on a variety of demographic and economic factors, including job and wage growth, household formation, consumer confidence, mortgage financing, interest rates and overall housing affordability. In general, at the start of our 2020 fiscal year, factors including rising levels of household formation, a constrained supply of new and used homes, wage growth, strong employment conditions and mortgage rates that continue to be low by historical standards contributed to improving conditions for new home sales. However, overall economic conditions in the United States were impacted negatively by the COVID-19 pandemic, which resulted in, among other things, quarantines, "stay-at-home" or "shelter-in-place" orders, and similar mandates from national, state and local governments that substantially restricted daily activities and caused many businesses to curtail or cease normal operations. While all of the state and local governments in the markets in which we operate have deemed housing to be an essential business, which has allowed us to continue with construction and sales of homes, we cannot predict the magnitude of either the near-term or long-term effects that the pandemic will have on our business. During this fiscal year, the pandemic has adversely affected the global supply chain for many industries, including the homebuilding industry. As a result, our ability to complete construction on homes has been, and may continue to be, impacted by supply chain delays. The impact and the particular materials associated with the delays is varied from market to market, and we are currently experiencing increased construction cycle times by 45 days in many of our markets.

During the second quarter of fiscal 2020 when we confronted the initial impact of COVID-19, we experienced adverse business conditions, including a slowdown in customer traffic and sales pace and an increase in cancellations. That said, the homebuilding industry generally was only impacted from mid-March through April of 2020. Towards the end of April, economic conditions in our markets started to improve, and this improvement continued throughout the second half of fiscal 2020 and through the nine months ended July 31, 2021 due to what we believe is a combination of factors, including low interest rates, low inventory levels of existing homes and a general desire for more indoor and outdoor space. Starting during the second half of fiscal 2020 and continuing to date, we returned to our normal activities with respect to land purchases, land development and resuming the construction of unsold homes. As a result, our operating metrics for the nine months ended July 31, 2021 improved significantly as compared to the nine months ended July 31, 2020.

Operating Results

We experienced significant positive operating results for the three and nine months ended July 31, 2021 as follows:

- For the three and nine months ended July 31, 2021, sale of homes revenues increased 9.5% and 17.8%, respectively, as compared to the same periods of the prior year, primarily due to an increase in average prices of 13.5% and 7.6%, respectively, as home prices increased in virtually all of our markets, along with the geographic and community mix of our deliveries. Also impacting the increase in sale of homes revenues for the nine months ended July 31, 2021, was a 9.4% increase in the number of home deliveries compared to the prior year period, primarily due to our increased sales absorption pace as discussed below.

- Gross margin dollars increased 55.4% and 57.2% for the three and nine months ended July 31, 2021, respectively, as compared to the same periods of the prior year, as a result of our increased revenues. Additionally, gross margin percentage increased to 19.2% for the three months ended July 31, 2021 from 13.6% for the three months ended July 31, 2020 and increased to 18.3% for the nine months ended July 31, 2021 from 13.7% for the nine months ended July 31, 2020. Gross margin percentage, before cost of sales interest expense and land charges, increased from 17.5% and 17.7% for the three and nine months ended July 31, 2020, respectively, to 22.1% and 21.4% for the three and nine months ended July 31, 2021, respectively. The increases were primarily due to price increases in virtually all of our markets.

- Selling, general and administrative costs (including corporate general and administrative expenses) ("Total SGA") was $60.3 million, or 8.7% of total revenues, in the three months ended July 31, 2021 compared with $59.9 million, or 9.5% of total revenues, in the three months ended July 31, 2020. During the first nine months of fiscal 2021, total SG&A was $206.6 million, or 10.5% of total revenues, compared with $176.2 million, or 10.6% of total revenues, in the same period of the prior fiscal year. Such costs increased $0.4 million and $30.4 million for the three and nine months ended July 31, 2021, respectively, as compared to the same periods of the prior year. The increase for the nine months ended July 31, 2021 was primarily due to increased compensation costs mainly related to the grants of phantom stock awards under our 2019 Long Term Incentive Plan (“2019 LTIP”) which expense increased due to the significant increase in our stock price from $51.16 at January 31, 2021 to $104.39 at July 31, 2021. Had equity shares rather than phantom shares been utilized for the 2019 LTIP, there would not have been expenses related to the movement in our stock price. Excluding the $12.7 million of incremental phantom stock expense associated with the 2019 LTIP due solely to the increase in the stock price from January 31, 2021 to July 31, 2021, Total SGA would have been $193.9 million, or 9.8% of total revenues for the nine months ended July 31, 2021.

- Pre-tax income increased to $61.8 million for the three months ended July 31, 2021 from pre-tax income of $16.2 million for the three months ended July 31, 2020, and increased to $112.4 million for the nine months ended July 31, 2021 from pre-tax income of $13.0 million for the nine months ended July 31, 2020. Net income increased to $47.7 million for the three months ended July 31, 2021 from net income of $15.4 million for the three months ended July 31, 2020, and increased to $555.3 million for the nine months ended July 31, 2021 from net income of $10.3 million for the nine months ended July 31, 2020. Earnings per share, basic and diluted, increased to $6.85 and $6.72, respectively, for the three months ended July 31, 2021 compared to $2.27 and $2.16, respectively, for the three months ended July 31, 2020. Earnings per share, basic and diluted, increased to $80.02 and $78.51, respectively, for the nine months ended July 31, 2021 compared to $1.52 and $1.44, respectively, for the nine months ended July 31, 2020. The significant increase in net income for the nine months ended July 31, 2021 was due to the full reversal of our federal valuation allowance and a portion of the state valuation allowance in respect of our deferred tax assets in the second quarter of fiscal 2021 (see Note 16 to the Condensed Consolidated Financial Statements).

- Net contracts decreased 45.6% and 5.5% for the three and nine months ended July 31, 2021, respectively, compared to the same periods of the prior year.

- Net contracts per average active selling community decreased to 12.0 for the three months ended July 31, 2021 compared to 17.8 in the same period of the prior year, and increased to 44.9 for the nine months ended July 31, 2021 compared to 38.1 in the same period of the prior year. The decrease in the third quarter of fiscal 2021 as compared to the same period of the prior year was due to consciously restricting sales in many of our communities in the current period, along with the unprecedented COVID-19 surge in home demand in the third quarter of fiscal 2020. The strong absorption pace for the nine months ended July 31, 2021 resulted in our active selling communities at July 31, 2021 decreasing by 11.1% over last year’s third quarter. However, we are actively pursuing replacement communities, and our total lots controlled has increased each quarter since July 31, 2020.

- Contract backlog increased from 3,056 homes at July 31, 2020 to 3,673 homes at July 31, 2021, with a dollar value of $1.8 billion, representing a 41.8% increase in dollar value compared to the prior year.

- Our cash position allowed us to spend $531.2 million on land purchases and land development and repurchase $111.7 million of our 10.0% 2022 Notes during the nine months ended July 31, 2021 and still have total liquidity of $307.7 million, including $172.7 million of homebuilding cash and cash equivalents as of July 31, 2021 and $125.0 million of borrowing capacity under our senior secured revolving credit facility.

CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended October 31, 2020, our most critical accounting policies relate to income recognition from mortgage loans; inventories; unconsolidated joint ventures; and warranty and construction defect reserves. Since October 31, 2020, there have been no significant changes to those critical accounting policies.

CAPITAL RESOURCES AND LIQUIDITY

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

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our credit facilities, the issuance of new debt and equity securities and other financing activities. 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, even if market conditions, including then-current market available interest rates (in recent years, we have not been able to access the traditional capital and bank lending markets at competitive interest rates due to our highly leveraged capital structure), would otherwise be favorable, which could also impact our ability to grow our business.

Operating, Investing and Financing Activities – Overview

Our total liquidity at July 31, 2021 was $307.7 million, including $172.7 million in homebuilding cash and cash equivalents and $125.0 million of borrowing capacity under our senior secured revolving credit facility, after using $111.7 million in the third quarter of fiscal 2021 to repurchase all of our 10.0% 2022 Notes. Our total liquidity was above our target liquidity range of $170.0 to $245.0 million. The unprecedented public health and governmental efforts to contain the COVID-19 pandemic have created significant uncertainty as to general economic and housing market conditions for fiscal 2021 and beyond. We believe that these sources of cash together with available borrowings on our senior secured revolving credit facility will be sufficient through fiscal 2021 to finance our working capital requirements.

We spent $531.2 million on land and land development during the first three quarters of fiscal 2021. After considering this land and land development and all other operating activities, including revenue received from deliveries, cash provided by operations was $82.3 million. During the first three quarters of fiscal 2021, cash provided by in investing activities was $7.0 million, primarily due to distributions from existing unconsolidated joint ventures, partially offset by investments in two new unconsolidated joint ventures. Cash used in financing activities was $163.6 million during the first three quarters of fiscal 2021, which was primarily due to the redemption of the 10.0% 2022 Notes, along with net payments for nonrecourse mortgage financings and land banking and model sale leaseback financings during the period, partially offset by net proceeds from our mortgage warehouse lines of credit. We intend to continue to use nonrecourse mortgage financings, model sale leaseback, joint ventures, and, subject to covenant restrictions in our debt instruments, land banking programs as our business needs dictate.

Our cash uses during the nine months ended July 31, 2021 and 2020 were for operating expenses, land purchases, land deposits, land development, construction spending, state income taxes, interest payments, financing transaction costs, debt repurchases and redemptions, litigation matters and investments in unconsolidated joint ventures. During these periods, we provided for our cash requirements from available cash on hand, housing and land sales, financing transactions, model sale leasebacks, land banking transactions, unconsolidated joint ventures, financial service revenues and other revenues.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, mortgage loans held for sale, interest and other accrued liabilities, deferred income taxes, accounts payable and other liabilities, noncash charges relating to depreciation and stock compensation awards and impairment losses for inventory. When we are expanding our operations, inventory levels, prepaids and other assets increase causing cash flow from operating activities to decrease. Certain liabilities also increase as operations expand and partially offset the negative effect on cash flow from operations caused by the increase in inventory levels, prepaids and other assets. Similarly, as our mortgage operations expand, net income from these operations increases, but for cash flow purposes net income is partially offset by the net change in mortgage assets and liabilities. The opposite is true as our investment in new land purchases and development of new communities decrease, causing us to generate positive cash flow from operations.

Debt Transactions

Senior notes and credit facilities balances as of July 31, 2021 and October 31, 2020, were as follows:

(In thousands)		July 31, 2021		October 31, 2020
Senior Secured Notes:				
10.0% Senior Secured Notes due July 15, 2022	$	-	$	111,214
10.5% Senior Secured Notes due July 15, 2024		69,683		69,683
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025		158,502		158,502
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026		350,000		350,000
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026		282,322		282,322
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026		162,269		162,269
Total Senior Secured Notes	$	1,022,776	$	1,133,990
Senior Notes:				
8.0% Senior Notes due November 1, 2027 (1)	$	-	$	-
13.5% Senior Notes due February 1, 2026		90,590		90,590
5.0% Senior Notes due February 1, 2040		90,120		90,120
Total Senior Notes	$	180,710	$	180,710
Senior Unsecured Term Loan Credit Facility due February 1, 2027	$	39,551	$	39,551
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	$	81,498	$	81,498
Senior Secured Revolving Credit Facility (2)	$	-	$	-
Subtotal notes payable	$	1,324,535	$	1,435,749
Net (discounts) premiums	$	11,661	$	17,521
Net debt issuance costs	$	(18,672)	$	(22,160)
Total notes payable, net of discounts, premiums and debt issuance costs	$	1,317,524	$	1,431,110

(1) $26.0 million of 8.0% Senior Notes due 2027 (the "8.0% 2027 Notes") are owned by a wholly-owned consolidated subsidiary of HEI. Therefore, in accordance with GAAP, such notes are not reflected on the Condensed Consolidated Balance Sheets of HEI. On November 1, 2019, the maturity of the 8.0% 2027 Notes was extended to November 1, 2027.

(2) At July 31, 2021, provides for up to $125.0 million in aggregate amount of senior secured first lien revolving loans. Availability thereunder will terminate on December 28, 2022.

Except for K. Hovnanian, the issuer of the notes and borrower under the Credit Facilities (as defined below), our home mortgage subsidiaries, certain of our title insurance subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures, we and each of our subsidiaries are guarantors of the Credit Facilities, the senior secured notes (except that certain of the Notes Guarantors (as defined below) do not guarantee the 10.5% Senior Secured Notes due 2024 as discussed in Note 12 to the Condensed and Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q subject and senior notes (except for the 8.0% 2027 Notes which are not guaranteed by K. Hovnanian at Sunrise Trail III, LLC, a wholly-owned subsidiary of the Company) outstanding at July 31, 2021 (collectively, the “Notes Guarantors”).

The credit agreements governing the Credit Facilities and the indentures governing the senior secured and senior notes (together, the “Debt Instruments”) outstanding at July 31, 2021 do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the ability of HEI and certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than non-recourse indebtedness, certain permitted indebtedness and refinancing indebtedness), pay dividends and make distributions on common and preferred stock, repay certain indebtedness prior to its respective stated maturity, repurchase (including through exchanges) 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 of their assets and enter into certain transactions with affiliates. The Debt Instruments also contain customary events of default which would permit the lenders or holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Unsecured Term Loan Facility (defined below) (the “Unsecured Term Loans”), loans made under the Secured Term Loan Facility (defined below) (the “Secured Term Loans”) and loans made under the Secured Credit Agreement (as defined below) (the “Secured Revolving Loans”) or notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the Unsecured Term Loans, Secured Term Loans, Secured Revolving Loans or 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 Unsecured Term Loans, Secured Term Loans and Secured Revolving Loans, material inaccuracy of representations and warranties and with respect to the Unsecured Term Loans, Secured Term Loans and Secured Revolving Loans, a change of control, and, with respect to the Secured Term Loans, Secured Revolving Loans and senior secured notes, the failure of the documents granting security for the obligations under the secured Debt Instruments to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the obligations under the secured Debt Instruments to be valid and perfected. As of July 31, 2021, we believe we were in compliance with the covenants of the Debt Instruments.

If our consolidated fixed charge coverage ratio is less than 2.0 to 1.0, as defined in the applicable Debt Instrument, we are restricted from making certain payments, including dividends (in the case of the payment of dividends, our secured debt leverage ratio must also be less than 4.0 to 1.0), 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. 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 Instruments, we have the right to make certain redemptions and prepayments and, depending on market conditions, our strategic priorities and covenant restrictions, may do so from time to time. We also continue to actively analyze and evaluate our capital structure and explore transactions to simplify our capital structure and to strengthen our balance sheet, including those that reduce leverage, interest rates and/or extend maturities, and will seek to do so with the right opportunity. We may also continue to make debt purchases and/or exchanges for debt or equity from time to time through tender offers, exchange offers, redemptions, 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 or other capital raising or refinancing 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, even if market conditions, including then-current market available interest rates (in recent years, we have not been able to access the traditional capital and bank lending markets at competitive interest rates due to our highly leveraged capital structure), would otherwise be favorable, which could also impact our ability to grow our business.

We have certain stand-alone cash collateralized letter of credit agreements and facilities under which there was a total of $9.8 million and $11.3 million letters of credit outstanding at July 31, 2021 and October 31, 2020, respectively. These agreements and facilities require us to maintain specified amounts of cash as collateral in segregated accounts to support the letters of credit issued thereunder, which will affect the amount of cash we have available for other uses. At July 31, 2021 and October 31, 2020, the amount of cash collateral in these segregated accounts was $10.0 million and $11.6 million, respectively, which is reflected in “Restricted cash and cash equivalents” on the Condensed Consolidated Balance Sheets.

See Note 12 to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion of the Unsecured Term Loans, the Secured Term Loans and Secured Revolving Loans and K. Hovnanian’s senior secured notes and senior notes, including information with respect to the collateral securing our secured Debt Instruments.

Mortgages and Notes Payable

We have nonrecourse mortgage loans for certain communities totaling $118.0 million and $135.1 million (net of debt issuance costs) at July 31, 2021 and October 31, 2020, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of $421.9 million and $368.1 million, respectively. The weighted-average interest rate on these obligations was 4.8% and 6.4% at July 31, 2021 and October 31, 2020, respectively, and the mortgage loan payments on each community primarily correspond to home deliveries.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. 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. The loans are secured by the mortgages held for sale and are repaid when we sell the underlying mortgage loans to permanent investors. As of July 31, 2021 and October 31, 2020, we had an aggregate of $116.4 million and $87.2 million, respectively, outstanding under several of K. Hovnanian Mortgage’s short-term borrowing facilities.

See Note 11 to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion of these agreements.

Inventory Activities

Total inventory, excluding consolidated inventory not owned, increased $201.7 million during the nine months ended July 31, 2021 from October 31, 2020. Total inventory, excluding consolidated inventory not owned, increased in the Northeast by $34.5 million, in the Mid-Atlantic by $0.4 million, in the Midwest by $16.3 million, in the Southeast by $37.6 million and in the Southwest by $118.9 million. The increase was partially offset by a decrease in the West of $6.0 million. The net increase was primarily attributable to new land purchases and land development, partially offset by home deliveries during the period. During the nine months ended July 31, 2021, we recorded impairment losses for three communities in the amount of $2.0 million, and wrote-off costs in the amount of $1.3 million related to land options that expired or that we terminated, as the communities' forecasted profitability was not projected to produce adequate returns on investment commensurate with the risk. In the last few years, we have been able to acquire new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. This trend may not continue in either the near or the long term. Substantially all homes under construction or completed and included in inventory at July 31, 2021 are expected to be delivered during the next six to nine months.

Consolidated inventory not owned decreased $84.1 million. Consolidated inventory not owned consists of options related to land banking and model financing transactions that were added to our Condensed Consolidated Balance Sheet in accordance with US GAAP. The decrease from October 31, 2020 to July 31, 2021 was primarily due to a decrease in land banking transactions and a decrease in the sale and leaseback of certain model homes during the period. We have land banking arrangements, whereby we sell 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 606-10-55-70, these transactions are considered a financing rather than a sale. For purposes of our Condensed Consolidated Balance Sheet, at July 31, 2021, inventory of $62.1 million was recorded to "Consolidated inventory not owned," with a corresponding amount of $34.7 million (net of debt issuance costs) recorded to "Liabilities from inventory not owned" for the amount of net cash received from the transactions. In addition, 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 606-10-55-68, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Condensed Consolidated Balance Sheet, at July 31, 2021, inventory of $36.0 million was recorded to "Consolidated inventory not owned," with a corresponding amount of $34.9 million (net of debt issuance costs) recorded to "Liabilities from inventory not owned" for the amount of net cash received from the transactions.

When possible, we option property for development prior to acquisition. By optioning property, we are only subject to the loss of the cost of the option and predevelopment costs if we choose not to exercise the option. As a result, our commitment for major land acquisitions is reduced. The costs associated with optioned properties are included in "Land and land options held for future development or sale" on the Condensed Consolidated Balance Sheets. Also included in "Land and land options held for future development or sale" are amounts associated with inventory in mothballed communities. We mothball (or stop development on) certain communities when we determine the current performance does not justify further investment at the time. That is, we believe we will generate higher returns if we decide against spending money to improve land today and save the raw land until such time as the markets improve or we determine to sell the property. As of July 31, 2021, we had mothballed land in eight communities. The book value associated with these communities at July 31, 2021 was $4.4 million, which was net of impairment charges recorded in prior periods of $61.5 million. We continually review communities to determine if mothballing is appropriate. During the first three quarters of fiscal 2021, we did not mothball any additional communities, but we sold two previously mothballed communities and we re-activated two previously mothballed communities and portions of two previously mothballed communities.

Inventories held for sale, which are land parcels where we have decided not to build homes and are actively marketing the land for sale, represented $0.1 million and $2.0 million of our total inventories held for sale at July 31, 2021 and October 31, 2020, respectively, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

The following tables summarize home sites included in our total residential real estate. The increase in total home sites available at July 31, 2021 compared to October 31, 2020 is attributable to acquiring new land parcels, partially offset by delivering homes and terminating certain option agreements during the period.

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
July 31, 2021:				
Northeast	6	753	2,626	3,379
Mid-Atlantic	12	2,083	5,847	7,930
Midwest	9	1,199	972	2,171
Southeast	18	1,885	2,059	3,944
Southwest	45	4,717	5,142	9,859
West	14	2,277	1,825	4,102
Consolidated total	104	12,914	18,471	31,385
Unconsolidated joint ventures (2)	17	4,186	-	4,186
Owned		7,631	2,838	10,469
Optioned		4,900	15,633	20,533
Controlled lots		12,531	18,471	31,002
Construction to permanent financing lots		383	-	383
Consolidated total		12,914	18,471	31,385

(1) Active communities are open for sale communities with ten or more home sites available. We identify communities based on product type. Therefore, at times there are multiple communities at one land site.

(2) Represents active communities and home sites for our unconsolidated homebuilding joint ventures for the period. We provide this data as a supplement to our consolidated results as an indicator of the volume managed in our unconsolidated joint ventures. See Note 18 to the Condensed Consolidated Financial Statements for a further discussion of our unconsolidated joint ventures.

	Active Communities(1)	Active Communities Homes	Proposed Developable Homes	Total Homes
October 31, 2020:				
Northeast	2	424	2,619	3,043
Mid-Atlantic	17	2,164	3,764	5,928
Midwest	11	1,267	899	2,166
Southeast	9	1,599	1,472	3,071
Southwest	52	4,451	3,190	7,641
West	25	2,000	2,495	4,495
Consolidated total	116	11,905	14,439	26,344
Unconsolidated joint ventures (2)	20	4,724	-	4,724
Owned		6,008	3,737	9,745
Optioned		5,602	10,702	16,304
Controlled lots		11,610	14,439	26,049
Construction to permanent financing lots		295	-	295
Consolidated total		11,905	14,439	26,344

(1) Active communities are open for sale communities with ten or more home sites available. We identify communities based on product type. Therefore, at times there are multiple communities at one land site.

(2) Represents active communities and home sites for our unconsolidated homebuilding joint ventures for the period. We provide this data as a supplement to our consolidated results as an indicator of the volume managed in our unconsolidated joint ventures. See Note 18 to the Condensed Consolidated Financial Statements for a further discussion of our unconsolidated joint ventures.

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

	July 31, 2021			October 31, 2020:		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	6	5	11	1	5	6
Mid-Atlantic	18	19	37	31	10	41
Midwest	-	10	10	11	8	19
Southeast	17	25	42	42	17	59
Southwest	107	24	131	174	16	190
West	6	18	24	14	19	33
Total	154	101	255	273	75	348
Started or completed unsold homes and models per active selling communities (1)	1.5	1.0	2.5	2.4	0.6	3.0

(1) Active selling communities (which are communities that are open for sale with ten or more home sites available) were 104 and 116 at July 31, 2021 and October 31, 2020, respectively. This ratio does not include substantially completed communities, which are communities with less than ten home sites available.

Other Balance Sheet Activities

Investments in and advances to unconsolidated joint ventures decreased $34.3 million to $68.9 million at July 31, 2021 compared to October 31, 2020. The decrease was primarily due to our purchase of the remaining equity interest in one of our unconsolidated joint ventures in the third quarter of fiscal 2021. As a result of this transaction, we took control of four communities, including three active communities. The unconsolidated joint venture was subsequently dissolved. Also contributing to the decrease were partnership distributions during the period. These decreases were partially offset by an increase due to our entry into two new unconsolidated joint ventures during the first half of fiscal 2021. As of July 31, 2021 and October 31, 2020, we had investments in 11 and ten unconsolidated homebuilding joint ventures, respectively, and one unconsolidated land development joint venture for both periods. We have no guarantees associated with our unconsolidated joint ventures, other than guarantees limited to performance and completion of development activities, environmental indemnification and standard warranty and representation against fraud, misrepresentation and similar actions, including a voluntary bankruptcy.

Receivables, deposits and notes, net increased $4.0 million from October 31, 2020 to $37.7 million at July 31, 2021. The increase was primarily due to an increase in receivables due to the timing of home closings, along with increased escrow and municipal deposits during the period, partially offset by a receivable for a settlement which was received in the third quarter of fiscal 2021.

Prepaid expenses and other assets were as follows as of:

(In thousands)	July 31, 2021	October 31, 2020	Dollar Change
Prepaid insurance	$ 4,730	$ 2,687	$ 2,043
Prepaid project costs	26,806	28,549	(1,743)
Other prepaids	8,555	7,022	1,533
Other assets	372	431	(59)
Lease right of use asset	18,108	20,016	(1,908)
Total	$ 58,571	$ 58,705	$ (134)

Prepaid insurance increased during the nine months ended July 31, 2021 due to the timing of premium payments. These costs are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaid costs are expensed as homes are delivered. Other prepaids increased primarily due to new premiums for the renewal of certain software and related services during the period, partially offset by the amortization of these costs. Lease right of use asset represents the net present value of our operating leases which, in accordance with ASC 842, are required to be recorded as an asset on our Condensed Consolidated Balance Sheets. See Note 9 to the Condensed Consolidated Financial Statements for further information.

Financial services assets consist primarily of residential mortgages receivable held for sale of which $129.8 million and $101.8 million at July 31, 2021 and October 31, 2020, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. The increase in mortgage loans held for sale from October 31, 2020 was related to an increase in the volume of loans originated during the third quarter of 2021 compared to the fourth quarter of 2020, along with an increase in the average loan value.

Deferred tax assets, net, was $447.5 million at July 31, 2021, and zero at October 31, 2020, due to the full reversal of our federal valuation allowance and the reversal of a portion of our state valuation allowance in the second quarter of fiscal 2021.

Nonrecourse mortgages secured by inventory decreased to $118.0 million at July 31, 2021 from $135.1 million at October 31, 2020. The decrease was primarily due to the payment of existing mortgages, partially offset by additional loan borrowings on existing mortgages, along with new mortgages for communities in most of our segments obtained during the nine months ended July 31, 2021.

Accounts payable and other liabilities were as follows as of:

(In thousands)	July 31, 2021	October 31, 2020	Dollar Change
Accounts payable	$ 166,140	$ 148,541	$ 17,599
Reserves	98,302	89,985	8,317
Lease liability	19,135	21,049	(1,914)
Accrued expenses	16,815	10,680	6,135
Accrued compensation	78,821	68,641	10,180
Other liabilities	22,070	20,378	1,692
Total	$ 401,283	$ 359,274	$ 42,009

The increase in accounts payable was primarily due to an increase in construction spending, which correlates with the increase in backlog for the nine months ended July 31, 2021. Reserves increased due to new accruals primarily for warranty and construction defect claims, partially offset by claim payments during the period. Lease liability represents the net present value of our minimum lease obligations, which as discussed above, are required to be recorded on our Condensed Consolidated Balance Sheets in accordance with ASC 842. Accrued expenses increased primarily due to an accrual for a sales reward program, along with an increase in accrued property taxes. The increase in accrued compensation was primarily due to expenses associated with our 2019 LTIP plan based on the increase in our stock price during fiscal 2021, along with the accrual of fiscal 2021 bonuses, partially offset by the payment of our fiscal year 2020 bonuses during the first quarter of fiscal 2021. Other liabilities increased primarily due to deferred payroll tax withholdings during the period.

Customers' deposits increased $28.4 million from October 31, 2020 to $76.7 million at July 31, 2021. The increase was primarily related to the increase in backlog during the period.

Liabilities from inventory not owned decreased $61.6 million to $69.6 million at July 31, 2021. The decrease was primarily due to a decrease in land banking activity during the period and a decrease in the sale and leaseback of certain model homes, both accounted for as financing transactions as described above.

Financial Services (liabilities) increased $39.2 million from $119.0 million at October 31, 2020 to $158.2 million at July 31, 2021. The increase was primarily due to an increase in amounts outstanding under our mortgage warehouse lines of credit and directly correlates to the increase in the volume of mortgage loans held for sale during the period.

Accrued interest increased $11.9 million from $35.6 million at October 31, 2020, to $47.5 at July 31, 2021. The increase was primarily due to timing of new accruals, partially offset by payments, related to our senior notes during the period.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2021 COMPARED TO THE THREE AND NINE MONTHS ENDED JULY 31, 2020

Total Revenues

Compared to the same prior period, revenues increased as follows:

	Three Months Ended			
(Dollars in thousands)	July 31, 2021	July 31, 2020	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	$ 663,279	$ 605,933	$ 57,346	9.5%
Land sales and other revenues	7,559	908	6,651	732.5%
Financial services	19,845	21,295	(1,450)	(6.8)%
Total revenues	$ 690,683	$ 628,136	$ 62,547	10.0%

	Nine Months Ended			
(Dollars in thousands)	July 31, 2021	July 31, 2020	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	$ 1,894,159	$ 1,608,513	$ 285,646	17.8%
Land sales and other revenues	13,280	2,360	10,920	462.7%
Financial services	61,070	49,670	11,400	23.0%
Total revenues	$ 1,968,509	$ 1,660,543	$ 307,966	18.5%

Homebuilding

For the three and nine months ended July 31, 2021, sale of homes revenues increased $57.3 million, or 9.5%, and $285.6 million, or 17.8%, respectively, as compared to the same periods of the prior year. These increases were primarily due to a 13.5% and 7.6% increase in the average price per home for the three and nine months ended July 31, 2021, respectively, compared with the respective prior year periods. The average price per home increased to $442,776 in the three months ended July 31, 2021 from $390,169 in the three months ended July 31, 2020. The average price per home increased to $420,831 in the nine months ended July 31, 2021 from $390,985 in the nine months ended July 31, 2020. The increase in average price was the result of increases in home prices in virtually all of our markets along with the geographic and community mix of our deliveries. Also, impacting the increase in sale of homes revenues for the nine months ended July 31, 2021 was a 9.4% increase in the number of home deliveries compared to the prior year period. Land sales are ancillary to our homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. For further details on the decrease in land sales and other revenues, see the section titled “Land Sales and Other Revenues” below.

Information on homes delivered by segment is set forth below:

	Three Months Ended July 31,			Nine Months Ended July 31,		
(Dollars in thousands)	2021	2020	% Change	2021	2020	% Change
Northeast:						
Dollars	$ 35,255	$ 41,354	(14.7)%	$ 95,157	$ 133,409	(28.7)%
Homes	44	95	(53.7)%	139	270	(48.5)%
Mid-Atlantic:						
Dollars	$ 106,195	$ 111,160	(4.5)%	$ 311,230	$ 288,426	7.9%
Homes	189	213	(11.3)%	581	536	8.4%
Midwest:						
Dollars	$ 60,588	$ 62,901	(3.7)%	$ 181,191	$ 165,836	9.3%
Homes	190	197	(3.6)%	576	540	6.7%
Southeast:						
Dollars	$ 61,978	$ 65,595	(5.5)%	$ 188,489	$ 158,592	18.9%
Homes	139	155	(10.3)%	408	379	7.7%
Southwest:						
Dollars	$ 212,773	$ 214,608	(0.9)%	$ 620,120	$ 548,796	13.0%
Homes	593	641	(7.5)%	1,808	1,649	9.6%
West:						
Dollars	$ 186,490	$ 110,315	69.1%	$ 497,972	$ 313,454	58.9%
Homes	343	252	36.1%	989	740	33.6%
Consolidated total:						
Dollars	$ 663,279	$ 605,933	9.5%	$ 1,894,159	$ 1,608,513	17.8%
Homes	1,498	1,553	(3.5)%	4,501	4,114	9.4%
Unconsolidated joint ventures (1)						
Dollars	$ 102,262	$ 132,014	(22.5)%	$ 264,442	$ 330,559	(20.0)%
Homes	179	228	(21.5)%	453	565	(19.8)%

(1) Represents housing revenues and home deliveries for our unconsolidated homebuilding joint ventures for the period. We provide this data as a supplement to our consolidated results as an indicator of the volume managed in our unconsolidated joint ventures. See Note 18 to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a further discussion of our unconsolidated joint ventures.

As discussed above, the overall increase in consolidated housing revenues during the three and nine months ended July 31, 2021 as compared to the same periods of the prior year was attributed to the increase in average sales price, due to raising prices in virtually all of our markets, and the geographic and community mix of deliveries.

An important indicator of our future results are recently signed contracts and our home contract backlog for future deliveries. Our sales contracts and homes in contract backlog by segment are set forth below:

	Net Contracts (1) for the Three Months Ended July 31,		Net Contracts (1) for the Nine Months Ended July 31,		Contract Backlog as of July 31,	
(Dollars in thousands)	2021	2020	2021	2020	2021	2020
Northeast:						
Dollars	$ 52,066	$ 51,586	$ 135,684	$ 107,855	$ 122,638	$ 61,002
Homes	62	102	169	231	160	113
Mid-Atlantic:						
Dollars	$ 117,341	$ 152,511	$ 414,059	$ 374,865	$ 361,329	$ 269,972
Homes	176	307	647	737	572	523
Midwest:						
Dollars	$ 56,848	$ 79,394	$ 216,775	$ 192,171	$ 205,101	$ 149,016
Homes	165	263	628	624	648	534
Southeast:						
Dollars	$ 58,522	$ 79,846	$ 223,201	$ 195,512	$ 211,859	$ 145,947
Homes	124	172	487	436	440	304
Southwest:						
Dollars	$ 196,481	$ 260,891	$ 783,924	$ 626,817	$ 524,029	$ 308,918
Homes	469	814	2,034	1,924	1,292	938
West:						
Dollars	$ 127,872	$ 258,067	$ 453,557	$ 488,317	$ 325,472	$ 299,564
Homes	215	568	795	1,083	561	644
Consolidated total:						
Dollars	$ 609,130	$ 882,295	$ 2,227,200	$ 1,985,537	$ 1,750,428	$ 1,234,419
Homes	1,211	2,226	4,760	5,035	3,673	3,056
Unconsolidated joint ventures:(2)						
Dollars	$ 140,913	$ 135,869	$ 408,804	$ 384,910	$ 502,999	$ 271,222
Homes	380	374	1,112	1,078	2,065	1,030

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

(2) Represents net contract dollars, net contract homes and contract backlog dollars and homes for our unconsolidated homebuilding joint ventures for the period. We provide this data as a supplement to our consolidated results as an indicator of the volume managed in our unconsolidated joint ventures. See Note 18 to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a further discussion of our unconsolidated joint ventures.

In the first three quarters of 2021, our open for sale community count decreased to 104 from 116 at October 31, 2020, which was the net result of opening 48 new communities, closing 60 communities, contributing three active selling communities to an unconsolidated joint venture and transitioning three joint venture communities to wholly owned since the beginning of fiscal 2021. High demand accelerated the close out of our communities, which contributed to the decrease in community count. While our open for sale community count decreased from October 31, 2020, it increased sequentially from 97 at April 30, 2021 as a result of opening 17 new communities, closing 13 communities and adding three communities through the acquisition of one of our unconsolidated joint ventures during the third quarter of fiscal 2021. Our reported level of sales contracts (net of cancellations) was impacted by an increase in sales pace per community for the nine months ended July 31, 2021 as compared to the same period of the prior year. Net contracts per average active selling community for the nine months ended July 31, 2021 increased to 44.9 compared to 38.1 for the same period in the prior year, while net contracts per average active selling community for the three months ended July 31, 2021 decreased to 12.0 compared to 17.8 for the same period in the prior year. The decrease in the third quarter of fiscal 2021 as compared to the same period of the prior year was due to consciously restricting sales in many of our communities in the current period, along with the unprecedented COVID-19 surge in home demand in the third quarter of fiscal 2020.

Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures:

Quarter	2021	2020	2019	2018	2017
First	17%	19%	24%	18%	19%
Second	16%	23%	19%	17%	18%
Third	16%	18%	19%	19%	19%
Fourth		18%	21%	23%	22%

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

Quarter	2021	2020	2019	2018	2017
First	11%	14%	16%	12%	12%
Second	9%	20%	20%	15%	16%
Third	6%	21%	16%	14%	13%
Fourth		14%	14%	13%	12%

Most cancellations occur within the legal rescission period, which varies by state but is generally less than two weeks after the signing of the contract. Cancellations also occur as a result of a buyer’s failure to qualify for a mortgage, which generally occurs during the first few weeks after signing. As shown in the tables above, contract cancellations over the past several years have been within what we believe to be a normal range, with fiscal 2021 cancellation rates, in particular, being below historical norms as a result of the strong market conditions. However, it is difficult to predict what cancellation rates will be in the future.

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

Homebuilding gross margin before cost of sales interest expense and land charges is a non-GAAP financial measure. This measure should not be considered as an alternative to homebuilding gross margin determined in accordance with GAAP as an indicator of operating performance.

Management believes this non-GAAP measure enables investors to better understand our operating performance. This measure is also useful internally, helping management evaluate our operating results on a consolidated basis and relative to other companies in our industry. In particular, the magnitude and volatility of land charges for the Company, and for other homebuilders, have been significant and, as such, have made financial analysis of our industry more difficult. Homebuilding metrics excluding land charges, as well as interest amortized to cost of sales, and other similar presentations prepared by analysts and other companies are frequently used to assist investors in understanding and comparing the operating characteristics of homebuilding activities by eliminating many of the differences in companies’ respective level of impairments and levels of debt.

(Dollars in thousands)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Sale of homes	$ 663,279	$ 605,933	$ 1,894,159	$ 1,608,513
Cost of sales, excluding interest expense and land charges	516,530	499,654	1,488,919	1,323,916
Homebuilding gross margin, before cost of sales interest expense and land charges	146,749	106,279	405,240	284,597
Cost of sales interest expense, excluding land sales interest expense	17,821	21,794	56,242	58,467
Homebuilding gross margin, after cost of sales interest expense, before land charges	128,928	84,485	348,998	226,130
Land charges	1,309	2,364	3,267	6,202
Homebuilding gross margin	$ 127,619	$ 82,121	$ 345,731	$ 219,928
Homebuilding gross margin percentage	19.2%	13.6%	18.3%	13.7%
Homebuilding gross margin percentage, before cost of sales interest expense and land charges	22.1%	17.5%	21.4%	17.7%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges	19.4%	13.9%	18.4%	14.1%

Cost of sales expenses as a percentage of consolidated home sales revenues are presented below:

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Sale of homes	100.0%	100.0%	100.0%	100.0%
Cost of sales, excluding interest expense and land charges:				
Housing, land and development costs	69.6%	72.8%	70.1%	72.6%
Commissions	3.7%	3.9%	3.6%	3.7%
Financing concessions	1.0%	1.5%	1.2%	1.4%
Overheads	3.6%	4.3%	3.7%	4.6%
Total cost of sales, before interest expense and land charges	77.9%	82.5%	78.6%	82.3%
Cost of sales interest	2.7%	3.6%	3.0%	3.6%
Land charges	0.2%	0.3%	0.1%	0.4%
Homebuilding gross margin percentage	19.2%	13.6%	18.3%	13.7%
Homebuilding gross margin percentage, before cost of sales interest expense and land charges	22.1%	17.5%	21.4%	17.7%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges	19.4%	13.9%	18.4%	14.1%

We sell a variety of home types in various communities, each yielding a different gross margin. As a result, depending on the mix of communities delivering homes, consolidated gross margin may fluctuate up or down. Total homebuilding gross margin percentage increased to 19.2% during the three months ended July 31, 2021 compared to 13.6% for the same period last year and increased to 18.3% during the nine months ended July 31, 2021 compared to 13.7% for the same period last year. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, increased from 17.5% for the three months ended July 31, 2020 to 22.1% for the three months ended July 31, 2021, and increased from 17.7% for the nine months ended July 31, 2020 to 21.4% for the nine months ended July 31, 2021. The increases for the three and nine months ended July 31, 2021 for both gross margin percentage and gross margin percentage, before cost of sales interest expense and land charges, were primarily due to increases in home prices across virtually all our operating segments, along with the mix of communities delivering compared to the prior year periods.

Reflected as inventory impairment loss and land option write-offs in cost of sales, we wrote-off or wrote-down certain inventories totaling $1.3 million and $2.4 million during the three months ended July 31, 2021 and 2020, respectively, and $3.3 million and $6.2 million during the nine months ended July 31, 2021 and 2020, respectively, to their estimated fair value. During the three and nine months ended July 31, 2021, we wrote-off residential land options and approval and engineering costs amounting to $0.1 million and $1.3 million, respectively, compared to $2.4 million and $6.2 million for the three and nine months ended July 31, 2020, respectively, which are included in the total land charges discussed above. Option, approval and engineering costs are written-off when a community's pro forma profitability is not projected to produce adequate returns on the investment commensurate with the risk and when we believe it is probable we will cancel the option or when a community is redesigned engineering costs related to the initial design are written-off. Such write-offs were located in the Mid-Atlantic, Southeast, Southwest and West segments in the first three quarters of fiscal 2021 and all of our segments in the first three quarters of fiscal 2020. We recorded inventory impairments of $1.2 million and $2.0 million during the three and nine months ended July 31, 2021, respectively, which were related to two communities in the Southeast segment for the three and nine months ended July 31, 2021, and one community in the West segment for the nine months ended July 31, 2021. We did not record any inventory impairments during the three and nine months ended July 31, 2020. It is difficult to predict impairment levels, and should it become necessary or desirable to have additional land sales, lower prices, or should the estimates or expectations used in determining estimated cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments.

Land Sales and Other Revenues

Land sales and other revenues consist primarily of land and lot sales. A breakout of land and lot sales is set forth below:

(In thousands)	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Nine Months Ended July 31, 2021	Nine Months Ended July 31, 2020
Land and lot sales	$ 6,819	$ 25	$ 11,730	$ 100
Cost of sales, excluding interest	5,338	41	9,121	161
Land and lot sales gross margin, excluding interest	1,481	(16)	2,609	(61)
Land and lot sales interest expense	1,419	20	1,888	72
Land and lot sales gross margin, including interest	$ 62	$ (36)	$ 721	$ (133)

Land sales are ancillary to our residential homebuilding operations and are expected to continue in the future but may significantly fluctuate up or down. Although we budget land sales, they are often dependent upon receiving approvals and entitlements, the timing of which can be uncertain. As a result, projecting the amount and timing of land sales is difficult. Revenue associated with land sales can vary significantly due to the mix of land parcels sold. There were two land sales in the three months ended July 31, 2021 compared to one land sale in the same period of the prior year, resulting in an increase of $6.8 million in land sales revenues. There were eight land sales in the nine months ended July 31, 2021 compared to four land sales in the same period of the prior year, resulting in an increase of $11.6 million in land sales revenues.

Land sales and other revenues increased $6.7 million and $10.9 million for the three and nine months ended July 31, 2021, respectively, as compared to the same periods in the prior year. Other revenues include income from contract cancellations where the deposit has been forfeited due to contract terminations, interest income, cash discounts and miscellaneous one-time receipts. The increase for the three and nine months ended July 31, 2021, compared to the three and nine months ended July 31, 2020, was mainly due to the increase in land sales discussed above.

Homebuilding Selling, General and Administrative

Homebuilding selling, general and administrative ("SGA") expenses increased $2.4 million and $3.5 million for the three and nine months ended July 31, 2021, respectively, compared to the same periods last year. The increase for the three and nine months ended July 31, 2021 was primarily due to a decrease of unconsolidated joint venture management fees received, which offset general and administrative expenses, as a result of fewer unconsolidated joint venture deliveries during the respective periods. The increase for the nine months ended July 31, 2021 was also due to an increase in compensation expense, mostly attributed to our long-term incentive programs now forecasted to achieve above target metrics as a result of the recent improved operating results and our higher stock price. SGA expenses as a percentage of homebuilding revenues decreased to 6.4% and 6.6% for the three and nine months ended July 31, 2021, respectively, compared to 6.7% and 7.6% for the three and nine months ended July 31, 2020, respectively, as a result of the 10.5% and 18.4% increase in homebuilding revenue for the same periods, respectively.

HOMEBUILDING OPERATIONS BY SEGMENT

Segment Analysis

	Three Months Ended July 31,			
(Dollars in thousands, except average sales price)	2021	2020	Variance	Variance %
Northeast				
Homebuilding revenue	$ 35,255	$ 41,370	$ (6,115)	(14.8)%
Income before income taxes	$ 6,765	$ 5,240	$ 1,525	29.1%
Homes delivered	44	95	(51)	(53.7)%
Average sales price	$ 801,250	$ 435,305	$ 365,945	84.1%
Mid-Atlantic				
Homebuilding revenue	$ 106,419	$ 111,402	$ (4,983)	(4.5)%
Income before income taxes	$ 15,907	$ 11,024	$ 4,883	44.3%
Homes delivered	189	213	(24)	(11.3)%
Average sales price	$ 561,878	$ 521,878	$ 40,000	7.7%
Midwest				
Homebuilding revenue	$ 60,659	$ 63,003	$ (2,344)	(3.7)%
Income before income taxes	$ 3,358	$ 765	$ 2,593	339.0%
Homes delivered	190	197	(7)	(3.6)%
Average sales price	$ 318,884	$ 319,294	$ (410)	(0.1)%
Southeast				
Homebuilding revenue	$ 68,854	$ 65,790	$ 3,064	4.7%
Income (loss) before income taxes	$ 2,682	$ (253)	$ 2,935	1,160.1%
Homes delivered	139	155	(16)	(10.3)%
Average sales price	$ 445,885	$ 423,194	$ 22,691	5.4%
Southwest				
Homebuilding revenue	$ 213,127	$ 214,918	$ (1,791)	(0.8)%
Income before income taxes	$ 28,523	$ 20,072	$ 8,451	42.1%
Homes delivered	593	641	(48)	(7.5)%
Average sales price	$ 358,808	$ 334,802	$ 24,006	7.2%
West				
Homebuilding revenue	$ 186,519	$ 110,323	$ 76,196	69.1%
Income before income taxes	$ 27,189	$ 226	$ 26,963	11,930.5%
Homes delivered	343	252	91	36.1%
Average sales price	$ 543,703	$ 437,758	$ 105,945	24.2%

(Dollars in thousands, except average sales price)	Nine Months Ended July 31, 2021	2020	Variance	Variance %
Northeast				
Homebuilding revenue	$ 97,488	$ 133,444	$ (35,956)	(26.9)%
Income before income taxes	$ 16,427	$ 17,703	$ (1,276)	(7.2)%
Homes delivered	139	270	(131)	(48.5)%
Average sales price	$ 684,583	$ 494,107	$ 190,476	38.5%
Mid-Atlantic				
Homebuilding revenue	$ 311,564	$ 288,899	$ 22,665	7.8%
Income before income taxes	$ 38,618	$ 20,548	$ 18,070	87.9%
Homes delivered	581	536	45	8.4%
Average sales price	$ 535,680	$ 538,108	$ (2,428)	(0.5)%
Midwest				
Homebuilding revenue	$ 183,895	$ 166,120	$ 17,775	10.7%
Income (loss) before income taxes	$ 11,070	$ (3,063)	$ 14,133	461.4%
Homes delivered	576	540	36	6.7%
Average sales price	$ 314,568	$ 307,104	$ 7,464	2.4%
Southeast				
Homebuilding revenue	$ 195,545	$ 158,933	$ 36,612	23.0%
Income (loss) before income taxes	$ 9,540	$ (4,514)	$ 14,054	311.3%
Homes delivered	408	379	29	7.7%
Average sales price	$ 461,983	$ 418,449	$ 43,534	10.4%
Southwest				
Homebuilding revenue	$ 620,848	$ 549,471	$ 71,377	13.0%
Income before income taxes	$ 78,848	$ 41,744	$ 37,104	88.9%
Homes delivered	1,808	1,649	159	9.6%
Average sales price	$ 342,987	$ 332,805	$ 10,182	3.1%
West				
Homebuilding revenue	$ 498,084	$ 313,547	$ 184,537	58.9%
Income before income taxes	$ 58,729	$ 4,560	$ 54,169	1,187.9%
Homes delivered	989	740	249	33.6%
Average sales price	$ 503,511	$ 423,586	$ 79,925	18.9%

Homebuilding Results by Segment

Northeast - Homebuilding revenues decreased 14.8% for the three months ended July 31, 2021 compared to the same period of the prior year. The decrease for the three months ended July 31, 2021 was attributed to a 53.7% decrease in homes delivered, partially offset by a 84.1% increase in average sales price. The increase in average sales price was mainly the result of price increases in certain communities.

Income before income taxes increased $1.5 million to $6.8 million for the three months ended July 31, 2021 as compared to the prior year period. This was primarily due to a $1.2 million decrease in inventory impairment loss and land option write-offs and an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year.

Homebuilding revenues decreased 26.9% for the nine months ended July 31, 2021 compared to the same period of the prior year. The decrease was attributed to a 48.5% decrease in homes delivered, partially offset by a 38.5% increase in average sales price. The increase in average sales price was mainly the result of price increases in certain communities.

Income before income taxes decreased $1.3 million to $16.4 million for the nine months ended July 31, 2021 as compared to the prior year period. This was primarily due to the decrease in homebuilding revenues discussed above and a $7.7 million decrease in income from unconsolidated joint ventures and a $0.7 million increase in selling, general and administrative costs, partially offset by an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year.

Mid-Atlantic - Homebuilding revenues decreased 4.5% for the three months ended July 31, 2021 compared to the same period in the prior year period. The decrease was primarily due to an 11.3% decrease in homes delivered, partially offset by a 7.7% increase in average sales price for the three months ended July 31, 2021 compared to the same period in the prior year. The increase in average sales price was mainly the result of price increases in certain communities.

Income before income taxes increased $4.9 million to $15.9 million for the three months ended July 31, 2021 compared to the same period in the prior year. This was primarily due to an increase in gross margin percentage before interest expense for the three months ended July 31, 2021 compared to the same period of the prior year.

Homebuilding revenues increased 7.8% for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase was primarily due to an 8.4% increase in homes delivered, while average sales price was essentially flat with a 0.5% decrease for the nine months ended July 31, 2021.

Income before income taxes increased $18.1 million to $38.6 million for the nine months ended July 31, 2021 as compared to the prior year period, which was primarily due to the increase in homebuilding revenues discussed above, a $0.2 million decrease in selling, general and administrative costs and an increase in gross margin percentage before interest expense.

Midwest - Homebuilding revenues decreased 3.7% for the three months ended July 31, 2021 compared to the same period in the prior year. The decrease was due to a 3.6% decrease in homes delivered while average sales price was essentially flat with a 0.1% decrease for the nine months ended July 31, 2021.

Income before income taxes increased $2.6 million to $3.4 million for the three months ended July 31, 2021 compared to the same period in the prior year. The increase was primarily due to a $0.8 million decrease in selling, general and administrative costs and a $0.7 million decrease in inventory impairment loss and land option write-offs, while gross margin percentage before interest expense was flat compared with the same period of the prior year.

Homebuilding revenues increased 10.7% for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase was primarily due to a 6.7% increase in homes delivered and a 2.4% increase in the average sales price. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes and townhomes in higher-end submarkets of the segment in the nine months ended July 31, 2021 compared to some communities delivering in the nine months ended July 31, 2020 that had lower priced, single family homes in lower-end submarkets of the segment that are no longer delivering. Also impacting the increase in the average sales price was price increases in certain communities.

Loss before income taxes improved $14.1 million to income of $11.1 million for the nine months ended July 31, 2021 as compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above, a $3.3 million decrease in selling, general and administrative costs, a $3.5 million decrease in inventory impairment loss and land option write-offs and a slight increase in gross margin percentage before interest expense.

Southeast – Homebuilding revenues increased 4.7% for the three months ended July 31, 2021 compared to the same period in the prior year. The increase was due to a 5.4% increase in average sales price and a $6.7 million increase in land sales and other revenue, partially offset by a 10.3% decrease in homes delivered. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in the three months ended July 31, 2021 compared to some communities delivering in the three months ended July 31, 2020 that had lower priced, smaller single family homes and townhomes in lower-end submarkets of the segment that are no longer delivering. Also impacting the increase in the average sales price was price increases in certain communities.

Loss before income taxes improved $2.9 million to income of $2.7 million for the three months ended July 31, 2021 compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above and an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year.

Homebuilding revenues increased 23.0% for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase for the nine months ended July 31, 2021 was due to a 7.7% increase in homes delivered, a 10.4% increase in average sales price and a $6.7 million increase in land sales and other revenue. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in the nine months ended July 31, 2021 compared to some communities delivering in the nine months ended July 31, 2020 that had lower priced, smaller single family homes and townhomes in lower-end submarkets of the segment that are no longer delivering. Also impacting the increase in the average sales price was price increases in certain communities.

Loss before income taxes improved $14.1 million to income of $9.5 million for the nine months ended July 31, 2021 compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above, a $1.9 million increase in income from unconsolidated joint ventures and an increase in gross margin percentage before interest expense.

Southwest - Homebuilding revenues decreased 0.8% for the three months ended July 31, 2021 compared to the same period in the prior year. The slight decrease in homebuilding revenues was primarily due to a 7.5% decrease in homes delivered, partially offset by a 7.2% increase in average sales price. The increase in the average sales price was due to price increases in certain communities.

Income before income taxes increased $8.5 million to $28.5 million for the three months ended July 31, 2021 compared to the same period in the prior year. The increase was primarily due to a $0.5 million increase in income from unconsolidated joint ventures and an increase in gross margin percentage before interest expense for the three months ended July 31, 2021 compared to the same period of the prior year.

Homebuilding revenues increased 13.0% for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase was primarily due to a 9.6% increase in homes delivered and a 3.1% increase in average sales price. The increase in the average sales price was due to price increases in certain communities.

Income before income taxes increased $37.1 million to $78.8 million for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase was due to the increase in homebuilding revenues discussed above, a $0.4 million increase in income from unconsolidated joint ventures and an increase in gross margin percentage before interest expense for the nine months ended July 31, 2021 compared to the same period of the prior year.

West – Homebuilding revenues increased 69.1% for the three months ended July 31, 2021 compared to the same period in the prior year. The increase was due to a 36.1% increase in homes delivered and a 24.2% increase in average sales price. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in the three months ended July 31, 2021 compared to some communities delivering in the three months ended July 31, 2020 that had lower priced, smaller single family homes in lower-end submarkets of the segment that are no longer delivering. Also impacting the increase in the average sales price was price increases in certain communities.

Income before income taxes increased $27.0 million to $27.2 million for the three months ended July 31, 2021 compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above and an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year.

Homebuilding revenues increased 58.9% for the nine months ended July 31, 2021 compared to the same period in the prior year. The increase was due to a 33.6% increase in homes delivered and a 18.9% increase in average sales price. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in the nine months ended July 31, 2021 compared to some communities delivering in the nine months ended July 31, 2020 that had lower priced, smaller single family homes in lower-end submarkets of the segment that are no longer delivering. Also impacting the increase in the average sales price was price increases in certain communities.

Income before income taxes increased $54.2 million to $58.7 million for the nine months ended July 31, 2021 compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above and an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year, partially offset by a $1.3 million increase in inventory impairment loss and land option write-offs.

Financial Services

Financial services consist primarily of originating mortgages from our home buyers, selling such mortgages in the secondary market, and title insurance activities. We use mandatory investor commitments and forward sales of mortgage-backed securities (“MBS”) to hedge our mortgage-related interest rate exposure on agency and government loans. These instruments involve, to varying degrees, elements of credit and interest rate risk. Credit risk associated with MBS forward commitments and loan sales transactions is managed by limiting our counterparties to investment banks, federally regulated bank affiliates and other investors meeting our credit standards. Our risk, in the event of default by the purchaser, is the difference between the contract price and fair value of the MBS forward commitments. For the first three quarters of fiscal 2021 and 2020, Federal Housing Administration and Veterans Administration (“FHA/VA”) loans represented 29.6% and 30.2%, respectively, of our total loans. The origination of FHA/VA loans decreased slightly from the first three quarters of fiscal 2020 to the first three quarters of fiscal 2021, and our conforming conventional loan originations as a percentage of our total loans increased from 68.4% to 69.7% for these periods, respectively. The origination of loans which exceed conforming conventions decreased from 1.4% for the first three quarters of fiscal 2020 to 0.7% for the first three quarters of fiscal 2021. Profits and losses relating to the sale of mortgage loans are recognized when legal control passes to the buyer of the mortgage and the sales price is collected.

During the three and nine months ended July 31, 2021, financial services provided a $8.6 million and $28.1 million pretax profit, respectively, compared to $10.8 million and $20.0 million, respectively, of pretax profit for the same periods of fiscal 2020. The decrease in pretax profit for the three months ended July 31, 2021 was attributed to the decrease in the homebuilding deliveries and a decrease in the basis point spread between the loans originated and the implied rate from the sale of the loans. The increase in pretax profit for the nine months ended July 31, 2021 was attributed to the increase in the homebuilding deliveries and an increase in the average price of the loans settled. Also impacting the increase for the nine months ended July 31, 2021, was the increase in the basis point spread between the loans originated and the implied rate from the sale of the loans. In the market areas served by our wholly owned mortgage banking subsidiaries, 65.6% and 68.2% of our noncash homebuyers obtained mortgages originated by these subsidiaries during the three months ended July 31, 2021 and 2020, respectively, and 68.6% of our noncash homebuyers obtained mortgages originated by these subsidiaries for both the nine months ended July 31, 2021 and 2020, respectively.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in New Jersey. These expenses include payroll, stock compensation, facility costs and rent and other costs associated with our executive offices, legal expenses, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, national and digital marketing, construction services and administration of insurance, quality and safety. Corporate general and administrative expenses decreased to $17.3 million for the three months ended July 31, 2021 compared to $19.3 million for the three months ended July 31, 2020 and increased to $81.1 million for the nine months ended July 31, 2021 compared to $54.3 million for the nine months ended July 31, 2020. The decrease for the three months ended July 31, 2021 was due to a reduction in reserves for self-insured medical claims, which were reduced based on actual claims, as well a decrease in compensation expense related to the grants of phantom stock awards under our 2019 Long Term Incentive Plan (“2019 LTIP”), which expense decreased due to the decrease in our stock price during the period. The increase for the nine months ended July 31, 2021 was primarily due to an increase in compensation expense, mainly related to the grants of phantom stock awards under our 2019 LTIP which expense increased due to the significant increase in our stock price from $51.16 at January 31, 2021 to $104.39 at July 31, 2021. Had equity shares rather than phantom shares been utilized for the 2019 LTIP, there would not have been expenses related to the movement in our stock price.

Other Interest

Other interest decreased $7.9 million for the three months ended July 31, 2021 compared to the three months ended July 31, 2020 and decreased $13.8 million for the nine months ended July 31, 2021 compared to the nine months ended July 31, 2020 primarily due to the decrease in nonrecourse mortgages and inventory financing arrangements at July 31, 2021 compared to July 31, 2020. Our assets that qualify for interest capitalization (inventory under development) are less than our debt, and therefore the portion of interest not covered by qualifying assets is directly expensed.

(Loss) Gain on Extinguishment of Debt

On July 30, 2021, the Company redeemed in full all of the $111.2 million aggregate principal amount of 10.0% 2022 Notes. The aggregate purchase price for this redemption was $111.7 million, which included accrued and unpaid interest. This redemption resulted in a loss on extinguishment of debt of $0.3 million for the three months ended July 31,2021, net of the write-off of unamortized financing costs and fees. The loss from the redemption is included in the Condensed Consolidated Statement of Operations as "Loss on extinguishment of debt".

On December 10, 2019, the Company entered into a credit agreement providing for $81.5 million of senior secured 1.75 lien term loans in exchange for $163.0 million of senior unsecured term loans. On December 10, 2019, the Company also issued $158.5 million of 10.0% Senior Secured 1.75 Lien Notes due 2025 in exchange for $23.2 million of 10.0% Senior Secured Notes due 2022 and $141.7 million 10.5% Senior Secured Notes due 2024. These transactions were accounted for in accordance with ASC 470-60, resulting in a gain on extinguishment of debt of $9.5 million. Additional costs incurred pertaining to this transaction resulted in a $0.2 million and less than $0.1 million loss on extinguishment of debt during the three months ended April 30, 2020 and July 31, 2020, respectively. During the three months ended July 31, 2020, the Company repurchased in open market transactions $25.5 million aggregate principal amount of 10.0% 2022 Notes. The aggregate repurchase price for these repurchases was $21.4 million, which included accrued and unpaid interest. These repurchases resulted in a gain on extinguishment of debt of $4.1 million for the three months ended July 31, 2020, net of the write-off of unamortized financing costs and fees. The gains from the repurchases are included in the Condensed Consolidated Statement of Operations as "Gain of extinguishment of debt".

Income from Unconsolidated Joint Ventures

Income from unconsolidated joint ventures consists of our share of the earnings or losses of our unconsolidated joint ventures. Income from unconsolidated joint ventures decreased $0.6 million to $5.0 million for the three months ended July 31, 2021 and decreased $3.9 million to $9.6 million for the nine months ended July 31, 2021 compared to the same respective periods of the prior year. The decrease was primarily due to the recognition of our share of income from certain of our joint ventures delivering fewer homes in the current fiscal year as compared to the prior fiscal year.

Total Taxes

The total income tax expense for the three months ended July 31, 2021 was $14.1 million, primarily related to federal tax expense from pretax income generated during the third quarter of fiscal 2021 and state tax expense from income generated in states where we do not have net operating loss carryforwards to offset the current year income. The total income tax benefit for the nine months ended July 31, 2021 was $442.9 million, primarily due to the reversal of a substantial portion of our valuation allowance previously recorded against our deferred tax assets, as discussed in Note 16 to the Condensed Consolidated Financial Statements.

Inflation

Inflation has a long-term effect, because increasing costs of land, materials and labor result in increasing sale prices of our homes. In general, these price increases have been commensurate with the general rate of inflation in our housing markets and have not had a significant adverse effect on the sale of our homes. A significant risk faced by the housing industry generally is that rising house construction costs, including land and interest costs, will substantially outpace increases in the income of potential purchasers and therefore limit our ability to raise home sale prices, which may result in lower gross margins.

Inflation has a lesser short-term effect, because we generally negotiate fixed-price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represented approximately 52.9% of our homebuilding cost of sales for the nine months ended July 31, 2021.

Safe Harbor Statement

All statements in this Quarterly Report on Form 10-Q that are not historical facts should be considered as “Forward-Looking Statements” within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. 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. Such forward-looking statements include but are not limited to statements related to the Company's goals and expectations with respect to its financial results for future financial periods. 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. By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as result of a variety of factors. Such risks, uncertainties and other factors include, but are not limited to:

- The outbreak and spread of COVID-19 and the measures that governments, agencies, law enforcement and/or health authorities implement to address it;
- Changes in general and local economic, industry and business conditions and impacts of a significant homebuilding downturn;
- Adverse weather and other environmental conditions and natural disasters;
- The seasonality of the Company’s business;
- The availability and cost of suitable land and improved lots and sufficient liquidity to invest in such land and lots;
- Shortages in, and price fluctuations of, raw materials and labor, including due to changes in trade policies, including the imposition of tariffs and duties on homebuilding materials and products and related trade disputes with and retaliatory measures taken by other countries;
- Reliance on, and the performance of, subcontractors;
- Regional and local economic factors, including dependency on certain sectors of the economy, and employment levels affecting home prices and sales activity in the markets where the Company builds homes;
- Increases in cancellations of agreements of sale;
- Fluctuations in interest rates and the availability of mortgage financing;
- Changes in tax laws affecting the after-tax costs of owning a home;
- Legal claims brought against us and not resolved in our favor, such as product liability litigation, warranty claims and claims made by mortgage investors;
- Levels of competition;
- Utility shortages and outages or rate fluctuations;
- Information technology failures and data security breaches;
- Negative publicity;
- High leverage and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;
- Availability and terms of financing to the Company;
- The Company's sources of liquidity;
- Changes in credit ratings;
- Government regulations, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment;
- Operations through unconsolidated joint ventures with third parties;
- Significant influence of the Company’s controlling stockholders;
- Availability of net operating loss carryforwards; and
- Loss of key management personnel or failure to attract qualified personnel.

Certain risks, uncertainties and other factors are described in detail in Part I, Item 1 “Business” and Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A primary market risk facing us is interest rate risk on our long-term debt, including debt instruments at variable interest rates. In connection with our mortgage operations, mortgage loans held for sale and the associated mortgage warehouse lines of credit under our Master Repurchase Agreements are subject to interest rate risk; however, such obligations reprice frequently and are short-term in duration. In addition, we hedge the interest rate risk on mortgage loans by obtaining forward commitments from private investors. Accordingly, the interest rate risk from mortgage loans is not material. We do not use financial instruments to hedge interest rate risk except with respect to mortgage loans. We are also subject to foreign currency risk but we do not believe this risk is material. The following table sets forth as of July 31, 2021, our long-term debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair value ("FV").

	Long Term Debt as of July 31, 2021 by Fiscal Year of Expected Maturity Date							
(Dollars in thousands)	2021	2022	2023	2024	2025	Thereafter	Total	FV at 7/31/21
Long term debt(1)(2):								
Fixed rate	$ -	$ -	$ -	$ 69,683	$ -	$ 1,254,852	$ 1,324,535	$ 1,336,652
Weighted average interest rate	-%	-%	-%	10.50%	-%	9.38%	9.48%	

(1) Does not include the mortgage warehouse lines of credit made under our Master Repurchase Agreements. Also, does not include our $125.0 million Secured Credit Facility under which there were no borrowings outstanding as of July 31, 2021.
(2) Does not include $118.0 million of nonrecourse mortgages secured by inventory. These mortgages have various maturities spread over the next two to three years and are paid off as homes are delivered.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of July 31, 2021. Based upon that evaluation and subject to the foregoing, the Company's chief executive officer and chief financial officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to accomplish their objectives.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended July 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Information with respect to legal proceedings is incorporated into this Part II, Item 1 from Note 7 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Recent Sales of Unregistered Equity Securities

None.

Issuer Purchases of Equity Securities

No shares of our Class A Common Stock or Class B Common Stock were purchased by or on behalf of the Company or any affiliated purchaser during the fiscal third quarter of 2021. The maximum number of shares that may be purchased under the Company's repurchase plans or programs is 22 thousand.

Dividends

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

Item 5. OTHER INFORMATION

On September 7, 2021, the Board of Directors of HEI approved an amendment and restatement of HEI's Amended and Restated By-laws (as so amended and restated, the "Bylaws"), which changes were effective immediately upon approval. The Bylaws were amended and restated to include a provision designating the Delaware Court of Chancery as the exclusive forum for stockholder claims and the U.S. federal district courts as the exclusive forum for claims under the Securities Act of 1933, as amended, unless HEI agrees otherwise, and to make certain technical and non-substantive amendments.

The foregoing summary of the amendment and restatement is qualified in its entirety by reference to the Bylaws, a copy of which is attached to this Quarterly Report on Form 10-Q as Exhibit 3(b) and is incorporated herein by reference.

Item 6. EXHIBITS

3(a)	Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on March 29, 2019).
3(b)	Amended and Restated Bylaws of the Registrant.
4(a)	Specimen Class A Common Stock Certificate. (Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on March 29, 2019).
4(b)	Specimen Class B Common Stock Certificate (Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on March 29, 2019).
4(c)	Certificate of Designations, Powers, Preferences and Rights of the 7.625% Series A Preferred Stock of Hovnanian Enterprises, Inc., dated July 12, 2005.(Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on July 13, 2005).
4(d)	Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008 (Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended July 31, 2008).
4(e)	Rights Agreement, dated as of August 14, 2008, between Hovnanian Enterprises, Inc. and National City Bank, as Rights Agent, which includes the Form of Certificate of Designation as Exhibit A, Form of Right Certificate as Exhibit B and the Summary of Rights as Exhibit C (Incorporated by reference to Exhibits to the Registration Statement on Form 8-A of the Registrant filed on August 14, 2008).
4(f)	Amendment No. 1 to Rights Agreement, dated as of January 11, 2018, between Hovnanian Enterprises, Inc. and Computershare Trust Company, N.A. (as successor to National City Bank), as Rights Agent, which includes the amended and restated Form of Rights Certificate as Exhibit 1 and the amended and restated Summary of Rights as Exhibit 2 (Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed on January 11, 2018).
4(g)	Amendment No. 2 to Rights Agreement, dated as of January 18, 2021, between the Company and Computershare Trust Company, N.A. (as successor to National City Bank), as Rights Agent, which includes the amended and restated Form of Rights Certificate as Exhibit 1 and the amended and restated Summary of Rights as Exhibit 2 (Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant filed January 19, 2021).
10(a)*	Form of 2021 Performance Share Unit Agreement - EBIT (Class A)
10(b)*	Form of 2021 Performance Share Unit Agreement - EBIT (Class B)
10(c)*	Form of 2021 Performance Share Unit Agreement - Relative EBIT ROI (Class A)
10(d)*	Form of 2021 Performance Share Unit Agreement - Relative EBIT ROI (Class B)
10(e)*	Form of Director Restricted Share Unit Agreement (Class A)
10(f)*	Form of 2021 Long-Term Incentive Program Award Agreement (Class A)
10(g)*	Form of 2021 Long-Term Incentive Program Award Agreement (Class B)

31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32(a)	Section 1350 Certification of Chief Executive Officer.
32(b)	Section 1350 Certification of Chief Financial Officer.
101	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended July 31, 2021, formatted in inline Extensible Business Reporting Language (Inline XBRL): (i) the Condensed Consolidated Balance Sheets at July 31, 2021 and October 31, 2020, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended July 31, 2021 and 2020, (iii) the Condensed Consolidated Statements of Changes in Equity Deficit for the nine months ended July 31, 2021 and 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended July 31, 2021 and 2020, and (v) the Notes to Condensed Consolidated Financial Statements.
104	Cover Page from our Quarterly Report on Form 10-Q for the nine months ended July 31, 2021, formatted in Inline XBRL (and contained in Exhibit 101).

* Management compensatory plan or agreement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.
(Registrant)

DATE: September 9, 2021
/s/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President,
Chief Financial Officer and Director

DATE: September 9, 2021
/s/BRAD G. O'CONNOR
Brad G. O'Connor
Senior Vice President, Treasurer and Chief Accounting Officer

AMENDED AND RESTATED BY-LAWS of

HOVNANIAN ENTERPRISES, INC.

As of

September 7, 2021

ARTICLE I

MEETING OF STOCKHOLDERS

Section 1. Place of Meeting and Notice. Meetings of the stockholders of the Corporation shall be held at such place, if any, either within or without the State of Delaware as the Board of Directors may determine; provided, that, only the Board of Directors, in its sole discretion, may determine that the meeting shall not be held at any place but instead shall be held solely by means of remote communication.

Section 2. Annual and Special Meetings. Annual meetings of stockholders shall be held, at a date, time and place, if any, fixed by the Board of Directors and stated in the notice of meeting, to elect a Board of Directors and to transact such other business as may properly come before the meeting. Special meetings of the stockholders may be called by the Chairman of the Board or Chief Executive Officer for any purpose and shall be called by the President or Secretary if directed by the Board of Directors or requested in writing by the holders of shares representing not less than 25% of the votes of the Corporation's issued and outstanding capital stock. Each such stockholder request shall state the purpose of the proposed meeting.

Section 3. Notice. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, at least 10 and not more than 60 days before each meeting of stockholders, notice of the time, date and place, if any, of the meeting and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present and vote at such meetings, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at the meeting as of the record date for determining the stockholders entitled to notice of the meeting.

Section 4. Quorum. At any meeting of stockholders, the holders of record, present in person or by proxy, of a majority of the votes of the Corporation's issued and outstanding capital stock entitled to vote at the meeting shall constitute a quorum for the transaction of business, except as otherwise provided by law, the Certificate of Incorporation or these By-Laws. In the absence of a quorum, any officer entitled to preside at or to act as secretary of the meeting shall have power to adjourn the meeting from time to time until a quorum is present.

Section 5. Voting. Except as otherwise specifically provided in the Certificate of Incorporation, these By-Laws or as otherwise required by law, with respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of the outstanding shares of Class A Common Stock and the holders of the outstanding shares of Class B Common Stock shall vote together without regard to class and all such matters shall be decided by a majority of votes of the holders voting or consenting with respect to such matters.

Section 6. Meetings by Remote Communication. At the discretion of the Board of Directors, and subject to any guidelines and procedures that the Board of Directors may adopt from time to time, stockholders and proxy holders not physically present at a meeting of the stockholders may, by means of remote communication, participate in the meeting of stockholders and may be considered present in person and may vote at the meeting of the stockholders, whether the meeting is held at a designated place or solely by means of remote communication. The Corporation shall implement reasonable measures to verify that each person considered present and authorized to vote at the meeting by means of remote communication is a stockholder or proxy holder. The Corporation shall implement reasonable measures to provide the stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with the proceedings, and in the event any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of the vote or other action shall be maintained by the Corporation.

Section 7. Notice of Stockholder Business and Nominations.

(A) Annual Meetings. (1) Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto) delivered pursuant to Article I, Section 3 of these By-Laws, (b) by or at the direction of the Board of Directors or any committee thereof or (c) by any stockholder of the Corporation who is entitled to vote on such election or such other business at the meeting, who complied with the notice procedures set forth in subparagraphs (2) and (3) of this paragraph (A) of this By-Law and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, and, in the case of business other than nominations of persons for election to the Board of Directors, such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty (20) days, or delayed by more than seventy (70) days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made; and provided further, that for purposes of the application of Rule 14a-4(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (or any successor provision), the date for notice specified in this paragraph (A)(2) shall be the earlier of the date calculated as hereinbefore provided or the date specified in paragraph (c)(1) of Rule 14a-4. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, and the rules and regulations promulgated thereunder, including such person's written consent to being named in the Corporation's proxy statement as a nominee of the stockholder and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend these By-Laws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such

business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a description of any agreement, arrangement or understanding with respect to the nomination or proposal between or among such stockholder and/or such beneficial owner, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing, including, in the case of a nomination, the nominee, (iv) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the stockholder's notice by, or on behalf of, such stockholder and such beneficial owners, whether or not such instrument or right shall be subject to settlement in underlying shares of capital stock of the Corporation, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, such stockholder or such beneficial owner, with respect to securities of the Corporation, (v) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (vi) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise to solicit proxies or votes from stockholders in support of such proposal or nomination. A stockholder providing notice of a proposed nomination for election to the Board of Directors or other business proposed to be brought before a meeting (whether given pursuant to this paragraph (A)(2) or paragraph (B) of this By-Law) shall update and supplement such notice from time to time to the extent necessary so that the information provided or required to be provided in such notice shall be true and correct as of the record date for the meeting and as of the date that is 15 days prior to the meeting or any adjournment or postponement thereof; such update and supplement shall be delivered in writing to the Secretary at the principal executive offices of the Corporation not later than 5 days after the record date for the meeting (in the case of any update and supplement required to be made as of the record date), and not later than 10 days prior to the date for the meeting or any adjournment or postponement thereof (in the case of any update and supplement required to be made as of 15 days prior to the meeting or any adjournment or postponement thereof). The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 7 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 7 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Article I, Section 3 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors (or stockholders pursuant to Section 2 of these By-Laws) or (b) provided that the Board of Directors (or stockholders pursuant to Section 2 of these By-Laws) has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is entitled to vote on such election at the meeting, who complies with the notice procedures set forth in this Section 7 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice as required by paragraph (A)(2) of this Section 7 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which the Corporation first makes a public announcement of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Except as otherwise expressly provided in any applicable rule or regulation promulgated under the Exchange Act, only such persons who are nominated in accordance with the procedures set forth in this Section 7 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 7. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed in accordance with the procedures set forth in this Section 7 and, (b) if any proposed nomination or business is not in compliance with this Section 7, to declare that such defective nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 7, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 7, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this Section 7, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed or furnished by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) For purposes of this By-Law, no adjournment or postponement or notice of adjournment or postponement of any meeting shall be deemed to constitute a new notice of such meeting for purposes of this Section 7, and in order for any notification required to be delivered by a stockholder pursuant to this Section 7 to be timely, such notification must be delivered within the periods set forth above with respect to the originally scheduled meeting.

(4) Notwithstanding the foregoing provisions of this Section 7, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 7; provided however, that any references in these By-Laws to the Exchange Act or the rules promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations or proposals as to any other business to be considered pursuant to this Section 7 (including paragraphs (A)(1)(c) and (B) hereof), and compliance with paragraphs (A)(1)(c) and (B) of this Section 7 shall be the exclusive means for a stockholder to make nominations or submit other business. Nothing in this

Section 7 shall apply to the right, if any, of the holders of any series of Preferred Stock (as defined in the Certificate of Incorporation of the Corporation) to elect directors pursuant to any applicable provisions of the Certificate of Incorporation of the Corporation.

ARTICLE II

DIRECTORS

Section 1. Number. Term of Office and Removal. The Directors of the Corporation shall be up to eleven in number, the exact number to be determined from time to time by resolution of the Board of Directors. Directors need not be stockholders. The Directors shall be elected at the annual meeting of the stockholders of the Corporation and each Director shall be elected to serve until the next annual meeting of stockholders, or until his or her successor shall have been elected and qualified. Any Director may be removed, either with or without cause, and his or her successor elected, at any time by a vote of the stockholders at a special meeting called for such purpose. Any other vacancy occurring in the Board of Directors may be filled for the unexpired term by vote of the remaining Directors although less than a quorum.

Section 2. Meetings. Regular meetings of the Board of Directors shall be held at such times and places as may from time to time be fixed by the Board of Directors or as may be specified in a notice of meeting. Special meetings of the Board of Directors may be held at any time upon the call of the President and shall be called by the President or Secretary if directed by the Board of Directors. Members of the Board of Directors may participate in any meeting of the Board of Directors (whether regular, special or adjourned) by conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting. Telephonic, facsimile, or other means of electronic communication or written-notice of each special meeting of the Board of Directors shall be sent to each Director not less than two days before such meeting. A meeting of the Board of Directors may be held without notice immediately after the annual meeting of the stockholders. Notice need not be given of regular meetings of the Board of Directors.

Section 3. Quorum. One-third of the total number of Directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the Board of Directors, the Directors present may adjourn the Meeting from time to time, without notice other than announcement at the meeting, until such a quorum is present. Except as otherwise provided by law, the Certificate of Incorporation of the Corporation, these By-Laws or any contract or agreement to which the Corporation is a party, the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Section 4. Committee of Directors. The Board of Directors may, by resolution adopted by the Board, designate one or more committees, to have and exercise such power and authority as the Board of Directors shall specify. In the absence of disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the meeting in place of any such absent or disqualified member.

Section 5. Action by Unanimous Consent of Directors. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmissions are filed with the minutes of proceedings of the Board or committee in accordance with applicable law.

ARTICLE III

OFFICERS

The officers of the Corporation shall consist of a President, a Secretary, a Treasurer and such other additional officers with such titles as the Board of Directors shall determine, all of whom shall be chosen by and shall serve at the pleasure of the Board of Directors. Such officers shall have the usual powers and shall perform all the usual duties incident to their respective offices. All officers shall be subject to the supervision and direction of the Board of Directors. The authority, duties or responsibilities of any officer of the Corporation may be suspended by the President with or without cause. Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors with or without cause.

ARTICLE IV

INDEMNIFICATION

To the fullest extent permitted by the laws of the State of Delaware:

(a) The Corporation shall indemnify any current or former director or officer of the Corporation and his or her heirs, executors and administrators, and may, at the discretion of the Board of Directors, indemnify any current or former employee or agent of the Corporation and his or her heirs, executors and administers, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or by his or her heirs, executors and administrators in connection with any threatened, pending or completed action, suit or proceeding (brought by or in the right of the Corporation or otherwise), whether civil, criminal, administrative or investigative, and whether formal or informal, including appeals, to which he was or is a party or is threatened to be made a party by reason of his or her current or former position with the Corporation or by reason of the fact that he is or was serving, at the request of the Corporation, as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Notwithstanding the preceding sentence, except as otherwise provided in this Article IV, the Corporation shall be required to indemnify a director or officer of the Corporation and his or her heirs, executors and administrators in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by such person was authorized in the specific case by the Board of Directors of the Corporation.

(b) The Corporation may pay expenses incurred in defending any action, suit or proceeding described in subsection (a) of this Article in advance of the final disposition of such action, suit or proceeding, including appeals.

(c) By action of its Board of Directors, notwithstanding any interest of the directors in the action, the Corporation may purchase and maintain insurance on behalf of any person described in subsection (a) of this Article, in such amounts as the Board of Directors deems appropriate, against any liability asserted against him, whether or not the Corporation would have the power to indemnify him against such Liability under the provisions of this Article or otherwise.

(d) The provisions of this Article shall be applicable to all actions, claims, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act occurring before or after its adoption. The provisions of this Article shall be deemed to be a contract between the Corporation and each director, officer, employee or agent who serves in such capacity at any time while this Article and the relevant provisions of the laws of the State of Delaware and other applicable law, if any, are in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts or any action, suit or proceeding then or theretofore existing, or any action, suit or proceeding thereafter brought or threatened based in whole or in part on any such state of facts. The Corporation shall not, in connection with the settlement or resolution of any claim alleged against it in any action, suit or proceeding, seek or consent to entry of an order that releases, bars or otherwise affects the rights of indemnification and advancement of expenses provided in this Article.

If any provision of this Article shall be found to be invalid or limited in application by reason of any law or regulation, it shall not affect any other application of such provision or the validity of the remaining provisions hereof. The rights of indemnification and advancement of expenses provided in this Article shall neither be exclusive of, nor be deemed in limitation of, any rights to which any such officer, director, employee or agent may otherwise be entitled or permitted by contract, the Certificate of Incorporation, vote of stockholders or directors or otherwise, or as a matter of law, both as to actions in his or her official capacity and actions in any other capacity while holding such office, it being the policy of the Corporation that indemnification of the specified individuals shall be made to the fullest extent permitted by law.

(e) For purposes of this Article, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves service by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries.

ARTICLE V

STOCK CERTIFICATES

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by or in the name of the Corporation by any two authorized officers of the Corporation certifying the number of shares owned by such holder in the Corporation. Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner’s legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

ARTICLE VI

GENERAL PROVISIONS

Section 1. Notices. Whenever any statute, the Certificate of Incorporation or these By-Laws require notice to be given to any Director or stockholder, such notice may be given in writing by mail, addressed to such Director or stockholder at his or her address as it appears on the records of the Corporation, with postage thereon prepaid. Such notice shall be deemed to have been given when it is deposited in the United States mail. Notice to Directors may also be given by telephone, facsimile or other means of transmission. Electronic notice may be given to the stockholders in accordance with applicable law.

Section 2. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

ARTICLE VII

FORUM

Unless the Corporation consents in writing to the selection of an alternative forum, (A)(1) any derivative action or proceeding brought on behalf of the Corporation, (2) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, other employee or stockholder of the Corporation to the Corporation or the Corporation’s stockholders, (3) any action or proceeding asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these By-Laws (as either may be amended or restated) or as to which the Delaware General Corporation Law confers jurisdiction on the Court of Chancery of the State of Delaware or (4) any action or proceeding asserting a claim governed by the internal affairs doctrine of the law of the State of Delaware shall, to the fullest extent permitted by law, be exclusively brought in the Court of Chancery of the State of Delaware or, if such court does not have subject matter jurisdiction thereof, such other state or federal district court located in the State of Delaware; and (B) the federal district courts of the United States shall, to the fullest extent permitted by law, be the exclusive forum for the resolution of any complaint asserting a cause of action or proceeding arising under the Securities Act of 1933, as amended. To the fullest extent permitted by law, any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article VII.

Exhibit 10(a)

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

PERFORMANCE SHARE UNIT AGREEMENT
(EBIT Performance Vesting)

Participant: ______________________ *Date of Grant:* ______________________

Target Number of PSUs: ____________

Date of Vesting of Earned PSUs:

Date	*Percentage of Earned PSUs*
[Date]	100%

1. Grant of PSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the target number ("Target Number") of performance share units ("PSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. The actual number of PSUs, if any, that the Participant will be eligible to earn with respect to this Agreement (the "Earned PSUs"), subject to meeting the applicable service and performance vesting requirements, will equal the Target Number multiplied by the applicable "Performance Multiplier" as defined in Exhibit A hereto. Each Earned PSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the Earned PSUs in accordance with the schedule set forth above (each such vesting date, a "Vesting Date"); provided, however, that upon the occurrence of a Change in Control that results in the Company's Shares ceasing to be publicly traded on a national securities exchange, the Earned PSUs shall immediately become fully vested (subject to any delay in Share delivery required pursuant to Sections 2(b) and 16 hereof).

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable "Delivery Date" (as defined below), a number of Class A Shares equal to the number of Earned PSUs that became vested on the corresponding Vesting Date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement. For purposes of this Agreement, the "Delivery Date" with respect to each Vesting Date shall mean the date that is the earlier of (i) the second anniversary of such Vesting Date or (ii) the second anniversary of the date of the Participant's Qualified Termination (as defined below), if applicable.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, (any such termination, a "Qualified Termination"), then (A) any previously unvested Earned PSUs shall become fully vested, (B) if such Qualified Termination occurs prior to the determination of the number of Earned PSUs in accordance with Exhibit A hereto, the PSUs granted hereunder shall remaining outstanding and eligible to become Earned PSUs in accordance with such Exhibit A and (C) the Shares underlying all of the Participant's Earned PSUs, if any, shall be delivered to the Participant as soon as practicable but not later than 60 days after the corresponding Delivery Date(s) subject to Section 16 of this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of Earned PSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than (i) death, Disability or Retirement or (ii) under the circumstances described in clause (f) below, any unvested PSUs (including, without limitation, any Earned PSUs) shall immediately terminate for no further consideration.

(f) Termination without Cause or for Good Reason within Two Years Following a Change in Control. In the event of the Participant's Qualifying Termination or involuntary termination of employment with the Company or a subsidiary thereof without "Cause" or for "Good Reason", in each case, within two years following a Change in Control, the Earned PSUs, to the extent not previously vested and settled, shall immediately become fully vested and settled in Shares. For purposes of this Agreement, "Cause" shall mean the occurrence of any of the following: (a) the willful and continued failure of the Participant to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed his or her duties; (b)

dishonesty in the performance of the Participant's duties with the Company; (c) the Participant's conviction of, or plea of guilty or nolo contendere to, a crime under the laws of the United States or any state thereof constituting a felony or a misdemeanor involving moral turpitude; (d) the Participant's willful malfeasance or willful misconduct in connection with the Participant's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or (e) the Participant's breach of the provisions of Section 11 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, without the Participant's express written consent: (a) any material diminution in the Participant's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control or (b) any reduction in the Participant's annual base salary or any material reduction in the Participant's annual bonus opportunity, annual equity awards or long-term incentive program awards from the Participant's annual base salary or annual bonus opportunity, annual equity awards or long-term incentive program awards in effect immediately prior to a Change in Control. Notwithstanding the foregoing, no event shall constitute Good Reason unless the Participant provides the Company with written notice of such event within 60 days after the occurrence thereof and the Company fails to cure or resolve the behavior otherwise constituting Good Reason within 30 days of its receipt of such notice.

(g) Any portion of the PSUs granted pursuant to this Agreement which do not become Earned PSUs in accordance with Exhibit A hereto shall be forfeited for no further consideration.

3. Dividends. If on any date while PSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of PSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of PSUs equal to: (a) the product of (x) the number of PSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of PSUs granted to the Participant shall be increased by a number equal to the product of (a) the PSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any PSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2 and the performance conditions set forth in Exhibit A.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of PSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

9. Transferability. PSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

(a) The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All PSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

16. 409A. Notwithstanding any other provisions of this Agreement or the Plan, the PSUs covered by this Agreement shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class A Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.
By:_______________________________

PARTICIPANT[1]

By: _______________________________

1. To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant's signature hereof.

Exhibit A

[Insert Performance Metrics for Determining Earned PSUs]

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

PERFORMANCE SHARE UNIT AGREEMENT
(EBIT Performance Vesting)

Participant: ______________________ *Date of Grant:* ______________________

Target Number of PSUs: ____________

Date of Vesting of Earned PSUs:

Date	*Percentage of Earned PSUs*
[Date]	100%

1. Grant of PSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the target number ("Target Number") of performance share units ("PSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. The actual number of PSUs, if any, that the Participant will be eligible to earn with respect to this Agreement (the "Earned PSUs"), subject to meeting the applicable service and performance vesting requirements, will equal the Target Number multiplied by the applicable "Performance Multiplier" as defined in Exhibit A hereto. Each Earned PSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the Earned PSUs in accordance with the schedule set forth above (each such vesting date, a "Vesting Date"); provided, however, that upon the occurrence of a Change in Control that results in the Company's Shares ceasing to be publicly traded on a national securities exchange, the Earned PSUs shall immediately become fully vested (subject to any delay in Share delivery required pursuant to Sections 2(b) and 16 hereof).

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable "Delivery Date" (as defined below), a number of Class B Shares equal to the number of Earned PSUs that became vested on the corresponding Vesting Date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement. For purposes of this Agreement, the "Delivery Date" with respect to each Vesting Date shall mean the date that is the earlier of (i) the second anniversary of such Vesting Date or (ii) the second anniversary of the date of the Participant's Qualified Termination (as defined below), if applicable.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, (any such termination, a "Qualified Termination"), then (A) any previously unvested Earned PSUs shall become fully vested, (B) if such Qualified Termination occurs prior to the determination of the number of Earned PSUs in accordance with Exhibit A hereto, the PSUs granted hereunder shall remaining outstanding and eligible to become Earned PSUs in accordance with such Exhibit A and (C) the Shares underlying all of the Participant's Earned PSUs, if any, shall be delivered to the Participant as soon as practicable but not later than 60 days after the corresponding Delivery Date(s) subject to Section 16 of this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of Earned PSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than (i) death, Disability or Retirement or (ii) under the circumstances described in clause (f) below, any unvested PSUs (including, without limitation, any Earned PSUs) shall immediately terminate for no further consideration.

(f) Termination without Cause or for Good Reason within Two Years Following a Change in Control. In the event of the Participant's Qualifying Termination or involuntary termination of employment with the Company or a subsidiary thereof without "Cause" or for "Good Reason", in each case, within two years following a Change in Control, the Earned PSUs, to the extent not previously vested and settled, shall immediately become fully vested and settled in Shares. For purposes of this Agreement, "Cause" shall mean the occurrence of any of the following: (a) the willful and continued failure of the Participant to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed his or her duties; (b)

dishonesty in the performance of the Participant's duties with the Company; (c) the Participant's conviction of, or plea of guilty or nolo contendere to, a crime under the laws of the United States or any state thereof constituting a felony or a misdemeanor involving moral turpitude; (d) the Participant's willful malfeasance or willful misconduct in connection with the Participant's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or (e) the Participant's breach of the provisions of Section 11 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, without the Participant's express written consent: (a) any material diminution in the Participant's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control or (b) any reduction in the Participant's annual base salary or any material reduction in the Participant's annual bonus opportunity, annual equity awards or long-term incentive program awards from the Participant's annual base salary or annual bonus opportunity, annual equity awards or long-term incentive program awards in effect immediately prior to a Change in Control. Notwithstanding the foregoing, no event shall constitute Good Reason unless the Participant provides the Company with written notice of such event within 60 days after the occurrence thereof and the Company fails to cure or resolve the behavior otherwise constituting Good Reason within 30 days of its receipt of such notice.

(g) Any portion of the PSUs granted pursuant to this Agreement which do not become Earned PSUs in accordance with Exhibit A hereto shall be forfeited for no further consideration.

3. Dividends. If on any date while PSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of PSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of PSUs equal to: (a) the product of (x) the number of PSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of PSUs granted to the Participant shall be increased by a number equal to the product of (a) the PSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any PSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2 and the performance conditions set forth in Exhibit A.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of PSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

9. Transferability. PSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

(a) The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All PSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

16. 409A. Notwithstanding any other provisions of this Agreement or the Plan, the PSUs covered by this Agreement shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class B Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.
By:____

PARTICIPANT[1]

By: ____

1. To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant’s signature hereof.

Exhibit A

[Insert Performance Metrics for Determining Earned PSUs]

Exhibit 10(c)

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

PERFORMANCE SHARE UNIT AGREEMENT
(Relative EBIT ROI Rank Compared to Peers Performance Vesting)

Participant: ______________________ *Date of Grant:* ______________________

Target Number of PSUs: ____________

Date of Vesting of Earned PSUs:

Date	*Percentage of Earned PSUs*
[Date]	100%

1. Grant of PSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the target number ("Target Number") of performance share units ("PSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. The actual number of PSUs, if any, that the Participant will be eligible to earn with respect to this Agreement (the "Earned PSUs"), subject to meeting the applicable service and performance vesting requirements, will equal the Target Number multiplied by the applicable "Performance Multiplier" as defined in Exhibit A hereto. Each Earned PSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the Earned PSUs in accordance with the schedule set forth above (each such vesting date, a "Vesting Date"); provided, however, that upon the occurrence of a Change in Control that results in the Company's Shares ceasing to be publicly traded on a national securities exchange, the Earned PSUs shall immediately become fully vested (subject to any delay in Share delivery required pursuant to Sections 2(b) and 16 hereof).

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable "Delivery Date" (as defined below), a number of Class A Shares equal to the number of Earned PSUs that became vested on the corresponding Vesting Date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement. For purposes of this Agreement, the "Delivery Date" with respect to each Vesting Date shall mean the date that is the earlier of (i) the second anniversary of such Vesting Date or (ii) the second anniversary of the date of the Participant's Qualified Termination (as defined below), if applicable.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, (any such termination, a "Qualified Termination"), then (A) any previously unvested Earned PSUs shall become fully vested, (B) if such Qualified Termination occurs prior to the determination of the number of Earned PSUs in accordance with Exhibit A hereto, the PSUs granted hereunder shall remaining outstanding and eligible to become Earned PSUs in accordance with such Exhibit A and (C) the Shares underlying all of the Participant's Earned PSUs, if any, shall be delivered to the Participant as soon as practicable but not later than 60 days after the corresponding Delivery Date(s) subject to Section 16 of this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of Earned PSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than (i) death, Disability or Retirement or (ii) under the circumstances described in clause (f) below, any unvested PSUs (including, without limitation, any Earned PSUs) shall immediately terminate for no further consideration.

(f) Termination without Cause or for Good Reason within Two Years Following a Change in Control. In the event of the Participant's Qualifying Termination or involuntary termination of employment with the Company or a subsidiary thereof without "Cause" or for "Good Reason", in each case, within two years following a Change in Control, the Earned PSUs, to the extent not previously vested and settled, shall immediately become fully vested and settled in Shares. For purposes of this Agreement, "Cause" shall mean the occurrence of any of the following: (a) the willful and continued failure of the Participant to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed his or her duties; (b)

dishonesty in the performance of the Participant's duties with the Company; (c) the Participant's conviction of, or plea of guilty or nolo contendere to, a crime under the laws of the United States or any state thereof constituting a felony or a misdemeanor involving moral turpitude; (d) the Participant's willful malfeasance or willful misconduct in connection with the Participant's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or (e) the Participant's breach of the provisions of Section 11 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, without the Participant's express written consent: (a) any material diminution in the Participant's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control or (b) any reduction in the Participant's annual base salary or any material reduction in the Participant's annual bonus opportunity, annual equity awards or long-term incentive program awards from the Participant's annual base salary or annual bonus opportunity, annual equity awards or long-term incentive program awards in effect immediately prior to a Change in Control. Notwithstanding the foregoing, no event shall constitute Good Reason unless the Participant provides the Company with written notice of such event within 60 days after the occurrence thereof and the Company fails to cure or resolve the behavior otherwise constituting Good Reason within 30 days of its receipt of such notice.

(g) Any portion of the PSUs granted pursuant to this Agreement which do not become Earned PSUs in accordance with Exhibit A hereto shall be forfeited for no further consideration.

3. Dividends. If on any date while PSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of PSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of PSUs equal to: (a) the product of (x) the number of PSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of PSUs granted to the Participant shall be increased by a number equal to the product of (a) the PSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any PSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2 and the performance conditions set forth in Exhibit A.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of PSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

9. Transferability. PSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11. Non-Solicitation Covenants.

(a) The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All PSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

16. 409A. Notwithstanding any other provisions of this Agreement or the Plan, the PSUs covered by this Agreement shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class A Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.
By:__________________________________

PARTICIPANT[1]

By: __________________________________

1. To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant’s signature hereof.

<u>Exhibit A</u>

[Insert Performance Metrics for Determining Earned PSUs]

Exhibit 10(d)

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

PERFORMANCE SHARE UNIT AGREEMENT
(Relative EBIT ROI Rank Compared to Peers Performance Vesting)

Participant: ______________________ *Date of Grant:* ______________________

Target Number of PSUs: ____________

Date of Vesting of Earned PSUs:

Date	*Percentage of Earned PSUs*
[Date]	100%

1. Grant of PSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the target number ("Target Number") of performance share units ("PSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. The actual number of PSUs, if any, that the Participant will be eligible to earn with respect to this Agreement (the "Earned PSUs"), subject to meeting the applicable service and performance vesting requirements, will equal the Target Number multiplied by the applicable "Performance Multiplier" as defined in Exhibit A hereto. Each Earned PSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the Earned PSUs in accordance with the schedule set forth above (each such vesting date, a "Vesting Date"); provided, however, that upon the occurrence of a Change in Control that results in the Company's Shares ceasing to be publicly traded on a national securities exchange, the Earned PSUs shall immediately become fully vested (subject to any delay in Share delivery required pursuant to Sections 2(b) and 16 hereof).

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable "Delivery Date" (as defined below), a number of Class B Shares equal to the number of Earned PSUs that became vested on the corresponding Vesting Date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement. For purposes of this Agreement, the "Delivery Date" with respect to each Vesting Date shall mean the date that is the earlier of (i) the second anniversary of such Vesting Date or (ii) the second anniversary of the date of the Participant's Qualified Termination (as defined below), if applicable.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, (any such termination, a "Qualified Termination"), then (A) any previously unvested Earned PSUs shall become fully vested, (B) if such Qualified Termination occurs prior to the determination of the number of Earned PSUs in accordance with Exhibit A hereto, the PSUs granted hereunder shall remaining outstanding and eligible to become Earned PSUs in accordance with such Exhibit A and (C) the Shares underlying all of the Participant's Earned PSUs, if any, shall be delivered to the Participant as soon as practicable but not later than 60 days after the corresponding Delivery Date(s) subject to Section 16 of this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of Earned PSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than (i) death, Disability or Retirement or (ii) under the circumstances described in clause (f) below, any unvested PSUs (including, without limitation, any Earned PSUs) shall immediately terminate for no further consideration.

(f) Termination without Cause or for Good Reason within Two Years Following a Change in Control. In the event of the Participant's Qualifying Termination or involuntary termination of employment with the Company or a subsidiary thereof without "Cause" or for "Good Reason", in each case, within two years following a Change in Control, the Earned PSUs, to the extent not previously vested and settled, shall immediately become fully vested and settled in Shares. For purposes of this Agreement, "Cause" shall mean the occurrence of any of the following: (a) the willful and continued failure of the Participant to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed his or her duties; (b)

dishonesty in the performance of the Participant's duties with the Company; (c) the Participant's conviction of, or plea of guilty or nolo contendere to, a crime under the laws of the United States or any state thereof constituting a felony or a misdemeanor involving moral turpitude; (d) the Participant's willful malfeasance or willful misconduct in connection with the Participant's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or (e) the Participant's breach of the provisions of Section 11 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, without the Participant's express written consent: (a) any material diminution in the Participant's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control or (b) any reduction in the Participant's annual base salary or any material reduction in the Participant's annual bonus opportunity, annual equity awards or long-term incentive program awards from the Participant's annual base salary or annual bonus opportunity, annual equity awards or long-term incentive program awards in effect immediately prior to a Change in Control. Notwithstanding the foregoing, no event shall constitute Good Reason unless the Participant provides the Company with written notice of such event within 60 days after the occurrence thereof and the Company fails to cure or resolve the behavior otherwise constituting Good Reason within 30 days of its receipt of such notice.

(g) Any portion of the PSUs granted pursuant to this Agreement which do not become Earned PSUs in accordance with Exhibit A hereto shall be forfeited for no further consideration.

3. Dividends. If on any date while PSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of PSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of PSUs equal to: (a) the product of (x) the number of PSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of PSUs granted to the Participant shall be increased by a number equal to the product of (a) the PSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any PSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2 and the performance conditions set forth in Exhibit A.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of PSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Right to Continued Employment. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan or this Agreement, except as otherwise expressly provided herein.

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

7. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

8. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

9. Transferability. PSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 9 shall be void and unenforceable against the Company or any Affiliate.

10. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

11.   Non-Solicitation Covenants.

(a) The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of Employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such Employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

12.   Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 11 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

13.   Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

14.   RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All PSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15.   Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

16.   409A. Notwithstanding any other provisions of this Agreement or the Plan, the PSUs covered by this Agreement shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class B Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.
By:______________________________

PARTICIPANT[1]

By: ______________________________

1. To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant’s signature hereof.

Exhibit A

[Insert Performance Metrics for Determining Earned PSUs]

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

RESTRICTED SHARE UNIT AGREEMENT
(Directors)

Participant: ____________________ *Date of Grant:* ____________________

Number of RSUs: ____________________

Date of Vesting of Class A Shares:

Date	*Number of RSUs*

1. Grant of RSUs. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the number of restricted share units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the RSUs in accordance with the schedule set forth above (each such vesting date, a "Vesting Date").

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable "Delivery Date" (as defined below), a number of Class A Shares equal to the number of RSUs that became vested on the corresponding Vesting Date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement. For purposes of this Agreement, the "Delivery Date" with respect to each Vesting Date shall mean the date that is the earlier of (i) the second anniversary of such Vesting Date or (ii) the second anniversary of the date of the Participant's Qualified Termination (as defined below), if applicable.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant ceases to be a member of the Board of Directors due to (i) death, (ii) Disability or (iii) Retirement (any such termination, a "Qualified Termination"), any previously unvested RSUs shall become fully vested and the Shares underlying all of the Participant's outstanding RSUs shall be delivered to the Participant as soon as practicable but not later than 60 days after the corresponding Delivery Date(s). In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean disability within the meaning of Section 22(e)(3) of the Code, and "Retirement" shall mean termination as a member of the Board of Directors on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company immediately preceding such termination. For this purpose, "Service" means the period of service as a member of the Board of Directors immediately preceding Retirement, plus any prior periods of service as a member of the Board of Directors of one or more years' duration, unless they were succeeded by a period of non-service as a member of the Board of Directors of at least three years' duration.

(d) Upon each transfer or deferral of Shares in accordance with Sections 2(a), 2(b) and 2(c) of this Agreement, a number of RSUs equal to the number of Shares transferred to the Participant or deferred shall be extinguished.

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the date that the Participant ceases to be a member of the Board of Directors for any reason other than death, Disability or Retirement, any unvested RSUs shall immediately terminate for no further consideration.

3. Dividends. If on any date while RSUs are outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the number of RSUs granted to the Participant shall, as of such dividend payment date, be increased by a number of RSUs equal to: (a) the product of (x) the number of RSUs held by the Participant as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the number of RSUs granted to the Participant shall be increased by a number equal to the product of (a) the RSUs that are held by the Participant on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any RSUs attributable to dividends under this Section 3 shall be subject to the vesting provisions provided in Section 2.

4. Adjustments Upon Certain Events. Subject to the terms of the Plan, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of RSUs subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

5. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the

discretion of the Board and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms).

6. No Rights of a Shareholder. The Participant shall not have any rights or privileges as a shareholder of the Company until the Shares in question have been registered in the Company's register of shareholders.

7. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to Section 2 of this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

8. Transferability. RSUs may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 8 shall be void and unenforceable against the Company or any Affiliate.

9. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer due under this Agreement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant ceases to be a member of the Board of Directors prior to the transfer of all of the Shares under this Agreement, the payment of any applicable withholding taxes with respect to any further transfer of Shares under this Agreement or the Plan shall be made solely through the sale of Shares equal to the statutory minimum withholding liability.

10. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

11. RSUs Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. All RSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

12. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. 409A. Notwithstanding any other provisions of this Agreement or the Plan, this RSU shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Class A Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant's status as a "specified employee" within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.
By:______________________________

PARTICIPANT

By:______________________________

Exhibit 10(f)

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

2021 LONG-TERM INCENTIVE PROGRAM AWARD AGREEMENT

Participant:		*Stock Percentage of Award:*	100%
Date of Grant:	[Date]	*Deemed Share Price:*	$XX.XX
Maximum LTIP Award (total):		*Target LTIP Award (total):*	
Maximum Number of Class A Shares[1]*:*		*Target Number of Class A Shares*[1]*:*	

1. Grant of LTIP Award. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the Long-Term Incentive Program award opportunity (the “Award”) listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan") and the 2021 Long-Term Incentive Program adopted thereunder (the “LTIP”), which Plan and LTIP, as amended from time to time, are incorporated herein by reference and made a part of this Agreement. The Award represents an unfunded, unsecured right of the Participant to receive Class A Shares (“Shares”) on the date(s) specified under the LTIP, subject to the performance and time vesting conditions set forth thereunder. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan or the LTIP, as applicable. A copy of the LTIP is attached hereto as Exhibit A.

2. Amount of Award; Vesting and Timing of Payments. The target amount of the Award listed above represents the amount of Shares that the Participant will be eligible to receive if the performance levels achieved during the Performance Period correspond to a payout level of 100% of target under the terms of the LTIP, assuming the time vesting requirements set forth under the LTIP are also met. The actual amount of Shares payable in respect of the Award may be more or less than the targeted amounts, and the amounts (if any) that become payable under the Award will be paid to the Participant at such times and subject to such performance, time vesting and delivery conditions as set forth under the LTIP.

3. Adjustments Upon Certain Events. Subject to the terms of the Plan and the LTIP, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of Shares subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

4. No Right to Continued Employment. Neither the Plan, the LTIP nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan, the LTIP or this Agreement, except as otherwise expressly provided herein.

5. No Acquired Rights. In participating in the Plan and the LTIP, the Participant acknowledges and accepts that the Board and the Committee have the power to amend or terminate the Plan and the LTIP, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan and the LTIP is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan and the LTIP is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement, the Plan or the LTIP that may arise as a result of such termination of employment.

6. No Rights of a Shareholder; Dividend Adjustments.

(a) The Participant shall have no voting, dividend or other rights or privileges as a shareholder of the Company until the Shares in question have been issued or transferred to the Participant.

(b) If on any date while the Award is outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the target number of Shares covered by this Award shall, as of such dividend payment date, be increased by a number of Shares equal to: (a) the product of (x) the target number of Shares previously covered by the Award as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the target number of Shares granted to the Participant under this Award shall be increased by a number equal to the product of (a) the target number of Shares covered by this Award on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any Shares attributable to dividends under this Section 6(b) shall be subject to the performance and service vesting and payment provisions set forth in Exhibit A.

7. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

8. Transferability. This Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 8 shall be void and unenforceable against the Company or any Affiliate.

9. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer of Shares due under this Agreement, the LTIP or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement, the LTIP or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the payment or transfer of all of the Shares under this Agreement, the payment of any

applicable withholding taxes with respect to any further transfer of Shares under this Award shall be made solely through withholding of Shares otherwise payable under this Agreement in amounts equal to the statutory minimum withholding liability.

10. Non-Solicitation Covenants.

(a) **The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:**

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) **It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 10 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.**

11. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 10 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

12. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

13. Award Subject to Plan and LTIP. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan and the LTIP. The Award is subject to the Plan and the LTIP. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan or LTIP, the applicable terms and provisions of the Plan and LTIP will govern and prevail.

14. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

15. 409A. Notwithstanding any other provisions of this Agreement, the Plan or the LTIP, this Award shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant’s status as a “specified employee” within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.

By: ________________________________

PARTICIPANT

By: ________________________________

Exhibit A
2021 Long-Term Incentive Program

[Insert Terms of 2021 Long-Term Incentive Program]

Exhibit 10(g)

2020 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

2021 LONG-TERM INCENTIVE PROGRAM AWARD AGREEMENT

Participant:		*Stock Percentage of Award:*	100%
Date of Grant:	[Date]	*Deemed Share Price:*	$XX.XX
Maximum LTIP Award (total):		*Target LTIP Award (total):*	
Maximum Number of Class B Shares[1]:		*Target Number of Class B Shares[1]:*	

1. Grant of LTIP Award. For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the Long-Term Incentive Program award opportunity (the “Award”) listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2020 Company Amended and Restated Stock Incentive Plan (the "Plan") and the 2021 Long-Term Incentive Program adopted thereunder (the “LTIP”), which Plan and LTIP, as amended from time to time, are incorporated herein by reference and made a part of this Agreement. The Award represents an unfunded, unsecured right of the Participant to receive Class B Shares (“Shares”) on the date(s) specified under the LTIP, subject to the performance and time vesting conditions set forth thereunder. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan or the LTIP, as applicable. A copy of the LTIP is attached hereto as Exhibit A.

2. Amount of Award; Vesting and Timing of Payments. The target amount of the Award listed above represents the amount of Shares that the Participant will be eligible to receive if the performance levels achieved during the Performance Period correspond to a payout level of 100% of target under the terms of the LTIP, assuming the time vesting requirements set forth under the LTIP are also met. The actual amount of Shares payable in respect of the Award may be more or less than the targeted amounts, and the amounts (if any) that become payable under the Award will be paid to the Participant at such times and subject to such performance, time vesting and delivery conditions as set forth under the LTIP.

3. Adjustments Upon Certain Events. Subject to the terms of the Plan and the LTIP, in the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, amalgamation, spin-off or combination transaction or exchange of Shares or other similar events (collectively, an "Adjustment Event"), the Committee shall, in its sole discretion, make an appropriate and equitable adjustment in the number of Shares subject to this Agreement to reflect such Adjustment Event. Any such adjustment made by the Committee shall be final and binding upon the Participant, the Company and all other interested persons.

4. No Right to Continued Employment. Neither the Plan, the LTIP nor this Agreement shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship to, the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss the Participant, free from any liability or any claim under the Plan, the LTIP or this Agreement, except as otherwise expressly provided herein.

5. No Acquired Rights. In participating in the Plan and the LTIP, the Participant acknowledges and accepts that the Board and the Committee have the power to amend or terminate the Plan and the LTIP, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan and the LTIP is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The Participant further acknowledges and accepts that such Participant's participation in the Plan and the LTIP is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement, the Plan or the LTIP that may arise as a result of such termination of employment.

6. No Rights of a Shareholder; Dividend Adjustments.

(a) The Participant shall have no voting, dividend or other rights or privileges as a shareholder of the Company until the Shares in question have been issued or transferred to the Participant.

(b) If on any date while the Award is outstanding hereunder the Company shall pay any dividend on the Shares (other than a dividend payable in Shares), the target number of Shares covered by this Award shall, as of such dividend payment date, be increased by a number of Shares equal to: (a) the product of (x) the target number of Shares previously covered by the Award as of the related dividend record date, multiplied by (y) the per Share amount of any cash dividend (or, in the case of any dividend payable in whole or in part other than in cash, the per Share value of such dividend, as determined in good faith by the Committee), divided by (b) the Fair Market Value of a Share on the payment date of such dividend. In the case of any dividend declared on Shares that is payable in the form of Shares, the target number of Shares granted to the Participant under this Award shall be increased by a number equal to the product of (a) the target number of Shares covered by this Award on the related dividend record date, multiplied by (b) the number of Shares (including any fraction thereof) payable as a dividend on a Share. Any Shares attributable to dividends under this Section 6(b) shall be subject to the performance and service vesting and payment provisions set forth in Exhibit A.

7. Legend on Certificates. Any Shares issued or transferred to the Participant pursuant to this Agreement shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Committee may cause a legend or legends to be put on any certificates representing such Shares to make appropriate reference to such restrictions. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing Shares, the Company may elect to issue or deliver such Shares in book entry form in lieu of certificates.

8. Transferability. This Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 8 shall be void and unenforceable against the Company or any Affiliate.

9. Withholding. The Participant may be required to pay to the Company or any Affiliate and the Company or any Affiliate shall have the right and is hereby authorized to withhold from any transfer of Shares due under this Agreement, the LTIP or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes with respect to any transfer under this Agreement, the LTIP or under the Plan and to take such action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. Notwithstanding the foregoing, if the Participant's employment with the Company terminates prior to the payment or transfer of all of the Shares under this Agreement, the payment of any

applicable withholding taxes with respect to any further transfer of Shares under this Award shall be made solely through withholding of Shares otherwise payable under this Agreement in amounts equal to the statutory minimum withholding liability.

10. Non-Solicitation Covenants.

(a) **The Participant acknowledges and agrees that, during the Participant's employment with the Company and its Affiliates and upon the Participant's termination of employment with the Company and its Affiliates for any reason, for a period commencing on the termination of such employment and ending on the second anniversary of such termination, the Participant shall not, whether on Participant's own behalf or on behalf of or in conjunction with any person, company, business entity or other organization whatsoever, directly or indirectly:**

(i) solicit any employee of the Company or its Affiliates with whom the Participant had any contact during the last two years of the Participant's employment, or who worked in the same business segment or division as the Participant during that period to terminate employment with the Company or its Affiliates;

(ii) solicit the employment or services of, or hire, any such employee whose employment with the Company or its Affiliates terminated coincident with, or within twelve (12) months prior to or after the termination of Participant's employment with the Company and its Affiliates;

(iii) directly or indirectly, solicit to cease to work with the Company or its Affiliates any consultant then under contract with the Company or its Affiliates.

(b) **It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 10 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and terri-tory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restric-tion contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.**

11. Specific Performance. The Participant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 10 would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, the Participant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

12. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

13. Award Subject to Plan and LTIP. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan and the LTIP. The Award is subject to the Plan and the LTIP. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan or LTIP, the applicable terms and provisions of the Plan and LTIP will govern and prevail.

14. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

15. 409A. Notwithstanding any other provisions of this Agreement, the Plan or the LTIP, this Award shall not be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon the Participant. In the event it is reasonably determined by the Committee that, as a result of Section 409A of the Code, the transfer of Shares under this Agreement may not be made at the time contemplated hereunder without causing the Participant to be subject to taxation under Section 409A of the Code (including due to the Participant’s status as a “specified employee” within the meaning of Section 409A of the Code), the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

HOVNANIAN ENTERPRISES, INC.

By: ________________________________

PARTICIPANT

By: ________________________________

Exhibit A
2021 Long-Term Incentive Program

[Insert Terms of 2021 Long-Term Incentive Program]

CERTIFICATIONS
Exhibit 31(a)

I, Ara K. Hovnanian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 31, 2021 of Hovnanian Enterprises, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 9, 2021

/s/ARA K. HOVNANIAN
Ara K. Hovnanian
Chairman, President and Chief Executive Officer

CERTIFICATIONS
Exhibit 31(b)

I, J. Larry Sorsby, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 31, 2021 of Hovnanian Enterprises, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2021

/s/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and Chief Financial Officer

Exhibit 32(a)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ara K. Hovnanian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2021

/s/ARA K. HOVNANIAN
Ara K. Hovnanian
Chairman, President and Chief Executive Officer

Exhibit 32(b)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hovnanian Enterprises, Inc. (the "Company") on Form 10-Q for the period ended July 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Larry Sorsby, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2021

/s/J. LARRY SORSBY
J. Larry Sorsby
Executive Vice President and Chief Financial Officer