

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 January 31, 2022

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
Depository 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. 5,616,444 shares of Class A Common Stock and 676,560 shares of Class B Common Stock were outstanding as of March 1, 2022.

HOVNANIAN ENTERPRISES, INC.

FORM 10-Q

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

	January 31, 2022	October 31, 2021
	(Unaudited)	
<b>ASSETS</b>		
<b>Homebuilding:</b>		
Cash and cash equivalents	\$ 137,898	\$ 245,970
Restricted cash and cash equivalents	14,260	16,089
<b>Inventories:</b>		
Sold and unsold homes and lots under development	1,112,928	1,019,541
Land and land options held for future development or sale	175,615	135,992
Consolidated inventory not owned	124,845	98,727
Total inventories	1,413,388	1,254,260
Investments in and advances to unconsolidated joint ventures	67,467	60,897
Receivables, deposits and notes, net	34,798	39,934
Property, plant and equipment, net	20,017	18,736
Prepaid expenses and other assets	62,069	56,186
Total homebuilding	1,749,897	1,692,072
Financial services	143,057	202,758
Deferred tax assets, net	416,213	425,678
Total assets	<u>\$ 2,309,167</u>	<u>\$ 2,320,508</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Homebuilding:</b>		
Nonrecourse mortgages secured by inventory, net of debt issuance costs	\$ 196,386	\$ 125,089
Accounts payable and other liabilities	335,669	426,381
Customers' deposits	83,219	68,295
Liabilities from inventory not owned, net of debt issuance costs	75,344	62,762
Senior notes and credit facilities (net of discounts, premiums and debt issuance costs)	1,247,221	1,248,373
Accrued Interest	47,269	28,154
Total homebuilding	1,985,108	1,959,054
Financial services	122,199	182,219
Income taxes payable	4,973	3,851
Total liabilities	<u>2,112,280</u>	<u>2,145,124</u>
<b>Equity:</b>		
<b>Hovnanian Enterprises, Inc. stockholders' equity:</b>		
Preferred stock, \$0.01 par value - authorized 100,000 shares; issued and outstanding 5,600 shares with a liquidation preference of \$140,000 at January 31, 2022 and October 31, 2021	135,299	135,299
Common stock, Class A, \$0.01 par value - authorized 16,000,000 shares; issued 6,084,670 shares at January 31, 2022 and 6,066,164 shares at October 31, 2021	61	61
Common stock, Class B, \$0.01 par value (convertible to Class A at time of sale) - authorized 2,400,000 shares; issued 704,273 shares at January 31, 2022 and 686,876 shares at October 31, 2021	7	7
Paid in capital - common stock	721,570	722,118
Accumulated deficit	(545,089)	(567,228)
Treasury stock - at cost - 470,430 shares of Class A common stock and 27,669 shares of Class B common stock at January 31, 2022 and October 31, 2021	(115,360)	(115,360)
Total Hovnanian Enterprises, Inc. stockholders' equity	196,488	174,897
Noncontrolling interest in consolidated joint ventures	399	487
Total equity	<u>196,887</u>	<u>175,384</u>
Total liabilities and equity	<u>\$ 2,309,167</u>	<u>\$ 2,320,508</u>

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 January 31,	
	2022	2021
<b>Revenues:</b>		
Homebuilding:		
Sale of homes	\$ 551,366	\$ 551,365
Land sales and other revenues	638	3,802
Total homebuilding	552,004	555,167
Financial services	13,309	19,497
Total revenues	565,313	574,664
<b>Expenses:</b>		
Homebuilding:		
Cost of sales, excluding interest	427,917	439,638
Cost of sales interest	13,745	17,165
Inventory impairment loss and land option write-offs	99	1,877
Total cost of sales	441,761	458,680
Selling, general and administrative	42,746	40,225
Total homebuilding expenses	484,507	498,905
Financial services	10,400	10,354
Corporate general and administrative	29,435	23,483
Other interest	13,393	23,975
Other operations	368	278
Total expenses	538,103	556,995
Income from unconsolidated joint ventures	8,191	1,916
Income before income taxes	35,401	19,585
State and federal income tax provision (benefit):		
State	2,543	626
Federal	8,050	-
Total income taxes	10,593	626
Net income	24,808	18,959
Less: preferred stock dividends	2,669	-
Net income available to common stockholders	\$ 22,139	\$ 18,959
<b>Per share data:</b>		
Basic:		
Net income per common share	\$ 3.12	\$ 2.79
Weighted-average number of common shares outstanding	6,389	6,225
Assuming dilution:		
Net income per common share	\$ 3.07	\$ 2.75
Weighted-average number of common shares outstanding	6,501	6,303

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
THREE MONTH PERIOD ENDED JANUARY 31, 2022  
(In Thousands Except Share Amounts)  
(Unaudited)

	A Common Stock		B Common Stock		Preferred Stock		Paid-In Capital	Accumulated Deficit	Treasury Stock	Noncontrolling Interest	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
Balance, October 31, 2021	5,595,734	\$ 61	659,207	\$ 7	5,600	\$ 135,299	\$ 722,118	\$ (567,228)	\$ (115,360)	\$ 487	\$ 175,384
Stock options, amortization and issuances	804						4				4
Preferred dividend declared (\$476.56 per share)								(2,669)			(2,669)
Restricted stock amortization, issuances and forfeitures	17,654		17,445				(552)				(552)
Conversion of Class B to Class A common stock	48		(48)								-
Changes in noncontrolling interest in consolidated joint ventures										(88)	(88)
Net income								24,808			24,808
Balance, January 31, 2022	<u>5,614,240</u>	<u>\$ 61</u>	<u>676,604</u>	<u>\$ 7</u>	<u>5,600</u>	<u>\$ 135,299</u>	<u>\$ 721,570</u>	<u>\$ (545,089)</u>	<u>\$ (115,360)</u>	<u>\$ 399</u>	<u>\$ 196,887</u>

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)  
THREE MONTH PERIOD ENDED JANUARY 31, 2021  
(In Thousands Except Share Amounts)  
(Unaudited)

	A Common Stock		B Common Stock		Preferred Stock		Paid-In Capital	Accumulated Deficit	Treasury Stock	Noncontrolling Interest	Total
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount					
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	<u>5,527,132</u>	<u>\$ 60</u>	<u>624,542</u>	<u>\$ 7</u>	<u>5,600</u>	<u>\$135,299</u>	<u>\$718,832</u>	<u>\$ (1,156,086)</u>	<u>\$(115,360)</u>	<u>\$ 913</u>	<u>\$(416,335)</u>

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended January 31,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,808	\$ 18,959
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,175	1,338
Compensation from stock options and awards	1,635	902
Amortization of bond discounts, premiums and deferred financing costs	(280)	209
Gain on sale and retirement of property and assets	(5)	(14)
Income from unconsolidated joint ventures	(8,191)	(1,916)
Distributions of earnings from unconsolidated joint venture	2,100	2,841
Noncontrolling interest in consolidated joint ventures	62	78
Inventory impairment and land option write-offs	99	1,877
(Increase) decrease in assets:		
Origination of mortgage loans	(272,877)	(334,272)
Sale of mortgage loans	342,090	312,794
Receivables, prepaids, deposits and other assets	(2,139)	(9,531)
Inventories	(159,227)	(87,251)
Deferred tax assets	9,465	-
Increase (decrease) in liabilities:		
State income tax payable	1,122	557
Customers' deposits	14,924	8,975
Accounts payable, accrued interest and other accrued liabilities	(70,490)	(9,605)
Net cash used in operating activities	(115,729)	(94,059)
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property and assets	5	16
Purchase of property, equipment, and other fixed assets and acquisitions	(2,453)	(964)
Investment in and advances to unconsolidated joint ventures	(1,033)	(3,214)
Distributions of capital from unconsolidated joint ventures	554	12,035
Net cash (used in) provided by investing activities	(2,927)	7,873
<b>Cash flows from financing activities:</b>		
Proceeds from mortgages and notes	136,021	64,257
Payments related to mortgages and notes	(63,892)	(72,235)
Proceeds from model sale leaseback financing programs	8,737	1,360
Payments related to model sale leaseback financing programs	(3,553)	(3,583)
Proceeds from land bank financing programs	21,425	15,025
Payments related to land bank financing programs	(13,642)	(24,726)
Payments for partner distributions to consolidated joint venture	(150)	-
Net (payments) proceeds related to mortgage warehouse lines of credit	(63,311)	23,925
Preferred dividends paid	(2,669)	-
Deferred financing costs from land banking financing programs and note issuances	(1,848)	(590)
Net cash provided by financing activities	17,118	3,433
Net decrease in cash and cash equivalents, and restricted cash and cash equivalents	(101,538)	(82,753)
Cash and cash equivalents, and restricted cash and cash equivalents balance, beginning of period	311,396	309,460
Cash and cash equivalents, and restricted cash and cash equivalents balance, end of period	\$ 209,858	\$ 226,707
<b>Supplemental disclosures of cash flows:</b>		
Cash paid during the period for:		
Interest, net of capitalized interest (see Note 3 to the Condensed Consolidated Financial Statements)	\$ (5,254)	\$ 9,922
Income taxes	\$ 7	\$ 69
<b>Reconciliation of Cash, cash equivalents and restricted cash</b>		
Homebuilding: Cash and cash equivalents	\$ 137,898	\$ 172,098
Homebuilding: Restricted cash and cash equivalents	14,260	12,628
Financial Services: Cash and cash equivalents, included in Financial services assets	6,846	4,531
Financial Services: Restricted cash and cash equivalents, included in Financial services assets	50,854	37,450
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	\$ 209,858	\$ 226,707

## 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 the Company does 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 the Company does 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, 2021. 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 months ended January 31, 2022 and 2021, the Company’s total stock-based compensation expense was \$1.6 million (\$1.1 million net of tax) and \$0.9 million (\$0.8 million net of tax), respectively. Included in total stock-based compensation expense was the vesting of stock options of \$45 thousand and \$0.1 million for the three months ended January 31, 2022 and 2021, respectively.



### 3. Interest

Interest costs incurred, expensed and capitalized were:

(In thousands)	Three Months Ended January 31,	
	2022	2021
Interest capitalized at beginning of period	\$ 58,159	\$ 65,010
Plus interest incurred(1)	32,783	41,457
Less cost of sales interest expensed	13,745	17,165
Less other interest expensed(2)(3)	13,393	23,975
Interest capitalized at end of period(4)	<u>\$ 63,804</u>	<u>\$ 65,327</u>

(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 \$11.5 million and \$16.2 million for the three months ended January 31, 2022 and 2021, 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 \$1.9 million and \$7.8 million for the three months ended January 31, 2022 and 2021, 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:

(In thousands)	Three Months Ended January 31,	
	2022	2021
Other interest expensed	\$ 13,393	\$ 23,975
Interest paid by our mortgage and finance subsidiaries	468	425
Increase in accrued interest	(19,115)	(14,478)
Cash paid for interest, net of capitalized interest	<u>\$ (5,254)</u>	<u>\$ 9,922</u>

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

### 4. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments.

During the three months ended January 31, 2022 and 2021, we evaluated inventories of all 382 and 360 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. As a result of such analysis, we did not identify any impairment indicators and therefore were not required to perform undiscounted future cash flow analyses during the three months ended January 31, 2022 for any of the 382 communities. We performed undiscounted future cash flow analyses during the three months ended January 31, 2021 for one of the 360 communities with an aggregate carrying value of \$2.3 million, which had projected operating losses or other impairment indicators. As a result of our undiscounted future cash flow analyses, we performed discounted cash flow analyses and recorded an impairment loss of \$0.8 million in the community for the three months ended January 31, 2021. In the first quarter of fiscal 2021, the discount rate used for the impairment recorded was 19.3%. In the first quarter of fiscal 2022, we did not record any impairment losses. Impairment losses 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.

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 \$1.1 million for the three months ended January 31, 2022 and 2021, 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 both the three months ended January 31, 2022 and 2021 were 420. The walk-aways were located in the Northeast, Southeast, Southwest and West segments in the first quarter of fiscal 2022 and in the Southwest and West segments in the first quarter of fiscal 2021.

We decide to mothball (or stop development on) certain communities when we determine that the current performance does not justify further investment at the time. When we decide to mothball a community, the inventory is reclassified on our Condensed Consolidated Balance Sheets from “Sold and unsold homes and lots under development” to “Land and land options held for future development or sale.” During the first quarter of fiscal 2022, we did not mothball any additional communities, and we did not sell or re-activate any previously mothballed communities. As of both January 31, 2022 and October 31, 2021, the net book value associated with our six total mothballed communities was \$4.3 million, which was net of impairment charges recorded in prior periods of \$57.5 million.

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 January 31, 2022 and October 31, 2021, inventory of \$36.2 million and \$32.5 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of \$36.5 million and \$31.5 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 January 31, 2022 and October 31, 2021, inventory of \$88.6 million and \$66.2 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of \$38.8 million and \$31.3 million (net of debt issuance costs), respectively, recorded to “Liabilities from inventory not owned” for the amount of net cash received from the transactions.

## 5. Variable Interest Entities

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

In compliance with ASC 810, the Company analyzes its option purchase contracts to determine whether the corresponding land sellers are VIEs and, if so, whether the Company is the primary beneficiary. Although the Company does not have legal title to the underlying land, ASC 810 requires the Company to consolidate a VIE if the Company is determined to be the primary beneficiary. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities would include, among other things, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. As a result of its analyses, the Company determined that, as of January 31, 2022 and October 31, 2021, it was not the primary beneficiary of any VIEs from which it is purchasing land under option purchase contracts.

We will continue to secure land and lots using options, some of which are with VIEs. Including deposits on our unconsolidated VIEs, at January 31, 2022, we had total cash deposits amounting to \$123.9 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 months ended January 31, 2022 and 2021, we received \$1.2 million and \$1.5 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 to be delivered in fiscal 2022 and previously delivered in 2021, our deductible under our general liability insurance is or was a \$25 million and \$20 million, respectively, aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2022 and 2021 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 \$25 million for fiscal 2022 and \$20 million for fiscal 2021. In addition, we establish a warranty accrual for lower cost-related issues to cover home repairs, community amenities and land development infrastructure that are not covered under our general liability and construction defect policy. We accrue an estimate for these warranty costs as part of cost of sales at the time each home is closed and title and possession have been transferred to the homebuyer. Additions and charges in the warranty reserve and general liability reserve for the three months ended January 31, 2022 and 2021 were as follows:

(In thousands)	Three Months Ended January 31,	
	2022	2021
Balance, beginning of period	\$ 94,916	\$ 86,417
Additions – Selling, general and administrative	2,216	2,048
Additions – Cost of sales	1,424	1,898
Charges incurred during the period	(4,154)	(1,976)
Changes to pre-existing reserves	(1,049)	474
Balance, end of period	<u>\$ 93,353</u>	<u>\$ 88,861</u>

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

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were less than \$0.1 million for both the three months ended January 31, 2022 and 2021 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 April 20, 2022. 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 June 6, 2022. Mediation was held in September 2020, and a further mediation session is scheduled in March 2022. 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. 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 January 31, 2022 and October 31, 2021, \$13.4 million and \$15.7 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 \$14.3 million and \$16.1 million as of January 31, 2022 and October 31, 2021, 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 \$50.9 million and \$43.5 million as of January 31, 2022 and October 31, 2021, respectively. Included in these balances were (1) financial services customers’ deposits of \$46.8 million at January 31, 2022 and \$40.7 million as of October 31, 2021, which are subject to restrictions on our use, and (2) \$4.1 million at January 31, 2022 and \$2.8 million as of October 31, 2021 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 January 31, 2022 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.

(In thousands)	Three Months Ended	
	January 31, 2022	January 31, 2021
Operating lease cost	\$ 2,588	\$ 2,616
Cash payments on lease liabilities	\$ 2,440	\$ 2,298

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 months ended January 31, 2022, the Company recorded an additional \$6.6 million 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 January 31,	At October 31,
	2022	2021
ROU assets	\$ 19,922	\$ 17,844
Lease liabilities	\$ 21,004	\$ 18,952
Weighted-average remaining lease term (in years)	3.6	3.1
Weighted-average discount rate (incremental borrowing rate)	9.4%	9.4%

Maturities of our operating lease liabilities as of January 31, 2022 are as follows:

Year ending October 31,	(in thousands)
2022 (excluding the three months ended January 31, 2022)	\$ 6,668
2023	7,126
2024	4,479
2025	3,750
2026	2,758
Thereafter	1,396
Total payments	26,177
Less: imputed interest	(5,173)
Present value of lease liabilities	\$ 21,004

## 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 January 31, 2022 and October 31, 2021, \$69.3 million and \$136.5 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 January 31, 2022 and 2021, we had reserves specifically for 14 and 15 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 months ended January 31, 2022 and 2021 was as follows:

(In thousands)	Three Months Ended	
	January 31,	
	2022	2021
Loan origination reserves, beginning of period	\$ 1,632	\$ 1,458
Provisions for losses during the period	41	50
Adjustments to pre-existing provisions for losses from changes in estimates	-	-
Loan origination reserves, end of period	<u>\$ 1,673</u>	<u>\$ 1,508</u>

## 11. Mortgages

*Nonrecourse.* We have nonrecourse mortgage loans for certain communities totaling \$196.4 million and \$125.1 million (net of debt issuance costs) at January 31, 2022 and October 31, 2021, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of \$563.9 million and \$448.5 million, respectively. The weighted-average interest rate on these obligations was 4.8% and 4.4% at January 31, 2022 and October 31, 2021, 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 January 31, 2022 to extend the maturity date to January 31, 2023, is a short-term borrowing facility that provides up to \$50.0 million through its maturity on June 30, 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 monthly on outstanding advances at an adjusted SOFR rate, which was 0.98% at January 31, 2022, plus the applicable margin of 2.375% to 2.5%. As of January 31, 2022 and October 31, 2021, the aggregate principal amount of all borrowings outstanding under the Chase Master Repurchase Agreement was \$29.7 million and \$45.7 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, which we expect to be renewed for a one year term. 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 January 31, 2022 and October 31, 2021, the aggregate principal amount of all borrowings outstanding under the Customers Master Repurchase Agreement was \$29.6 million and \$40.5 million, respectively.

K. Hovnanian Mortgage also has a secured Master Repurchase Agreement with Comerica Bank ("Comerica Master Repurchase Agreement"), which was amended on January 11, 2022 to extend the maturity date to January 9, 2023 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 daily adjusting BSBY rate, subject to a floor of 0.50%, plus the applicable margin of 1.875% or 3.25% based upon the type of loan. As of January 31, 2022 and October 31, 2021, the aggregate principal amount of all borrowings outstanding under the Comerica Master Repurchase Agreement was \$12.3 million and \$48.7 million, respectively.

The Chase Master Repurchase Agreement, Customers Master Repurchase Agreement and Comerica Master Repurchase Agreement (together, the "Master Repurchase Agreements") require K. Hovnanian Mortgage to satisfy and maintain specified financial ratios and other financial condition tests. Because of the extremely short period of time mortgages are held by K. Hovnanian Mortgage before the mortgages are sold to investors (generally a period of a few weeks), the immateriality to us on a consolidated basis of the size of the Master Repurchase Agreements, the levels required by these financial covenants, our ability based on our immediately available resources to contribute sufficient capital to cure any default, were such conditions to occur, and our right to cure any conditions of default based on the terms of the applicable agreement, we do not consider any of these covenants to be substantive or material. As of January 31, 2022, 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 January 31, 2022 and October 31, 2021, were as follows:

(In thousands)	January 31, 2022	October 31, 2021
<b>Senior Secured Notes:</b>		
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
<b>Total Senior Secured Notes</b>	<b>\$ 953,093</b>	<b>\$ 953,093</b>
<b>Senior Notes:</b>		
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
<b>Total Senior Notes</b>	<b>\$ 180,710</b>	<b>\$ 180,710</b>
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)	\$ -	\$ -
<b>Subtotal notes payable</b>	<b>\$ 1,254,852</b>	<b>\$ 1,254,852</b>
Net (discounts) premiums	\$ 8,672	\$ 10,769
Net debt issuance costs	\$ (16,303)	\$ (17,248)
<b>Total notes payable, net of discounts, premiums and debt issuance costs</b>	<b>\$ 1,247,221</b>	<b>\$ 1,248,373</b>

(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.

(2) At January 31, 2022, 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 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 January 31, 2022 (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 January 31, 2022 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 January 31, 2022, 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 each such case, 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 of October 31, 2021, as a result of our improved operating results, our fixed coverage ratio was above 2.0 to 1.0 and our secured debt leverage ratio was below 4.0 to 1.0, therefore we were no longer restricted from paying dividends. As such, on December 3, 2021 our Board of Directors authorized a dividend payment of \$2.7 million to preferred shareholders of record on January 1, 2022, which was paid in the first quarter of fiscal 2022.

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 2022*

There were no transactions in respect of our Debt Instruments in the first quarter of fiscal 2022.

*Fiscal 2021*

There were no transactions in respect of our Debt Instruments in the first quarter of fiscal 2021.

### *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 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. 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. 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.

The 10.0% 1.75 Lien Notes due 2025 (the "1.75 Lien Notes") have a maturity of November 15, 2025 and bear interest at a rate of 10.0% per annum 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. At any time and from time to time 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.

On December 10, 2019, K. Hovnanian entered into a Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028 (the "Secured Term Loan Facility"). The secured term loans under the Secured Term Loan Facility (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. At any time and from time to time 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.

Each series of secured notes 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 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 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 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 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 January 31, 2022, the collateral securing the Secured Credit Agreement, the Secured Term Loan Facility and the secured notes included (1) \$140.7 million of cash and cash equivalents, which included \$8.1 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) \$414.3 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 \$102.7 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, 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 \$7.9 million and \$9.3 million letters of credit outstanding at January 31, 2022 and October 31, 2021, 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 January 31, 2022 and October 31, 2021, the amount of cash collateral in these segregated accounts was \$8.1 million and \$9.9 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 January 31,	
	2022	2021
<b>Numerator:</b>		
Numerator for basic and diluted earnings per share	\$ 19,950	\$ 17,360
<b>Denominator:</b>		
Denominator for basic earnings per share – weighted average shares outstanding	6,389	6,225
<b>Effect of dilutive securities:</b>		
Share based payments	112	78
Denominator for diluted earnings per share – weighted average shares outstanding	6,501	6,303
Basic earnings per share	\$ 3.12	\$ 2.79
Diluted earnings per share	\$ 3.07	\$ 2.75

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 less than 0.1 million and 0.2 million for the three months ended January 31, 2022 and 2021, respectively, 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 months ended January 31, 2022 we paid a dividend in the amount of \$2.7 million on the Series A Preferred Stock. During the three months ended January 31, 2021, 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 months ended January 31, 2022. As of January 31, 2022, 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 January 31, 2022 was \$10.6 million. The expense was primarily due to federal and state tax expense recorded as a result of our pretax income. The federal tax expense is not paid in cash as it is offset by the use of our existing NOL carryforwards. For the three months ended January 31, 2021, our deferred tax assets were still fully reserved, therefore we had no federal tax expense and only recorded state tax expense of \$0.6 million primarily related to state tax expense from income generated in states where we do not have NOL carryforwards to offset that income.

Our federal net operating losses of \$1.2 billion expire between 2029 and 2038, and \$17.1 million have an indefinite carryforward period. Of our \$2.4 billion of state NOLs, \$229.8 million expire between 2022 through 2026; \$1.5 billion expire between 2027 through 2031; \$397.2 million expire between 2032 through 2036; \$169.8 million expire between 2037 through 2041; and \$53.9 million have an indefinite carryforward period.

The Company recognizes deferred income taxes for 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. A valuation allowance is provided to offset deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character. Sources of taxable income include future reversals of existing taxable temporary differences, expected future taxable income, taxable income in prior carryback years if permitted under the tax law, and tax planning strategies. Management has determined that it is more likely than not that sufficient taxable income will be generated in the future to realize its deferred tax assets except for a portion related to state deferred tax assets. The Company’s deferred tax assets as of January 31, 2022 were \$416.2 million.

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 was reversed during the year ended October 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 \$101.6 million remained at October 31, 2021.

As of January 31, 2022, we considered all available positive and negative evidence to determine whether, based on the weight of that evidence, our valuation allowance for our deferred state income tax assets (“DTAs”) was appropriate in accordance with ASC 740. 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 \$101.6 million as of January 31, 2022, which partially reserves for our state DTAs, is appropriate.

The significant positive improvement in our operations in the last 27 months, coupled with our contract backlog of \$1.9 billion as of January 31, 2022 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 a valuation allowance for our federal DTAs was not needed. However, with respect to our state DTAs, we concluded that a valuation allowance of \$101.6 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.

## 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 before income taxes"). Income before income taxes for the Homebuilding segments consist of revenues generated from the sales of homes and land, income 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 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 January 31,	
	2022	2021
<b>Revenues:</b>		
Northeast	\$ 20,359	\$ 32,044
Mid-Atlantic	99,614	92,945
Midwest	54,972	59,157
Southeast	55,582	45,774
Southwest	194,510	190,409
West	126,960	134,832
Total homebuilding	551,997	555,161
Financial services	13,309	19,497
Corporate and unallocated	7	6
<b>Total revenues</b>	<b>\$ 565,313</b>	<b>\$ 574,664</b>
<b>Income before income taxes:</b>		
Northeast	\$ 2,450	\$ 4,594
Mid-Atlantic	16,737	10,701
Midwest	651	3,584
Southeast	10,162	354
Southwest	21,876	21,050
West	22,059	9,677
Total homebuilding	73,935	49,960
Financial services	2,909	9,143
Corporate and unallocated (1)	(41,443)	(39,518)
<b>Income before income taxes</b>	<b>\$ 35,401</b>	<b>\$ 19,585</b>

(1) Corporate and unallocated for the three months ended January 31, 2022 included corporate general and administrative costs of \$29.4 million, interest expense of \$11.5 million (a component of Other interest on our Condensed Consolidated Statements of Operations), and \$0.5 million of other income and expenses primarily related to interest income and stock compensation. Corporate and unallocated for the three months ended January 31, 2021 included corporate general and administrative costs of \$23.5 million, interest expense of \$16.2 million (a component of Other interest on our Condensed Consolidated Statements of Operations), and \$(0.2) million of other income and expenses primarily related to interest income and stock compensation.

(In thousands)	January 31, 2022	October 31, 2021
<b>Assets:</b>		
Northeast	\$ 156,333	\$ 133,390
Mid-Atlantic	318,833	273,073
Midwest	80,929	85,044
Southeast	291,287	257,044
Southwest	469,188	413,532
West	232,575	229,810
Total homebuilding	1,549,145	1,391,893
Financial services (1)	143,057	202,758
Corporate and unallocated	616,965	725,857
<b>Total assets</b>	<b>\$ 2,309,167</b>	<b>\$ 2,320,508</b>

(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.

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)

	January 31, 2022		
	Homebuilding	Land Development	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 153,943	\$ 1,668	\$ 155,611
Inventories	451,029	-	451,029
Other assets	34,942	-	34,942
<b>Total assets</b>	<b>\$ 639,914</b>	<b>\$ 1,668</b>	<b>\$ 641,582</b>
<b>Liabilities and equity:</b>			
Accounts payable and accrued liabilities	\$ 438,290	\$ 1,290	439,580
Notes payable	60,306	-	60,306
<b>Total liabilities</b>	<b>498,596</b>	<b>1,290</b>	<b>499,886</b>
<b>Equity of:</b>			
Hovnanian Enterprises, Inc.	64,162	298	64,460
Others	77,156	80	77,236
<b>Total equity</b>	<b>141,318</b>	<b>378</b>	<b>141,696</b>
<b>Total liabilities and equity</b>	<b>\$ 639,914</b>	<b>\$ 1,668</b>	<b>\$ 641,582</b>
Debt to capitalization ratio	30%	0%	30%

(Dollars in thousands)

	October 31, 2021		
	Homebuilding	Land Development	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 132,963	\$ 1,972	\$ 134,935
Inventories	442,347	-	442,347
Other assets	34,551	-	34,551
<b>Total assets</b>	<b>\$ 609,861</b>	<b>\$ 1,972</b>	<b>\$ 611,833</b>
<b>Liabilities and equity:</b>			
Accounts payable and accrued liabilities	\$ 386,117	\$ 1,681	\$ 387,798
Notes payable	73,994	-	73,994
<b>Total liabilities</b>	<b>460,111</b>	<b>1,681</b>	<b>461,792</b>
<b>Equity of:</b>			
Hovnanian Enterprises, Inc.	58,460	254	58,714
Others	91,290	37	91,327
<b>Total equity</b>	<b>149,750</b>	<b>291</b>	<b>150,041</b>
<b>Total liabilities and equity</b>	<b>\$ 609,861</b>	<b>\$ 1,972</b>	<b>\$ 611,833</b>
Debt to capitalization ratio	33%	0%	33%

As of January 31, 2022 and October 31, 2021, we had advances outstanding of \$3.0 million and \$2.2 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 \$67.5 million and \$60.9 million at January 31, 2022 and October 31, 2021, 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 assessed for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. During the three months ended January 31, 2022 and 2021, we did not write-down any of our unconsolidated joint venture investments.

(In thousands)	Three Months Ended January 31, 2022		
	Land		
	Homebuilding	Development	Total
Revenues	\$ 69,591	\$ 113	\$ 69,704
Cost of sales and expenses	(65,582)	(26)	(65,608)
Joint venture net income	\$ 4,009	\$ 87	\$ 4,096
Our share of net income	\$ 8,147	\$ 45	\$ 8,192

(In thousands)	Three Months Ended January 31, 2021		
	Land		
	Homebuilding	Development	Total
Revenues	\$ 71,464	\$ 263	\$ 71,727
Cost of sales and expenses	(71,273)	(28)	(71,301)
Joint venture net income	\$ 191	\$ 235	\$ 426
Our share of net income	\$ 1,911	\$ 95	\$ 2,006

“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 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” is higher or lower than the “Joint venture net income” shown in the tables above for both the three months ended January 31, 2022 and 2021, respectively, is because we have varying ownership percentages, ranging from 20% to over 50%, in our 10 and 11 unconsolidated joint ventures for both periods, respectively. 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 January 31, 2022, “Our share of net income” was higher than the “Joint venture net income” due to our ability to recognize income from two of our unconsolidated joint ventures during the quarter based on the joint venture partner achieving certain return hurdles, in compliance with the joint venture agreement, and as a result, the Company was able to recognize a higher share of the unconsolidated joint ventures’ calendar 2021 profit. In addition, we had previously written off our investment in one of our unconsolidated joint ventures that was generating losses for the three months ended January 31, 2022 and therefore we currently do not recognize those losses. Had we not fully written off our investment, our share of the net loss in this unconsolidated joint venture 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, this unconsolidated joint venture loss significantly reduced the profit when looking at all of our 10 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 \$2.4 million and \$2.3 million for the three months ended January 31, 2022 and 2021, respectively, are recorded in “Homebuilding: Selling, general and administrative” on the Condensed Consolidated Statements of Operations.

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 30% as of January 31, 2022. 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 January 31, 2022	Fair Value at October 31, 2021
Mortgage loans held for sale (1)	Level 2	\$ 82,402	\$ 151,059
Forward contracts	Level 2	135	(107)
<b>Total</b>		<b>\$ 82,537</b>	<b>\$ 150,952</b>
Interest rate lock commitments	Level 3	(645)	152
<b>Total</b>		<b>\$ 81,892</b>	<b>\$ 151,104</b>

(1) The aggregate unpaid principal balance was \$80.4 million and \$146.5 million at January 31, 2022 and October 31, 2021, 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 \$1.0 billion at January 31, 2022. Loans in process for which interest rates were committed to the borrowers totaled \$104.8 million as of January 31, 2022. 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 January 31, 2022, the segment had open commitments amounting to \$21.0 million to sell MBS with varying settlement dates through March 21, 2022.

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:

(In thousands)	Three Months Ended January 31, 2022		
	Mortgage Loans Held For Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net income all reflected in financial services revenues	\$ 1,982	\$ (645)	\$ 135

(In thousands)	Three Months Ended January 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	\$ 4,893	\$ 54	\$ (151)

The Company did not have any assets measured at fair value on a nonrecurring basis during the three months ended January 31, 2022. 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 months ended January 31, 2021. 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 January 31, 2021		
		Pre- Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	\$ 2,286	\$ (843)	\$ 1,443
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 \$0.8 million for the three months ended January 31, 2021. The Company did not record any inventory impairments for the three months ended January 31, 2022. 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 5.0% 2040 Notes were a Level 2 measurement at January 31, 2022 due to recent trades on such notes (whereas such notes were a Level 3 measurement at October 31, 2021).

Fair Value as of January 31, 2022

(In thousands)	Level 1	Level 2	Level 3	Total
<b>Senior Secured Notes:</b>				
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025	-	-	167,537	167,537
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026	-	-	364,000	364,000
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026	-	-	301,096	301,096
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026	-	-	162,878	162,878
<b>Senior Notes:</b>				
13.5% Senior Notes due February 1, 2026	-	-	93,471	93,471
5.0% Senior Notes due February 1, 2040	-	61,561	-	61,561
<b>Senior Credit Facilities:</b>				
Senior Unsecured Term Loan Credit Facility due February 1, 2027	-	-	29,228	29,228
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	-	-	86,143	86,143
<b>Total fair value</b>	<b>\$ -</b>	<b>\$ 61,561</b>	<b>\$ 1,204,353</b>	<b>\$ 1,265,914</b>

Fair Value as of October 31, 2021

(In thousands)	Level 1	Level 2	Level 3	Total
<b>Senior Secured Notes:</b>				
10.0% Senior Secured 1.75 Lien Notes due November 15, 2025	-	-	167,348	167,348
7.75% Senior Secured 1.125 Lien Notes due February 15, 2026	-	-	366,426	366,426
10.5% Senior Secured 1.25 Lien Notes due February 15, 2026	-	-	300,913	300,913
11.25% Senior Secured 1.5 Lien Notes due February 15, 2026	-	-	162,548	162,548
<b>Senior Notes:</b>				
13.5% Senior Notes due February 1, 2026	-	-	92,331	92,331
5.0% Senior Notes due February 1, 2040	-	-	63,084	63,084
<b>Senior Credit Facilities:</b>				
Senior Unsecured Term Loan Credit Facility due February 1, 2027	-	-	28,196	28,196
Senior Secured 1.75 Lien Term Loan Credit Facility due January 31, 2028	-	-	86,046	86,046
<b>Total fair value</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,266,892</b>	<b>\$ 1,266,892</b>

The Senior Secured Revolving Credit Facility is not included in the above tables because there were no borrowings outstanding thereunder as of January 31, 2022 and October 31, 2021.

## 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 the three months ended January 31, 2022 and 2021, the services provided by such engineering firm to the Company totaled \$0.2 million and \$0.1 million, respectively. Neither the Company nor Mr. Hovnanian has a financial interest in the relative's company from whom the services were provided.

## 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, inflation and overall housing affordability. In general, at the start of fiscal year 2020, 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 were contributing to improving conditions for new home sales.

In March 2020, as a result of 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. However, beginning in May 2020, the homebuilding market rapidly improved, 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. During the third quarter and continuing through the fourth quarter of fiscal 2020, 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 improved significantly in fiscal 2020 as compared to fiscal 2019, and improved even further in fiscal 2021 and the first quarter of fiscal 2022.

## Operating Results

We experienced significant positive operating results for the three months ended January 31, 2022 as follows:

- Sale of homes revenues remained flat at \$551.4 million for both the three months ended January 31, 2022 and 2021. There was an increase in average prices of 18.0% for the three months ended January 31, 2022, compared to the prior year period as home prices increased in virtually all of our markets, along with the geographic and community mix of our deliveries. However, there was a 15.2% decrease in the number of home deliveries due in part to the prior year deliveries being unusually high as a result of the unsustainable and extremely strong sales pace in late fiscal 2020 and early fiscal 2021, and also due to supply chain challenges extending construction cycle times and delaying some deliveries.
- Gross margin dollars increased 15.0% for the three months ended January 31, 2022, as compared to the same period of the prior year, as a result of the increase in gross margin percentage to 19.9% for the three months ended January 31, 2022 from 17.3% for the three months ended January 31, 2021. Gross margin percentage, before cost of sales interest expense and land charges, increased from 20.7% for the three months ended January 31, 2021 to 22.4% for the three months ended January 31, 2022. 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 \$72.2 million, or 12.8% of total revenues, in the three months ended January 31, 2022 compared with \$63.7 million, or 11.1% of total revenues, in the three months ended January 31, 2021. Such costs increased \$8.5 million for the three months ended January 31, 2022, as compared to the same periods of the prior year primarily due to compensation expense related to finalizing the performance and related payouts for the phantom stock awards under our 2019 Long Term Incentive Plan ("2019 LTIP"), and increases in merits and incentives as a result of increased profitability.
- Other interest decreased to \$13.4 million for the three months ended January 31, 2022 from \$24.0 million for the three months ended January 31, 2021, as we incurred less interest and had less debt in excess of inventory, as a result of the reduction of our debt during the second half of fiscal 2021, and due to the decrease in average inventory not owned during the three months ended January 31, 2022 compared to the three months ended January 31, 2021.
- Pre-tax income increased to \$35.4 million for the three months ended January 31, 2022 from pre-tax income of \$19.6 million for the three months ended January 31, 2021. Net income increased to \$24.8 million for the three months ended January 31, 2022 from net income of \$19.0 million for the three months ended January 31, 2021. Earnings per share, basic and diluted, increased to \$3.12 and \$3.07, respectively, for the three months ended January 31, 2022 compared to \$2.79 and \$2.75, respectively, for the three months ended January 31, 2021.
- Net contracts decreased 12.8% for the three months ended January 31, 2022, compared to the same periods of the prior year.
- Net contracts per average active selling community decreased to 13.1 for the three months ended January 31, 2022 compared to 16.0 in the same period of the prior year which was during the peak sales pace during the pandemic. The 13.1 net contracts per average active selling community for the three months ended January 31, 2022 was above the 9.7 net contracts per average active selling community for the three months ended January 31, 2020, which was a strong first quarter pace by historical standards. While a decrease from the same period of the prior year, this strong absorption pace resulted in our active selling communities at January 31, 2022 decreasing by 10.5% from October 31, 2021. However, we are actively pursuing replacement communities, and our total lots controlled has increased each quarter since July 31, 2020 through July 31, 2021, and again from October 31, 2021 to January 31, 2022.
- Contract backlog decreased from 3,795 homes at January 31, 2021 to 3,624 homes at January 31, 2022. Despite this decrease, as a result of price increases in virtually all of our markets, the dollar value of contract backlog increased 13.2% to \$1.9 billion compared to the prior year.
- Our cash position allowed us to spend \$194.8 million on land purchases and land development during the three months ended January 31, 2022 and still have total liquidity of \$271.0 million, including \$137.9 million of homebuilding cash and cash equivalents as of January 31, 2022 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, 2021, 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, 2021, 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 January 31, 2022 was \$271.0 million, including \$137.9 million in homebuilding cash and cash equivalents and \$125.0 million of borrowing capacity under our senior secured revolving credit facility. 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 2022 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 2022 to finance our working capital requirements.

We spent \$194.8 million on land and land development during the first quarter of fiscal 2022. After considering this land and land development and all other operating activities, including revenue received from deliveries, cash used for operations was \$115.7 million. During the first quarter of fiscal 2022, cash used in investing activities was \$2.9 million, primarily due to the acquisition of certain fixed assets, partially offset by distributions from existing unconsolidated joint ventures. Cash provided by financing activities was \$17.1 million during the first quarter of fiscal 2022, which was due to net proceeds for nonrecourse mortgage financings and land banking and model sale leaseback financings during the period, partially offset by net payments related to 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 three months ended January 31, 2022 and 2021 were for operating expenses, land purchases, land deposits, land development, construction spending, state income taxes, interest payments, 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, model sale leasebacks, land banking transactions, unconsolidated joint ventures, financial service revenues and other revenues.

Our net income historically does not approximate cash flow from operating activities. The difference between net income 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 January 31, 2022 and October 31, 2021, were as follows:

(In thousands)	January 31, 2022	October 31, 2021
<b>Senior Secured Notes:</b>		
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
<b>Total Senior Secured Notes</b>	<b>\$ 953,093</b>	<b>\$ 953,093</b>
<b>Senior Notes:</b>		
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
<b>Total Senior Notes</b>	<b>\$ 180,710</b>	<b>\$ 180,710</b>
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)	\$ -	\$ -
<b>Subtotal notes payable</b>	<b>\$ 1,254,852</b>	<b>\$ 1,254,852</b>
<b>Net (discounts) premiums</b>	<b>\$ 8,672</b>	<b>\$ 10,769</b>
<b>Net debt issuance costs</b>	<b>\$ (16,303)</b>	<b>\$ (17,248)</b>
<b>Total notes payable, net of discounts, premiums and debt issuance costs</b>	<b>\$ 1,247,221</b>	<b>\$ 1,248,373</b>

(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.

(2) At January 31, 2022, 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 and senior notes outstanding at January 31, 2022 (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) (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 January 31, 2022 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 January 31, 2022, 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 such case, 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 of October 31, 2021, as a result of our improved operating results, our fixed coverage ratio was above 2.0 to 1.0 and our secured debt leverage ratio was below 4.0 to 1.0, therefore we were no longer restricted from paying dividends. As such, on December 3, 2021, our Board of Directors authorized a dividend payment of \$2.7 million to preferred shareholders of record on January 1, 2022, which was paid in the first quarter of fiscal 2022.

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.

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 \$196.4 million and \$125.1 million (net of debt issuance costs) at January 31, 2022 and October 31, 2021, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of \$563.9 million and \$448.5 million, respectively. The weighted-average interest rate on these obligations was 4.8% and 4.4% at January 31, 2022 and October 31, 2021, 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 January 31, 2022 and October 31, 2021, we had an aggregate of \$71.6 million and \$134.9 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 \$133.0 million during the three months ended January 31, 2022 from October 31, 2021. Total inventory, excluding consolidated inventory not owned, increased in the Southwest by \$52.4 million, in the Mid-Atlantic by \$50.4 million, in the Northeast by \$25.5 million and in the Southeast by \$16.8 million. The increase was partially offset by decreases in the West of \$6.9 million and the Midwest of \$5.2 million. The net increase was primarily attributable to new land purchases and land development, partially offset by home deliveries during the period. During the three months ended January 31, 2022, we wrote-off costs in the amount of \$0.1 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. There were no impairment losses during the three months ended January 31, 2022. 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 January 31, 2022 are expected to be delivered during the next six to nine months.

Consolidated inventory not owned increased \$26.1 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 increase from October 31, 2021 to January 31, 2022 was primarily due to an increase in land banking transactions along with an increase 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 January 31, 2022, inventory of \$88.6 million was recorded to "Consolidated inventory not owned," with a corresponding amount of \$38.8 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 January 31, 2022, inventory of \$36.2 million was recorded to "Consolidated inventory not owned," with a corresponding amount of \$36.5 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 January 31, 2022, we had mothballed land in six communities. The book value associated with these communities at January 31, 2022 was \$4.3 million, which was net of impairment charges recorded in prior periods of \$57.5 million. We continually review communities to determine if mothballing is appropriate. During the first quarter of fiscal 2022, we did not mothball any additional communities, nor did we sell or re-activate any previously mothballed communities.

Inventories held for sale, which are land parcels where we have decided not to build homes and we are actively marketing the land for sale, are reported at the lower of carrying amount or fair value less costs to sell. There were no inventories held for sale at both January 31, 2022 and October 31, 2021. 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 January 31, 2022 compared to October 31, 2021 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
<b>January 31, 2022:</b>				
Northeast	6	816	2,712	3,528
Mid-Atlantic	16	2,179	6,166	8,345
Midwest	9	1,227	1,121	2,348
Southeast	18	2,082	1,915	3,997
Southwest	47	4,483	5,695	10,178
West	15	2,527	1,827	4,354
Consolidated total	<u>111</u>	<u>13,314</u>	<u>19,436</u>	<u>32,750</u>
Unconsolidated joint ventures (2)	<u>16</u>	<u>3,798</u>	-	<u>3,798</u>
Owned		8,096	3,693	11,789
Optioned		<u>4,796</u>	<u>15,743</u>	<u>20,539</u>
Controlled lots		12,892	19,436	32,328
Construction to permanent financing lots		<u>422</u>	-	<u>422</u>
Consolidated total		<u>13,314</u>	<u>19,436</u>	<u>32,750</u>

(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, 2021:				
Northeast	6	821	2,525	3,346
Mid-Atlantic	20	2,160	6,083	8,243
Midwest	8	1,263	1,120	2,383
Southeast	22	1,736	2,043	3,779
Southwest	53	4,728	4,680	9,408
West	15	2,225	1,859	4,084
Consolidated total	<u>124</u>	<u>12,933</u>	<u>18,310</u>	<u>31,243</u>
Unconsolidated joint ventures (2)	<u>17</u>	<u>4,030</u>	<u>-</u>	<u>4,030</u>
Owned		7,257	3,194	10,451
Optioned		<u>5,307</u>	<u>15,116</u>	<u>20,423</u>
Controlled lots		12,564	18,310	30,874
Construction to permanent financing lots		<u>369</u>	<u>-</u>	<u>369</u>
Consolidated total		<u>12,933</u>	<u>18,310</u>	<u>31,243</u>

(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.

	January 31, 2022			October 31, 2021:		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	7	10	17	8	10	18
Mid-Atlantic	45	23	68	26	22	48
Midwest	13	9	22	8	9	17
Southeast	19	10	29	24	22	46
Southwest	87	23	110	114	29	143
West	3	10	13	7	12	19
<b>Total</b>	<b>174</b>	<b>85</b>	<b>259</b>	<b>187</b>	<b>104</b>	<b>291</b>

Started or completed unsold homes and models per active selling communities (1)	1.6	0.8	2.4	1.5	0.8	2.3
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(1) Active selling communities (which are communities that are open for sale with ten or more home sites available) were 111 and 124 at January 31, 2022 and October 31, 2021, 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 increased \$6.6 million to \$67.5 million at January 31, 2022 compared to October 31, 2021. The increase was primarily due to income recorded from one of our unconsolidated joint ventures during the period. As of January 31, 2022 and October 31, 2021, we had investments in nine unconsolidated homebuilding joint ventures 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 decreased \$5.1 million from October 31, 2021 to \$34.8 million at January 31, 2022. The decrease was primarily due to a decrease in receivables due to the timing of home closings.

Prepaid expenses and other assets were as follows as of:

(In thousands)	January 31, 2022	October 31, 2021	Dollar Change
Prepaid insurance	\$ 2,600	\$ 2,577	\$ 23
Prepaid project costs	27,503	25,880	1,623
Other prepaids	11,331	9,140	2,191
Other assets	713	745	(32)
Lease right of use asset	19,922	17,844	2,078
<b>Total</b>	<b>\$ 62,069</b>	<b>\$ 56,186</b>	<b>\$ 5,883</b>

Prepaid insurance was relatively flat for the three months ended January 31, 2022. 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. The increase was primarily due to costs incurred for communities not yet open for sale. 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. The increase in lease right of use assets was primarily due to a lease renewal for one of our offices, partially offset by lease payments during the period.

Financial services assets consist primarily of residential mortgages receivable held for sale of which \$79.2 million and \$149.2 million at January 31, 2022 and October 31, 2021, respectively, were being temporarily warehoused and are awaiting sale in the secondary mortgage market. The decrease in mortgage loans held for sale from October 31, 2021 was related to the decrease in the volume of loans originated during the first quarter of fiscal 2022 compared to the fourth quarter of fiscal 2021, along with a slight decrease in the average loan value.

Nonrecourse mortgages secured by inventory increased to \$196.4 million at January 31, 2022 from \$125.1 million at October 31, 2021. The increase was primarily due to new mortgages for communities in most of our segments obtained during the three months ended January 31, 2022, along with additional loan borrowings on existing mortgages, partially offset by the payment of existing mortgages during the period.

Accounts payable and other liabilities were as follows as of:

(In thousands)	January 31, 2022	October 31, 2021	Dollar Change
Accounts payable	\$ 141,414	\$ 163,898	\$ (22,484)
Reserves	96,721	98,831	(2,110)
Lease liability	21,004	18,952	2,052
Accrued expenses	14,733	17,588	(2,855)
Accrued compensation	43,219	102,862	(59,643)
Other liabilities	18,578	24,250	(5,672)
<b>Total</b>	<b>\$ 335,669</b>	<b>\$ 426,381</b>	<b>\$ (90,712)</b>

The decrease in accounts payable was primarily due to the decrease in deliveries in the first quarter of fiscal 2022 as compared to the fourth quarter of fiscal 2021. Reserves decreased slightly due to claim payments during the period, partially offset by new accruals primarily for warranty and construction defect claims. 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. The increase corresponds to the increase in the lease right of use asset discussed above. Accrued expenses decreased primarily due to a decrease in accrued property taxes, partially offset by an increase in an accrual for a sales reward program. The decrease in accrued compensation was primarily due to the payment of our fiscal year 2021 bonuses during the first quarter of fiscal 2022, partially offset by the accrual of fiscal 2022 bonuses in the first quarter of fiscal 2022. Other liabilities decreased primarily due to deferred payroll tax withholdings which were paid during the period.

Customers' deposits increased \$14.9 million from October 31, 2021 to \$83.2 million at January 31, 2022. The increase was primarily related to the increase in backlog during the period.

Liabilities from inventory not owned increased \$12.6 million from October 31, 2021 to \$75.3 million at January 31, 2022. The increase was primarily due to an increase in land banking activity during the period and an increase in the sale and leaseback of certain model homes, both accounted for as financing transactions as described above.

Financial Services (liabilities) decreased \$60.0 million to \$122.2 million at January 31, 2022 from \$182.2 million at October 31, 2021. The decrease was primarily due to a decrease in amounts outstanding under our mortgage warehouse lines of credit and directly correlates to the decrease in the volume of mortgage loans held for sale during the period.

Accrued interest increased \$19.1 million from \$28.2 million at October 31, 2021, to \$47.3 million at January 31, 2022. The increase was primarily due to timing of new accruals, partially offset by payments, related to our senior secured, senior notes and term loan during the period.



## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2022 COMPARED TO THE THREE MONTHS ENDED JANUARY 31, 2021

## Total Revenues

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

(Dollars in thousands)	Three Months Ended			
	January 31, 2022	January 31, 2021	Dollar Change	Percentage Change
Homebuilding:				
Sale of homes	\$ 551,366	\$ 551,365	\$ 1	0.0%
Land sales and other revenues	638	3,802	(3,164)	(83.2)%
Financial services	13,309	19,497	(6,188)	(31.7)%
Total revenues	<u>\$ 565,313</u>	<u>\$ 574,664</u>	<u>\$ (9,351)</u>	<u>(1.6)%</u>

## Homebuilding

For the three months ended January 31, 2022, sale of homes revenues was flat when compared to the same period of the prior year. The sale of homes revenue is flat due to an 18.0% increase in the average price per home, partially offset by a 15.2% decrease in homes delivered for the three months ended January 31, 2022, compared with the respective prior year period. The average price per home increased to \$469,647 in the three months ended January 31, 2022 from \$398,097 in the three months ended January 31, 2021. 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. 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:

(Dollars in thousands)	Three Months Ended January 31,		
	2022	2021	% Change
<b>Northeast:</b>			
Dollars	\$ 20,357	\$ 31,216	(34.8)%
Homes	28	53	(47.2)%
<b>Mid-Atlantic:</b>			
Dollars	\$ 99,400	\$ 92,911	7.0%
Homes	168	176	(4.5)%
<b>Midwest:</b>			
Dollars	\$ 54,922	\$ 56,593	(3.0)%
Homes	162	183	(11.5)%
<b>Southeast:</b>			
Dollars	\$ 55,495	\$ 45,648	21.6%
Homes	104	102	2.0%
<b>Southwest:</b>			
Dollars	\$ 194,330	\$ 190,182	2.2%
Homes	498	582	(14.4)%
<b>West:</b>			
Dollars	\$ 126,862	\$ 134,815	(5.9)%
Homes	214	289	(26.0)%
<b>Consolidated total:</b>			
Dollars	\$ 551,366	\$ 551,365	0.0%
Homes	1,174	1,385	(15.2)%
<b>Unconsolidated joint ventures (1)</b>			
Dollars	\$ 63,620	\$ 71,113	(10.5)%
Homes	109	119	(8.4)%

(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, consolidated housing revenues was flat during the three months ended January 31, 2022 as compared to the same period of the prior year due to an increase in average sales price per home which was offset by a decrease in homes delivered.

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:

(Dollars in thousands)	Net Contracts (1) for the Three Months Ended January 31,		Contract Backlog as of January 31,	
	2022	2021	2022	2021
<b>Northeast:</b>				
Dollars	\$ 70,068	\$ 33,670	\$ 188,106	\$ 84,566
Homes	96	43	240	120
<b>Mid-Atlantic:</b>				
Dollars	\$ 131,716	\$ 144,481	\$ 374,506	\$ 342,685
Homes	205	229	545	610
<b>Midwest:</b>				
Dollars	\$ 59,793	\$ 79,386	\$ 199,317	\$ 192,310
Homes	167	238	610	651
<b>Southeast:</b>				
Dollars	\$ 126,454	\$ 98,194	\$ 292,384	\$ 199,517
Homes	228	210	545	406
<b>Southwest:</b>				
Dollars	\$ 290,090	\$ 267,825	\$ 555,580	\$ 437,868
Homes	656	736	1,234	1,220
<b>West:</b>				
Dollars	\$ 120,141	\$ 174,114	\$ 275,709	\$ 409,186
Homes	199	322	450	788
<b>Consolidated total:</b>				
Dollars	\$ 798,262	\$ 797,670	\$ 1,885,602	\$ 1,666,132
Homes	1,551	1,778	3,624	3,795
<b>Unconsolidated joint ventures:(2)</b>				
Dollars	\$ 108,055	\$ 135,280	\$ 586,438	\$ 420,364
Homes	335	397	2,514	1,696

(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 quarter of 2022, our open for sale community count decreased to 111 from 124 at October 31, 2021, which was the net result of opening 13 new communities and closing 26 communities since the beginning of fiscal 2022. The high demand we continue to see in the market has accelerated the close out of some of our communities, which contributed to the decrease in community count. Our reported level of sales contracts (net of cancellations) was impacted by a decrease in sales pace per community for the three months ended January 31, 2022 as compared to the same period of the prior year. Net contracts per average active selling community for the three months ended January 31, 2022 decreased to 13.1 compared to 16.0 for the same period in the prior year which was during a peak in sales pace during the pandemic. The 13.1 net contracts per average active selling community for the three months ended January 31, 2022 was above the 9.7 net contracts per average active selling community for the three months ended January 31, 2020, which was a strong first quarter pace by historical standards.

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:

<u>Quarter</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
First	14%	17%	19%	24%	18%
Second		16%	23%	19%	17%
Third		16%	18%	19%	19%
Fourth		15%	18%	21%	23%

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:

<u>Quarter</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
First	8%	11%	14%	16%	12%
Second		9%	20%	20%	15%
Third		6%	21%	16%	14%
Fourth		6%	14%	14%	13%

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 and first quarter fiscal 2022 cancellation rates, in particular, being below historical norms as a result of the strong market conditions. Fiscal 2020 had varying cancellation rates due to the COVID-19 pandemic and its effects. Market conditions remain uncertain and 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 January 31,	
	2022	2021
Sale of homes	\$ 551,366	\$ 551,365
Cost of sales, excluding interest expense and land charges	427,873	437,372
Homebuilding gross margin, before cost of sales interest expense and land charges	123,493	113,993
Cost of sales interest expense, excluding land sales interest expense	13,724	16,717
Homebuilding gross margin, after cost of sales interest expense, before land charges	109,769	97,276
Land charges	99	1,877
Homebuilding gross margin	<u>\$ 109,670</u>	<u>\$ 95,399</u>
Homebuilding gross margin percentage	19.9%	17.3%
Homebuilding gross margin percentage, before cost of sales interest expense and land charges	22.4%	20.7%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges	19.9%	17.6%

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

	Three Months Ended January 31,	
	2022	2021
Sale of homes	100.0%	100.0%
Cost of sales, excluding interest expense and land charges:		
Housing, land and development costs	69.0%	70.5%
Commissions	3.6%	3.6%
Financing concessions	0.8%	1.3%
Overheads	4.2%	3.9%
Total cost of sales, before interest expense and land charges	77.6%	79.3%
Cost of sales interest	2.5%	3.1%
Land charges	0.0%	0.3%
Homebuilding gross margin percentage	19.9%	17.3%
Homebuilding gross margin percentage, before cost of sales interest expense and land charges	22.4%	20.7%
Homebuilding gross margin percentage, after cost of sales interest expense, before land charges	19.9%	17.6%

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 19.9% during the three months ended January 31, 2022 compared to 17.3% for the same period last year. Homebuilding gross margin percentage, before cost of sales interest expense and land charges, increased from 20.7% for the three months ended January 31, 2021 to 22.4% for the three months ended January 31, 2022. The increases for the three months ended January 31, 2022 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 period.

Reflected as inventory impairment loss and land option write-offs in cost of sales, we wrote-off or wrote-down certain inventories totaling \$0.1 million and \$1.9 million during the three months ended January 31, 2022 and 2021, respectively, to their estimated fair value. During the three months ended January 31, 2022, we wrote-off residential land options and approval and engineering costs amounting to \$0.1 million compared to \$1.1 million for the three months ended January 31, 2021, 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 all the segments, except the Midwest segment in the first quarter of fiscal 2022 and in the Southeast, Southwest and West segments in the first quarter of fiscal 2021. There were no inventory impairments during the three months ended January 31, 2022. We recorded inventory impairments of \$0.8 million during the three months ended January 31, 2021, which was related to one community in the West segment. 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 January 31,	
	2022	2021
Land and lot sales	\$ 34	\$ 3,362
Cost of sales, excluding interest	44	2,266
Land and lot sales gross margin, excluding interest	(10)	1,096
Land and lot sales interest expense	21	448
Land and lot sales gross margin, including interest	\$ (31)	\$ 648

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 was one land sale in the three months ended January 31, 2022 compared to four land sales in the same period of the prior year, resulting in a decrease of \$3.3 million in land sales revenues.

Land sales and other revenues decreased \$3.2 million for the three months ended January 31, 2022 compared to the same period 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 decrease for the three months ended January 31, 2022, compared to the three months ended January 31, 2021, was mainly due to the decrease in land sales discussed above.

#### Homebuilding Selling, General and Administrative

Homebuilding selling, general and administrative ("SGA") expenses increased \$2.5 million to \$42.7 million for the three months ended January 31, 2022 compared to the same period last year. The increase was primarily due to an increase in selling overhead costs as we prepare to open new communities during fiscal 2022 and an increase in stock compensation costs. SGA expenses as a percentage of homebuilding revenues increased to 7.7% for the three months ended January 31, 2022 compared to 7.2% for the three months ended January 31, 2021, respectively, as a result of the 0.6% decrease in homebuilding revenue and the small increase in expense for the first fiscal quarter compared to the prior year period.

## HOMEBUILDING OPERATIONS BY SEGMENT

## Segment Analysis

(Dollars in thousands, except average sales price)	Three Months Ended January 31,			
	2022	2021	Variance	Variance %
<b>Northeast</b>				
Homebuilding revenue	\$ 20,359	\$ 32,044	\$ (11,685)	(36.5)%
Income before income taxes	\$ 2,450	\$ 4,594	\$ (2,144)	(46.7)%
Homes delivered	28	53	(25)	(47.2)%
Average sales price	\$ 727,036	\$ 588,981	\$ 138,055	23.4%
<b>Mid-Atlantic</b>				
Homebuilding revenue	\$ 99,614	\$ 92,945	\$ 6,669	7.2%
Income before income taxes	\$ 16,737	\$ 10,701	\$ 6,036	56.4%
Homes delivered	168	176	(8)	(4.5)%
Average sales price	\$ 591,667	\$ 527,903	\$ 63,764	12.1%
<b>Midwest</b>				
Homebuilding revenue	\$ 54,972	\$ 59,157	\$ (4,185)	(7.1)%
Income before income taxes	\$ 651	\$ 3,584	\$ (2,933)	(81.8)%
Homes delivered	162	183	(21)	(11.5)%
Average sales price	\$ 339,025	\$ 309,251	\$ 29,774	9.6%
<b>Southeast</b>				
Homebuilding revenue	\$ 55,582	\$ 45,774	\$ 9,808	21.4%
Income before income taxes	\$ 10,162	\$ 354	\$ 9,808	2,770.6%
Homes delivered	104	102	2	2.0%
Average sales price	\$ 533,606	\$ 447,529	\$ 86,077	19.2%
<b>Southwest</b>				
Homebuilding revenue	\$ 194,510	\$ 190,409	\$ 4,101	2.2%
Income before income taxes	\$ 21,876	\$ 21,050	\$ 826	3.9%
Homes delivered	498	582	(84)	(14.4)%
Average sales price	\$ 390,221	\$ 326,773	\$ 63,448	19.4%
<b>West</b>				
Homebuilding revenue	\$ 126,960	\$ 134,832	\$ (7,872)	(5.8)%
Income before income taxes	\$ 22,059	\$ 9,677	\$ 12,382	128.0%
Homes delivered	214	289	(75)	(26.0)%
Average sales price	\$ 592,813	\$ 466,488	\$ 126,325	27.1%

## Homebuilding Results by Segment

*Northeast* - Homebuilding revenues decreased 36.5% for the three months ended January 31, 2022 compared to the same period of the prior year. The decrease for the three months ended January 31, 2022 was attributed to a 47.2% decrease in homes delivered, partially offset by a 23.4% increase in 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 three months ended January 31, 2022 compared to some communities delivering in the three months ended January 31, 2021 that had smaller single family homes, townhomes and affordable-housing homes in mid to higher-end submarkets of the segment that are no longer delivering. Also impacting the increase in average sales price was price increases in certain communities.

Income before income taxes decreased \$2.1 million to \$2.5 million for the three months ended January 31, 2022 as compared to the prior year period. This was primarily due to a \$1.0 million increase in selling, general and administrative costs, and a decrease in gross margin percentage before interest expense for the period compared to the same period of the prior year.

*Mid-Atlantic* - Homebuilding revenues increased 7.2% for the three months ended January 31, 2022 compared to the same period in the prior year period. The increase was primarily due to a 12.1% increase in average sales price, partially offset by a 4.5% decrease in homes delivered for the three months ended January 31, 2022 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 \$6.0 million to \$16.7 million for the three months ended January 31, 2022 compared to the same period in the prior year. This was primarily due to the increase in homebuilding revenue discussed above and an increase in gross margin percentage before interest expense for the three months ended January 31, 2022 compared to the same period of the prior year.

*Midwest* - Homebuilding revenues decreased 7.1% for the three months ended January 31, 2022 compared to the same period in the prior year. The decrease was due to a an 11.5% decrease in homes delivered and a \$2.5 million decrease in land sales and other revenue, partially offset by a 9.6% increase in average sales price for the three months ended January 31, 2022. The increase in average sales price was mainly the result of price increases in certain communities.

Income before income taxes decreased \$2.9 million to \$0.7 million for the three months ended January 31, 2022 compared to the same period in the prior year. The decrease was primarily due to the decrease in homebuilding revenue discussed above, a \$0.9 million increase in selling, general and administrative costs and a decrease in gross margin percentage before interest expense for the period compared to the same period of the prior year.



*Southeast* – Homebuilding revenues increased 21.4% for the three months ended January 31, 2022 compared to the same period in the prior year. The increase was due to a 19.2% increase in average sales price and a 2.0% increase 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 January 31, 2022 compared to some communities delivering in the three months ended January 31, 2021 that had lower priced, smaller single family homes in higher-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 \$9.8 million to \$10.2 million for the three months ended January 31, 2022 compared to the prior year period, primarily due to the increase in homebuilding revenue discussed above, a \$4.6 million increase in income from unconsolidated joint ventures and an increase in gross margin percentage before interest expense for the period compared to the same period of the prior year.

*Southwest* - Homebuilding revenues increased 2.2% for the three months ended January 31, 2022 compared to the same period in the prior year. The increase was primarily due to a 19.4% increase in average sales price, partially offset by a 14.4% decrease in homes delivered for the three months ended January 31, 2022 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 \$0.8 million to \$21.9 million for the three months ended January 31, 2022 compared to the same period in the prior year. The increase was primarily due to the increase in homebuilding revenues discussed above, while gross margin percentage before interest expense was flat for the three months ended January 31, 2022 compared to the same period of the prior year.

West – Homebuilding revenues decreased 5.8% for the three months ended January 31, 2022 compared to the same period in the prior year. The decrease was due to a 26.0% decrease in homes delivered, partially offset by a 27.1% 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 \$12.4 million to \$22.1 million for the three months ended January 31, 2022 compared to the prior year period. The increase is primarily due to a \$0.6 million decrease in selling, general and administrative costs, a \$1.6 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.

#### 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 quarters of fiscal 2022 and 2021, Federal Housing Administration and Veterans Administration (“FHA/VA”) loans represented 24.3% and 31.5%, respectively, of our total loans. The origination of FHA/VA loans decreased from the first quarter of fiscal 2021 to the first quarter of fiscal 2022, and our conforming conventional loan originations as a percentage of our total loans increased from 68.2% to 74.6% for this period, respectively. The origination of loans which exceed conforming conventions increased from 0.3% for the first quarter of fiscal 2021 to 1.1% for the first quarter of fiscal 2022. 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 months ended January 31, 2022, financial services provided a \$2.9 million pretax profit compared to \$9.1 million of pretax profit for the same period of fiscal 2021. The decrease in pretax profit 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. In the market areas served by our wholly owned mortgage banking subsidiaries, 64.1% and 70.9% of our noncash homebuyers obtained mortgages originated by these subsidiaries during the three months ended January 31, 2022 and 2021, 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 increased to \$29.4 million for the three months ended January 31, 2022 compared to \$23.5 million for the three months ended January 31, 2021, primarily due to increases in compensation expense related to finalizing the performance and related payouts for the phantom stock awards under our 2019 LTIP, and increases in merits and incentives as a result of increased profitability.

## Other Interest

Other interest decreased \$10.6 million for the three months ended January 31, 2022 compared to the three months ended January 31, 2021. 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. Other interest decreased because we incurred less interest and had less debt in excess of inventory as a result of the reduction of our debt during the second half of fiscal 2021 and due to the decrease in average inventory not owned during the three months ended January 31, 2022 compared to the three months ended January 31, 2021.

## 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 increased \$6.3 million to \$8.2 million for the three months ended January 31, 2022 compared to the same period of the prior year. The increase was primarily due to the recognition of our share of income from two of our unconsolidated joint ventures during the quarter based on the joint venture partner achieving certain return hurdles, in compliance with the joint venture agreement, and as a result, the Company was able to recognize a higher share of the unconsolidated joint venture's calendar year 2021 profit.

## Total Taxes

The total income tax expense for the three months ended January 31, 2022 was \$10.6 million. The expense was primarily due to federal and state tax expense recorded as a result of our pretax income. The federal tax expense is not paid in cash as it is offset by the use of our existing NOL carryforwards. For the three months ended January 31, 2021, our deferred tax assets were still fully reserved, therefore we had no federal tax expense and only recorded state tax expense of \$0.6 million primarily related to state tax expense from income generated in states where we do not have NOL carryforwards to offset that income.

## Inflation

The annual rate of inflation in the United States hit 7.5% in January 2022, the highest in more than three decades, as measured by the Consumer Price Index (CPI). Inflation has a long-term effect, because increasing costs of land, materials and labor result in increasing sale prices of our homes. Historically, 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 57.8% of our homebuilding cost of sales for the three months ended January 31, 2022.

## 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:

- Changes in general and local economic, industry and business conditions and impacts of a significant homebuilding downturn;
- 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;
- The outbreak and spread of COVID-19 and the measures that governments, agencies, law enforcement and/or health authorities implement to address it;
- 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;
- 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;
- Loss of key management personnel or failure to attract qualified personnel; and
- Increases in inflation.

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, 2021. 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 January 31, 2022, our long-term debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair value ("FV").

(Dollars in thousands)	Long Term Debt as of January 31, 2022 by Fiscal Year of Expected Maturity Date							FV at 1/31/22
	2022	2023	2024	2025	2026	Thereafter	Total	
Long term debt(1)(2):								
Fixed rate	\$ -	\$ -	\$ -	\$ -	\$ 1,043,683	\$ 211,169	\$ 1,254,852	\$ 1,265,914
Weighted average interest rate	-%	-%	-%	-%	9.88%	6.93%	9.38%	

- (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 January 31, 2022.
- (2) Does not include \$196.4 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 January 31, 2022. 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 January 31, 2022 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 first quarter of 2022. 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. However, as of October 31, 2021, as a result of our improved operating results, we were no longer restricted from paying dividends. During the first quarter of fiscal 2022, we paid a dividend in the amount of \$2.7 million on the Series A Preferred Stock.

Item EXHIBITS

6.

- 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 \(Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q of the Registrant for the quarter ended July 31, 2021\).](#)
- 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 2022 Long-Term Incentive Program Award Agreement \(Class A\).](#)
- 10(b)\*[Form of 2022 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 January 31, 2022, formatted in inline Extensible Business Reporting Language (Inline XBRL): (i) the Condensed Consolidated Balance Sheets at January 31, 2022 and October 31, 2021, (ii) the Condensed Consolidated Statements of Operations for the three months ended January 31, 2022 and 2021, (iii) the Condensed Consolidated Statements of Changes in Equity Deficit for the three months ended January 31, 2022 and 2021, (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended January 31, 2022 and 2021, and (v) the Notes to Condensed Consolidated Financial Statements.

104 Cover Page from our Quarterly Report on Form 10-Q for the three months ended January 31, 2022, 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: March 7, 2022  
/s/J. LARRY SORSBY  
J. Larry Sorsby  
Executive Vice President,  
Chief Financial Officer and Director

DATE: March 7, 2022  
/s/BRAD G. O'CONNOR  
Brad G. O'Connor  
Senior Vice President, Treasurer and Chief Accounting Officer

**2020 HOVNIANIAN ENTERPRISES, INC.  
AMENDED AND RESTATED STOCK INCENTIVE PLAN**

**2022 LONG-TERM INCENTIVE PROGRAM AWARD AGREEMENT**

<i>Participant:</i>	<hr/>	<i>Stock Percentage of Award:</i>	<u>100%</u>
<i>Date of Grant:</i>	<u>[Date]</u>	<i>Deemed Share Price:</i>	<u>\$XX.XX</u>
<i>Maximum LTIP Award (total):</i>	<hr/>	<i>Target LTIP Award (total):</i>	<hr/>
<i>Maximum Number of Class A Shares:</i>	<hr/>	<i>Target Number of Class A Shares:</i>	<hr/>

1. Grant of LTIP Award. For valuable consideration, receipt of which is hereby acknowledged, Hovnianian 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 2022 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 territory 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 restriction 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: \_\_\_\_\_

[Insert Terms of 2021 Long-Term Incentive Program]

**2020 HOVNIANIAN ENTERPRISES, INC.  
AMENDED AND RESTATED STOCK INCENTIVE PLAN**

**2022 LONG-TERM INCENTIVE PROGRAM AWARD AGREEMENT**

<i>Participant:</i>	<hr/>	<i>Stock Percentage of Award:</i>	<u>100%</u>
<i>Date of Grant:</i>	<u>[Date]</u>	<i>Deemed Share Price:</i>	<u>\$XX.XX</u>
<i>Maximum LTIP Award (total):</i>	<hr/>	<i>Target LTIP Award (total):</i>	<hr/>
<i>Maximum Number of Class B Shares:</i>	<hr/>	<i>Target Number of Class B Shares:</i>	<hr/>

1. Grant of LTIP Award. For valuable consideration, receipt of which is hereby acknowledged, Hovnianian 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 2022 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 territory 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 restriction 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: \_\_\_\_\_

[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 January 31, 2022 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: March 7, 2022

/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 January 31, 2022 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: March 7, 2022

/s/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer

**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 January 31, 2022 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: March 7, 2022

/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 January 31, 2022 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: March 7, 2022

/s/J. LARRY SORSBY

J. Larry Sorsby

Executive Vice President and Chief Financial Officer