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

Form 10-K
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended OCTOBER 31, 2017

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
Depositary Shares, each representing 1/1,000th of a share of 7.625% Series A Preferred Stock	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
Class B Common Stock, $0.01 par value per share
Preferred Stock Purchase Rights
(Title of Class)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, 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 ☐
	(Do Not Check if a smaller reporting 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 ☒

The aggregate market value of the voting and nonvoting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of April 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was $283,280,186.

As of the close of business on December 15, 2017, there were outstanding 132,286,691 shares of the Registrant's Class A Common Stock and 15,306,226 shares of its Class B Common Stock.

HOVNANIAN ENTERPRISES, INC.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III — Those portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with registrant's annual meeting of stockholders to be held on March 13, 2018, which are responsive to those parts of Part III, Items 10, 11, 12, 13 and 14 as identified herein.

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Part I

ITEM 1

BUSINESS

Business Overview

We design, construct, market, and sell single-family detached homes, attached townhomes and condominiums, urban infill, and active lifestyle homes in planned residential developments and are one of the nation's largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. (the "Company," "we," "us" or "our") was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 331,000 homes, including 6,149 homes in fiscal 2017. The Company has two distinct operations: homebuilding and financial services. Our homebuilding operations consist of six segments: Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Our financial services operations provide mortgage loans and title services to the customers of our homebuilding operations.

We are currently, excluding unconsolidated joint ventures, offering homes for sale in 130 communities in 24 markets in 14 states throughout the United States. We market and build homes for first-time buyers, first-time and second-time move-up buyers, luxury buyers, active lifestyle buyers and empty nesters. We offer a variety of home styles at base prices ranging from $135,000 to $2,675,000 with an average sales price, including options, of $418,000 nationwide in fiscal 2017.

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

The following is a summary of our growth history:

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

1983 - Completed initial public offering.

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

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

1994 - Entered the Coastal Southern California market.

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

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

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

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

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

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

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

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

During fiscal 2016, we exited the Minneapolis, Minnesota and Raleigh, North Carolina markets and sold land portfolios in those markets. We are in the process of completing a wind down of our operations in the San Francisco Bay area in Northern California and in Tampa, Florida by building and delivering homes to sell through our existing land position.

Geographic Breakdown of Markets by Segment

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

Northeast: New Jersey and Pennsylvania

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

Midwest: Illinois and Ohio

Southeast: Florida, Georgia and South Carolina

Southwest: Arizona and Texas

West: California

For financial information about our segments, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 10 to the Consolidated Financial Statements.

Employees

We employed 1,905 full-time employees (whom we refer to as associates) as of October 31, 2017.

Corporate Offices and Available Information

Our corporate offices are currently located at 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701 (See Item 2-Properties). Our telephone number is 732-747-7800, and our Internet web site address is www.khov.com. Information available on or through our web site is not a part of this Form 10-K. We make available through our web site our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). Copies of the Company's Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available free of charge upon request. Any materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C., 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Business Strategies

Given the low levels of total U.S. housing starts, and our belief in the long-term recovery of the homebuilding market, we remain focused on identifying new land parcels, which are critical to improving our financial performance. During fiscal 2016, we had approximately $260 million of bonds mature, which we were unable to refinance because financing was unavailable in the capital and loan markets to companies with comparable credit ratings to ours. As a result, we shifted our focus from growth to gaining operating efficiencies and improving our bottom line, and in order to preserve and increase cash to fund our maturing debt, we decided to temporarily reduce the amount of cash we were spending on future land acquisitions and to exit from four underperforming markets during fiscal 2016. In addition, we increased our use of land banking and joint ventures in order to enhance our liquidity position. The net effect of these liquidity enhancing efforts was to temporarily reduce our ability to invest as aggressively in new land parcels as previously planned. This resulted in a reduction in our community count in fiscal 2016 and 2017, along with a decrease in net contracts during these periods, as compared to the prior year periods. As a result of our decreased community count, we had fewer deliveries, revenues and profit in 2017 as compared to the prior year.

In the fourth quarter of fiscal 2016 and in July 2017, we were able to refinance certain of our debt maturities including certain of our senior secured notes which were scheduled to mature in October 2018 and October and November 2020, with $440.0 million of new senior secured notes maturing in July 2022 and $400.0 million of new senior secured notes maturing in July 2024. While these transactions extended the maturities of a significant amount of debt giving us the ability to more fully invest in new communities again, they also resulted in a $42.3 million loss on early extinguishment of debt. When added to prior period results, this created a three-year cumulative loss, which led us to reconsider the realizability of our deferred tax assets in accordance with GAAP and record a $294.1 million non-cash increase in the valuation allowance for our deferred tax assets. See Note 11 to our Consolidated Financial Statements. We continue to see opportunities to purchase land at prices that make economic sense in light of our current sales prices and sales pace and plan to continue actively pursuing such land acquisitions.

In addition to our current focus on maintaining adequate liquidity and evaluating new investment opportunities, we intend to continue to focus on our historic key business strategies, as enumerated below. We believe that these strategies separate us from our competitors in the residential homebuilding industry and the adoption, implementation and adherence to these principles will continue to benefit our business.

Our goal is to become a significant builder in each of the selected markets in which we operate, which will enable us to achieve powers and economies of scale and differentiate ourselves from most of our competitors.

As noted above, we offer a broad product array to provide housing to a wide range of customers. Our customers consist of first-time buyers, first-time and second-time move-up buyers, luxury buyers, active lifestyle buyers and empty nesters. Our diverse product array includes single-family detached homes, attached townhomes and condominiums, urban infill and active lifestyle homes.

We are committed to customer satisfaction and quality in the homes that we build. We recognize that our future success rests in the ability to deliver quality homes to satisfied customers. We seek to expand our commitment to customer service through a variety of quality initiatives. In addition, our focus remains on attracting and developing quality associates. We use several leadership development and mentoring programs to identify key individuals and prepare them for positions of greater responsibility within our Company.

We focus on achieving high return on invested capital. Each new community is evaluated based on its ability to meet or exceed internal rate of return requirements. Our belief is that the best way to create lasting value for our shareholders is through a strong focus on return on invested capital.

We prefer to use a risk-averse land acquisition strategy. We attempt to acquire land with a minimum cash investment and negotiate takedown options, thereby limiting the financial exposure to the amounts invested in property and predevelopment costs. This approach significantly reduces our risk and generally allows us to obtain necessary development approvals before acquisition of the land.

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

We manage our financial services operations to better serve all of our home buyers. Our current mortgage financing and title service operations enhance our contact with customers and allow us to coordinate the home-buying experience from beginning to end.

Operating Policies and Procedures

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

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

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

- Where possible, we acquire land for future development through the use of land options, which need not be exercised before the completion of the regulatory approval process. We attempt to structure these options with flexible takedown schedules rather than with an obligation to take down the entire parcel upon receiving regulatory approval. If we are unable to negotiate flexible takedown schedules, we will buy parcels in a single bulk purchase. Additionally, we purchase improved lots in certain markets by acquiring a small number of improved lots with an option on additional lots. This allows us to minimize the economic costs and risks of carrying a large land inventory, while maintaining our ability to commence new developments during favorable market periods.

- Our option and purchase agreements are typically subject to numerous conditions, including, but not limited to, our ability to obtain necessary governmental approvals for the proposed community. Generally, the deposit on the agreement will be returned to us if all approvals are not obtained, although predevelopment costs may not be recoverable. By paying an additional nonrefundable deposit, we have the right to extend a significant number of our options for varying periods of time. In most instances, we have the right to cancel any of our land option agreements by forfeiture of our deposit on the agreement. In fiscal 2017, 2016 and 2015, rather than purchase additional lots in underperforming communities, we took advantage of this right and walked away from 3,930 lots, 6,102 lots and 4,730 lots, respectively, out of 17,837 total lots, 19,210 total lots and 20,653 total lots, respectively, under option, resulting in pretax charges of $2.7 million, $8.9 million and $4.7 million, respectively.

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

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

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

Materials and Subcontractors - We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors. In recent years, we have experienced some construction delays due to shortage of labor in certain markets like Houston and Dallas; and we cannot predict the extent to which shortages in necessary materials or labor may occur in these or other markets in the future.

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

Customer Service and Quality Control - In many of our markets, associates are responsible for customer service and preclosing quality control inspections as well as responding to postclosing customer needs. Prior to closing, each home is inspected and any necessary completion work is undertaken by us or our subcontractors. Our homes are enrolled in a standard limited warranty program which, in general, provides a homebuyer with a limited warranty for the home's materials and workmanship which follows each State's applicable statute of repose. All of the warranties contain standard exceptions, including, but not limited to, damage caused by the customer.

Customer Financing - We sell our homes to customers who generally finance their purchases through mortgages. Our financial services segment provides our customers with competitive financing and coordinates and expedites the loan origination transaction through the steps of loan application, loan approval, and closing and title services. We originate loans in each of the states in which we build homes, except Ohio. We believe that our ability to offer financing to customers on competitive terms as a part of the sales process is an important factor in completing sales.

During the year ended October 31, 2017, for the markets in which our mortgage subsidiaries originated loans, 13.9% of our home buyers paid in cash and 67.8% of our noncash home buyers obtained mortgages from our mortgage banking subsidiary. The loans we originated in fiscal 2017 were 74.9% prime and 25.1% Federal Housing Administration/Veterans Affairs (“FHA/VA”).

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

Residential Development Activities

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

Current base prices for our homes in contract backlog at October 31, 2017, range from $160,000 to $970,000 in the Northeast, from $171,000 to $2,675,000 in the Mid-Atlantic, from $135,000 to $831,000 in the Midwest, from $224,000 to $880,000 in the Southeast, from $179,000 to $625,000 in the Southwest and from $208,000 to $965,000 in the West. Closings generally occur and are typically reflected in revenues within six to nine months of when sales contracts are signed.

Information on homes delivered by segment for the year ended October 31, 2017, is set forth below:

(Housing revenue in thousands)		Housing Revenues	Homes Delivered		Average Price
Northeast	$	166,752	351	$	475,077
Mid-Atlantic		463,271	856		541,205
Midwest		199,009	640		310,951
Southeast		257,066	614		418,675
Southwest		826,422	2,357		350,624
West		427,513	784		545,297
Consolidated total	$	2,340,033	5,602	$	417,714
Unconsolidated joint ventures (1)		310,573	547		567,774

(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 20 to the Consolidated Financial Statements for a further discussion of our unconsolidated joint ventures.

The value of our net sales contracts, excluding unconsolidated joint ventures, decreased 17.3% to $2.1 billion for the year ended October 31, 2017 from $2.5 billion for the year ended October 31, 2016. The number of homes contracted decreased 14.9% to 5,196 in fiscal 2017 from 6,109 in fiscal 2016. The decrease in the number of homes contracted occurred along with a 22.2% decrease in the number of open-for-sale communities from 167 at October 31, 2016 to 130 at October 31, 2017. We contracted an average of 35.1 homes per average active selling community in fiscal 2017 compared to 31.3 homes per average active selling community in fiscal 2016, a 12.1% increase in sales pace per community as our performance per community improved in fiscal 2017 as compared to fiscal 2016.

Information on the value of net sales contracts by segment for the years ended October 31, 2017 and 2016, is set forth below:

(Value of net sales contracts in thousands)		2017		2016	Percentage of Change
Northeast	$	119,018	$	226,635	(47.5)%
Mid-Atlantic		399,420		467,782	(14.6)%
Midwest		193,451		229,671	(15.8)%
Southeast		232,278		287,538	(19.2)%
Southwest		718,595		887,341	(19.0)%
West		421,335		420,681	0.2%
Consolidated total	$	2,084,097	$	2,519,648	(17.3)%
Unconsolidated joint ventures(1)		436,538		154,088	183.3%

(1) Represents net contract dollars 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 20 to the Condensed Consolidated Financial Statements for a further discussion of our unconsolidated joint ventures.

The following table summarizes our active selling communities under development as of October 31, 2017. The contracted not delivered and remaining homes available in our active selling communities are included in the consolidated total homesites under the total residential real estate chart in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Active Selling Communities

	Communities	Approved Homes	Homes Delivered	Contracted Not Delivered(1)	Remaining Homes Available(2)
Northeast	3	977	658	98	221
Mid-Atlantic	24	3,601	2,113	309	1,179
Midwest	15	2,746	1,092	382	1,272
Southeast	15	2,847	875	285	1,687
Southwest	59	10,260	7,027	509	2,724
West	14	3,097	1,791	400	906
Total	130	23,528	13,556	1,983	7,989

(1) Includes 301 home sites under option.
(2) Of the total remaining homes available, 685 were under construction or completed (including 83 models and sales offices), and 3,776 were under option.

Backlog

At October 31, 2017 and 2016, including unconsolidated joint ventures, we had a backlog of signed contracts for 2,437 homes and 2,649 homes, respectively, with sales values aggregating $1.1 billion and $1.2 billion, respectively. The majority of our backlog at October 31, 2017 is expected to be completed and closed within the next six to nine months. At November 30, 2017 and 2016, our backlog of signed contracts, including unconsolidated joint ventures, was 2,606 homes and 2,644 homes, respectively, with sales values aggregating $1.2 billion for both periods. For information on our backlog excluding unconsolidated joint ventures, see the table on page 42 under Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations -Homebuilding.”

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

Residential Land Inventory in Planning

It is our objective to control a supply of land, primarily through options, whenever possible, consistent with anticipated homebuilding requirements in each of our housing markets. Controlled land (land owned and under option) as of October 31, 2017, exclusive of communities under development described above under “Active Selling Communities” and excluding unconsolidated joint ventures, is summarized in the following table. The proposed developable home sites in communities in planning are included in the 25,549 consolidated total home sites under the total residential real estate table in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 37.

Communities in Planning

(Dollars in thousands)	Number of Proposed Communities	Proposed Developable Home Sites	Total Land Option Price	Book Value
Northeast:				
Under option(1)	33	3,479	$ 221,566	$ 6,628
Owned	10	729		$ 49,589
Total	43	4,208		$ 56,217
Mid-Atlantic:				
Under option(1)	11	1,343	$ 139,720	$ 3,955
Owned	14	1,410		$ 27,929
Total	25	2,753		$ 31,884
Midwest:				
Under option(1)	9	1,152	$ 67,453	$ 2,169
Owned	8	586		$ 5,305
Total	17	1,738		$ 7,474
Southeast:				
Under option(1)	8	1,311	$ 44,679	$ 1,043
Owned	4	73		$ 14,412
Total	12	1,384		$ 15,455
Southwest:				
Under option(1)	25	2,200	$ 141,810	$ 8,410
Owned	-	-		$ -
Total	25	2,200		$ 8,410
West:				
Under option(1)	5	345	$ 43,006	$ 7,486
Owned	16	2,949		$ 13,998
Total	21	3,294		$ 21,484
Totals:				
Under option(1)	91	9,830	$ 658,234	$ 29,691
Owned	52	5,747		$ 111,233
Combined total	143	15,557		$ 140,924

(1) *The book value of properties under option also includes costs incurred on properties not under option but which are under evaluation. For properties under option, as of October 31, 2017, option fees and deposits aggregated $24.4 million. As of October 31, 2017, we spent an additional $5.3 million in nonrefundable predevelopment costs on such properties.*

We either option or acquire improved or unimproved home sites from land developers or other sellers. Under a typical agreement with the land developer, we purchase a minimal number of home sites. The balance of the home sites to be purchased is covered under an option agreement or a nonrecourse purchase agreement. During the declining homebuilding market, we decided to mothball (or stop development on) certain communities where we determined that current market conditions did not justify further investment at that time. When we decide to mothball a community, the inventory is reclassified on our Consolidated Balance Sheet from Sold and unsold homes and lots under development to Land and land options held for future development or sale. See Note 3 to the Consolidated Financial Statements for further discussion on mothballed communities. For additional financial information regarding our homebuilding segments, see Note 10 to the Consolidated Financial Statements.

Raw Materials

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of or increase the cost of developing one or more of our residential communities. We attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. In recent years, we have experienced some construction delays due to shortage of labor in certain markets like Houston and Dallas, and anticipate that the supply of raw materials could be affected in the near future as a result of Hurricane Harvey in Houston and Hurricane Irma in Florida. We cannot predict, however, the extent to which shortages in necessary raw materials or labor may occur in the future. In addition, we generally contract with subcontractors to construct our homes. We have reduced construction and administrative costs by consolidating the number of vendors serving certain markets and by executing national purchasing contracts with select vendors.

Seasonality

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

Competition

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

Regulation and Environmental Matters

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

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

We are also subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment, 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 which apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former uses of the site. See Risk Factors – "*Homebuilders are subject to a number of federal, local, state, and foreign laws and regulations concerning the development of land, the homebuilding, sales, and customer financing processes and the protection of the environment, which can cause us to incur delays and costs associated with compliance and which can prohibit or restrict our activity in some regions or areas",* Item 3 "Legal Proceedings" and Note 18 to the Consolidated Financial Statements.

Despite our past ability to obtain necessary permits and approvals for our communities, we anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot reliably predict the extent of any effect these requirements 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 interpretation and application.

ITEM 1A
RISK FACTORS

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

The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets, and weather and other environmental conditions, which could affect our ability to build homes at prices our customers are willing or able to pay, could reduce profits that may not be recaptured, could result in cancellation of sales contracts, and could affect our liquidity.

The homebuilding industry is cyclical, has from time to time experienced significant difficulties, and is significantly affected by changes in general and local economic conditions such as:

- Employment levels and job growth;
- Availability of financing for home buyers;
- Interest rates;
- Adverse changes in tax laws;
- Foreclosure rates;
- Inflation;
- Consumer confidence;
- Housing demand in general and for our particular community locations and product designs, as well as consumer interest in purchasing a home compared to other housing alternatives;
- Population growth; and
- Availability of water supply in locations in which we operate.

Turmoil in the financial markets could affect our liquidity. In addition, our cash balances are primarily invested in short-term government-backed instruments. The remaining cash balances are held at numerous financial institutions and may, at times, exceed insurable amounts. We seek to mitigate this risk by depositing our cash in major financial institutions and diversifying our investments. In addition, our homebuilding operations often require us to obtain letters of credit. We have an unsecured revolving credit facility that can be used for general purposes, or under which letters of credit may be issued, which matures in 2018. We also have certain stand-alone letter of credit facilities and agreements pursuant to which letters of credit are issued. However, we may need additional letters of credit above the amounts provided under these facilities and agreements. If we are unable to obtain such additional letters of credit as needed to operate our business, we may be adversely affected, particularly in light of the upcoming maturity of our unsecured revolving credit facility.

Weather conditions and man-made or natural disasters such as hurricanes, tornadoes, earthquakes, floods, droughts, fires and other environmental conditions, can harm the local homebuilding business. For example, in September 2017, Hurricane Harvey and Hurricane Irma caused disruption and delays in Houston and Florida which may continue to impact results in these markets in fiscal 2018. Similarly, our production process slowed and our cost of operations increased in Texas during fiscal 2015 as a result of record wet conditions in this state and, in August 2011 and October 2012, Hurricane Irene and Hurricane Sandy, respectively, caused widespread flooding and disruptions on the Atlantic seaboard, which impacted our sales and construction activity in affected markets during those months.

The difficulties described above could cause us to take longer and incur more costs to build our homes. In addition, our insurance may not fully cover business interruptions or losses caused by weather conditions and manmade or natural disasters and we may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to 12 months in advance of delivery by signing home sales contracts. Some home buyers may also cancel or not honor their home sales contracts altogether.

Our business, liquidity and results of operations are still recovering from the significant and sustained homebuilding downturn and another downturn in the homebuilding industry could materially and adversely affect our business.

The homebuilding industry experienced a significant and sustained downturn that began in 2007, during which the lowest volumes of housing starts were significantly below troughs in previous downturns. This downturn resulted in an industry-wide softening of demand for new homes due to a lack of consumer confidence, decreased availability of mortgage financing, and large supplies of resale and new home inventories, among other factors. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes, and foreclosures, depressed prices and reduced margins for the sale of new homes. Industry conditions had a material adverse effect on our business and results of operations in fiscal years 2007 through 2011. Further, we had substantially increased our inventory through fiscal 2006, which required significant cash outlays and which increased our price and margin exposure as we worked through this inventory. Although the homebuilding market has improved in the last few years, the volume of 2017 housing starts is still just above previous volume troughs in historical cycles, and our business, liquidity and results of operations continue to be impacted by the lasting effects of the significant and sustained downturn and it may continue to materially adverse our business and results of operations in future years. If the homebuilding industry experiences another significant or sustained downturn, it would materially adversely affect our business and results of operations in future years.

Several challenges, such as general U.S. economic uncertainty and the potential for more rapid inflation, extreme weather conditions, increasing cycle times due to labor shortages, increasing labor and materials costs, the restrictive mortgage lending environment and rising mortgage interest rates, could further impact the housing market and, consequently, our performance. For example, if rising house construction costs substantially outpace increases in the income of potential purchasers we may be limited in our ability to raise home sales prices, which may result in lower gross margins.

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

We have a significant amount of debt.

- Our debt (excluding nonrecourse secured debt and debt of our financial subsidiaries), as of October 31, 2017, including the debt of the subsidiaries that guarantee our debt, was $1,661.5 million ($1,654.0 million net of discount), which includes borrowings under our $75.0 million revolving credit facility under which at October 31, 2017, there were $52.0 million of borrowings and $14.6 million of letters of credit outstanding resulting in available borrowing capacity of $8.4 million.

- Our debt service payments for the 12-month period ended October 31, 2017, were $109.7 million, substantially all of which represented interest incurred and the remainder of which represented payments on the principal of our amortizing notes, and do not include repurchases of our debt in open market transactions, principal and interest on nonrecourse secured debt, debt of our financial subsidiaries and fees under our letter of credit and other credit facilities and agreements.

As of October 31, 2017, in addition to the $14.6 million letters of credit outstanding under the revolving credit facility, we had $1.7 million in aggregate outstanding face amount of letters of credit issued under various letter of credit and other credit facilities and agreements, certain of which were collateralized by $1.7 million of cash. Our fees for these letters of credit for the year ended October 31, 2017, which are based on both the used and unused portion of the facilities and agreements, were $1.2 million. We also had substantial contractual commitments and contingent obligations, including $199.5 million of performance bonds as of October 31, 2017. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations.”

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

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

- Require us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduce our ability to use our cash flow for other purposes, including land investments;

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

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

- Limit our ability to implement our strategies and operational actions;

- Require us to consider selling some of our assets or debt or equity securities, possibly on unfavorable terms, to satisfy obligations; and

- Make us more vulnerable to downturns in our business and general economic conditions.

Our ability to meet our debt service and other obligations will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by customer sentiment and financial, political, business, and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations to the extent we have any floating rate indebtedness. A higher interest rate on our debt service obligations could result in lower earnings or increased losses.

Our sources of liquidity are limited and may not be sufficient to meet our needs.

We are largely dependent on our current cash balance and future cash flows from operations (which may not be positive) to enable us to service our indebtedness, to cover our operating expenses, and/or to fund our other liquidity needs. Cash provided from operating activities in fiscal 2017 and fiscal 2016 were $297.6 million and $387.7 million, respectively. Depending on the levels of our land purchases, we could generate negative or positive cash flow in future years. In 2016, we used a significant portion of cash to repay debt because financing was unavailable to us in the capital and loan markets. If the homebuilding industry does not experience improved conditions over the next several years, our cash flows could be insufficient to fund our obligations and support land purchases; if we cannot buy additional land we would ultimately be unable to generate future revenues from the sale of houses. In addition, we will need to refinance all or a portion of our debt on or before maturity including amounts outstanding under our unsecured revolving credit facility which matures in 2018, $369 million principal of unsecured senior notes which will mature during calendar year 2019, and our $75 million Term Loan which will mature in 2019 (subject to earlier maturity if our 7.0% Senior Notes due 2019 have not been refinanced with a maturity date after January 15, 2021), which we may not be able to do on favorable terms or at all. If our cash flows and capital resources are insufficient to fund our debt service obligations (pursuant to the terms of certain of our senior secured notes we generally must refinance our unsecured senior notes due 2019 and may not use cash to satisfy our obligations thereunder) or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, sell assets, seek additional capital, or restructure our indebtedness. These alternative measures may not be successful or, if successful, made on desirable terms and may not permit us to meet our debt service obligations. We have also entered into certain cash collateralized letters of credit agreements and facilities that require us to maintain specified amounts of cash in segregated accounts as collateral to support our letters of credit issued thereunder. If our available cash and capital resources are insufficient to meet our debt service and other obligations, we could face liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or the proceeds from the dispositions may not be permitted under the terms of our debt instruments to be used to service indebtedness or may not be adequate to meet any debt service obligations then due. For additional information about capital resources and liquidity, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity.”

Our cash flows, liquidity and consolidated financial statements could be materially and adversely affected if we are unable to obtain letters of credit.

Our homebuilding operations often require us to obtain letters of credit. We have an unsecured revolving credit facility under which letters of credit may be issued, which matures in 2018. We also have certain stand-alone letter of credit facilities and agreements pursuant to which letters of credit are issued. However, we may need additional letters of credit above the amounts provided under these facilities and agreements. If we are unable to obtain such additional letters of credit as needed to operate our business, we may be adversely affected, particularly in light of the upcoming maturity of our unsecured revolving credit facility.

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

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of debt or equity securities or borrowing additional money, for the future growth and development of our business. The terms and/or availability of additional capital is uncertain. Moreover, the agreements governing our outstanding debt instruments contain provisions that restrict the debt we may incur in the future (including a requirement (i) to refinance our 7% Senior Notes due 2019 and 8% Senior Notes due 2019 (the “Existing Unsecured Notes”) with indebtedness that may not be scheduled to mature earlier than our 10.50% Senior Notes due 2024 or equity, subject to an exception for up to $50 million of cash repurchases and (ii) in our $75.0 million senior secured term loan facility (the “Term Loan Facility”) and the 9.50% Senior Secured Notes due 2020 that any new or refinancing indebtedness may not be scheduled to mature earlier than specified dates in 2021) and our ability to pay dividends on equity. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations. In addition, pledging substantially all of our assets to support our term loans and our senior secured notes may make it more difficult to raise additional financing in the future.

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

The indentures governing our outstanding debt securities, the Term Loan Facility and our revolving credit facility impose certain restrictions on our and certain of our subsidiaries’ operations and activities. The most significant restrictions relate to debt incurrence (including maturity date requirements), creating liens, sales of assets (including in certain land banking transactions), cash distributions, including paying dividends on common and preferred stock, capital stock, Existing Unsecured Notes and subordinated debt repurchases, and investments by us and certain of our subsidiaries. Because of these restrictions, we are currently prohibited from paying dividends on our common and preferred stock and anticipate that we will remain prohibited for the foreseeable future.

The restrictions in our debt instruments could prohibit or restrict our and certain of our subsidiaries' activities, such as undertaking capital raising or restructuring activities or entering into other transactions. In such a situation, we may be unable to amend the instrument or obtain a waiver. In addition, if we fail to comply with these restrictions or to make timely payments on this debt and other material indebtedness, an event of default could occur and our debt under these debt instruments could become due and payable prior to maturity. Any such event of default could lead to cross defaults under certain of our other debt or negatively impact other covenants. In these situations, we may be unable to amend the applicable instrument or obtain a waiver without significant additional cost, or at all. In such a situation, there can be no assurance that we would be able to obtain alternative financing. Any such situation could have a material adverse effect on the solvency of the Company.

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

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

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

Our ability to access capital on favorable terms is a key factor in our ability to service our indebtedness to cover our operating expenses and to fund our other liquidity needs. For example, during fiscal 2011 and thereafter, credit agencies took a series of negative actions with respect to their credit ratings of us and our debt. More recently, in April, May and August 2016, Moody's Investor Services and S&P Global Ratings, respectively, took certain negative rating actions, including downgrades with respect to their credit ratings of us and our debt, as discussed in Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Capital Resources and Liquidity." Downgrades may make it more difficult and costly for us to access capital. Therefore, any further downgrade by any of the principal credit agencies may exacerbate these difficulties. There can be no assurances that our credit ratings will not be further downgraded in the future, whether as a result of deteriorating general economic conditions, a more protracted downturn in the housing industry, failure to successfully implement our operating strategy, the adverse impact on our results of operations or liquidity position of any of the above, or otherwise.

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

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

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

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

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

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. For example, manufacturers increased the price of drywall in 2013 by approximately 20% as compared to the prior year, and there is a potential for significant future price increases. In addition, we contract with subcontractors to construct our homes. Therefore, the timing and quality of our construction depends on the availability, skill, and cost of our subcontractors. Delays or cost increases caused by shortages and price fluctuations, including as a result of inflation, could harm our operating results, the impact of which may be further affected depending on our ability to raise sales prices to offset increased costs. We have experienced some labor shortages and increased labor costs over the past few years, including fiscal 2017 during which we also experienced increased materials and construction costs. It is uncertain whether these shortages will continue as is, improve or worsen. If rising labor and house construction costs substantially outpace increases in the income of potential purchasers we may be limited in our ability to raise home sale prices, which may result in lower gross margins.

We rely on subcontractors to construct our homes and should our homes not be properly constructed, it may be costly.

We engage subcontractors to perform the actual construction of our homes. Despite our quality control efforts, we may discover that our subcontractors failed to properly construct our homes. The occurrence of such events could require us to repair the homes in accordance with our standards and as required by law. The cost of satisfying our legal obligations in these instances may be significant, and we may be unable to recover the cost of repair from subcontractors and insurers.

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. We incur many costs even before we begin to build homes in a community. Depending on the stage of development of a land parcel when we acquire it, these may include costs of preparing land, finishing and entitling lots, installing roads, sewers, water systems and other utilities, taxes and other costs related to ownership of the land on which we plan to build homes. The market value of undeveloped land, buildable lots, and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write-off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. The assessment of communities for indication of impairment is performed quarterly. While we consider available information to determine what we believe to be our best estimates as of the reporting period, these estimates are subject to change in future reporting periods as facts and circumstances change. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Critical Accounting Policies.” For example, during more recent years, we did not have significant land option write-offs or impairments; however, during fiscal 2011, 2010 and 2009, we decided not to exercise many option contracts and walked away from land option deposits and predevelopment costs, which resulted in land option write-offs of $24.3 million, $13.2 million, and $45.4 million, respectively. Also, in fiscal 2011, 2010 and 2009, as a result of the difficult market conditions, we recorded inventory impairment losses on owned property of $77.5 million, $122.5 million and $614.1 million, respectively. If market conditions worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

We conduct a significant portion of our business in Arizona, California, Florida, New Jersey, Texas and Virginia, and accordingly, regional factors affecting home sales and activities in these markets may have a large impact on our results of operations.

We presently conduct a significant portion of our business in Arizona, California, Florida, New Jersey, Texas and Virginia, which subjects us to risks associated with the regional and local economies of these markets. Home prices and sales activities in these markets and in most of the other markets in which we operate have declined from time to time, particularly as a result of slow economic growth. These markets may also depend, to a degree, on certain sectors of the economy and any declines in those sectors may impact home sales and activities in that region. For example, to the extent the oil and gas industries, which can be very volatile, are negatively impacted by declining commodity prices, climate change, legislation or other factors, it could result in reduced employment, or other negative economic consequences, which in turn could adversely impact our home sales and activities in Texas. Furthermore, precarious economic and budget situations at the state government level may adversely affect the market for our homes in the affected areas. Events impacting these markets could also negatively affect the other markets in which we operate. If home prices and sales activity decline in one or more of the markets in which we operate, our costs may not decline at all or at the same rate and the Company’s business, financial condition and results of operations could be materially adversely affected.

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

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

Starting in 2007, many lenders have been significantly tightening their underwriting standards, even above the minimum standards set by Fannie Mae, Freddie Mac and HUD/FHA, and subprime and other alternative mortgage products are no longer being made available in the marketplace. If these trends continue and mortgage loans continue to be difficult to obtain, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes will be adversely affected, which will adversely affect our operating results. In addition, we believe that the availability of mortgage financing, including Federal National Mortgage Association, Federal Home Loan Mortgage Corp, and FHA/VA financing, is an important factor in marketing many of our homes. The maximum size of mortgage loans that are treated as conforming by Fannie Mae and Freddie Mac was reduced in the past few years, which could further weaken home sales in general as mortgages may become more expensive and, if conforming loan limits are further reduced, it could have a material adverse effect on the Company. In addition, in 2010 HUD tightened FHA underwriting standards and the mortgage environment remains constrained. Any limitations or restrictions on the availability of those types of financing could reduce our sales. Further, if we are unable to originate mortgages for any reason going forward, our customers may experience significant mortgage loan funding issues, which could have a material impact on our homebuilding business and our consolidated financial statements.

Increases in cancellations of agreements of sale could have an adverse effect on our business.

Our backlog reflects agreements of sale with our home buyers for homes that have not yet been delivered. We have received a deposit from our home buyer for each home, which is reflected in our backlog, and we generally have the right to retain the deposit if the home buyer does not complete the purchase. In some situations, however, a home buyer may cancel the agreement of sale and receive a complete or partial refund of the deposit for reasons such as state and local law, his or her inability to obtain mortgage financing at prevailing interest rates (including financing arranged or provided by us), his or her inability to sell his or her current home, or our inability to complete and deliver the home within the specified time. At October 31, 2017, including unconsolidated joint ventures, we had a backlog of signed contracts for 2,437 homes with a sales value aggregating $1.1 billion. If mortgage financing becomes less accessible, or if economic conditions deteriorate, more home buyers may cancel their agreements of sale with us, which could have an adverse effect on our business and results of operations.

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

Significant expenses of owning a home, including mortgage interest expenses and real estate taxes, generally are, under current tax law, deductible expenses for an individual’s federal, and in some cases state, income taxes, subject to limitations under current tax law and policy. If the federal government or a state government changes its income tax laws to eliminate or substantially limit these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The "Tax Cuts and Jobs Act" which was recently signed into law includes provisions which would impose significant limitations with respect to these income tax deductions. For instance, under the "Tax Cuts and Jobs Act", the annual deduction for real estate taxes and state and local income or sales taxes would generally be limited to $10,000. Furthermore, through the end of 2025, the deduction for mortgage interest would generally only be available with respect to acquisition indebtedness that does not exceed $750,000. The loss or reduction of these homeowner tax deductions, if such tax law changes were enacted without any offsetting legislation, would adversely impact demand for and sales prices of new homes, including ours. In addition, increases in property tax rates or fees on developers by local governmental authorities, as experienced in response to reduced federal and state funding or to fund local initiatives, such as funding schools or road improvements, or increases in insurance premiums can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes, and can have an adverse impact on our business and financial results.

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

We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At October 31, 2017, we had invested an aggregate of $115.1 million in these joint ventures, including advances and a note receivable to these joint ventures of $22.4 million. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

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

We also are subject to a variety of local, state, federal and foreign laws and regulations concerning protection of health and the environment, 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's 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.

For example, in March 2013, we received a letter from the U.S. 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 show elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re-development project. We responded to the EPA's request. In August 2013, we were notified that the EPA considers us a potentially responsible party (or "PRP") with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and/or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution but do not know the scope or extent of the Company's obligations, if any, that may arise from the site and therefore cannot provide any assurance that this matter will not have a material impact on the Company. The EPA requested additional information in April 2014 and again in March 2017 and the Company has responded to its information requests.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. For example, for a number of years, the EPA and U.S. Army Corps of Engineers have been engaged in rulemakings to clarify the scope of federally regulated wetlands, which included a June 2015 rule many affected businesses contend impermissibly expanded the scope of such wetlands that was challenged in court, stayed, and remains in litigation, and a proposal in June 2017 to formally rescind the June 2015 rule and reinstate the rule scheme previously in place while the agencies initiate a new substantive rulemaking on the issue. 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.

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

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

As discussed in Item 3 – "Legal Proceedings," in the ordinary course of business we are involved in litigation from time to time, including with home owners associations, home buyers and other persons with whom we have relationships. As a homebuilder, we are subject to construction defect and home warranty claims, including moisture intrusion and related claims, arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. For example, in the past we have received construction defect and home warranty claims associated with, and we were involved in a multidistrict litigation concerning, allegedly defective drywall manufactured in China ("Chinese Drywall") that may have been responsible for noxious smells and accelerated corrosion of certain metals in certain homes we have constructed. We remediated certain homes in response to such claims and settled the litigation.

With regard to certain general liability exposures such as product liability claims, construction defect claims and related claims, assessment of claims and the related liability and reserve estimation process is highly judgmental and subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts. Furthermore, after claims are asserted for construction defects, it can be difficult to determine the extent to which assertions of such claims will expand geographically. For example, we are party to litigation in New Jersey concerning alleged defects in construction (see Item 3 – "Legal Proceedings" and Note 18 to our Consolidated Financial Statements for the year ended October 31, 2017). In addition, the amount and scope of coverage offered by insurance companies is currently limited, and this coverage may be further restricted and become more costly. If we are not able to obtain adequate insurance against such claims, if the costs associated with such claims significantly exceed the amount of our insurance coverage, or if our insurers do not pay on claims under our policies (whether because of dispute, inability, or otherwise), we may experience losses that could hurt our financial results.

Our financial results could also be adversely affected if we were to experience an unusually high number of claims or unusually severe claims. Our insurance companies have the right to review our claims and claims history, and do so from time to time, and could decline to pay on such claims if such reviews determine the claims did not meet the terms for coverage. For example, we had a dispute with XL, our insurance carrier for the fiscal year ended October 31, 2006 through the fiscal year ended October 31, 2010, regarding coverage issues pertaining to the fiscal 2006 insurance policy. Specifically, XL maintained that the Company had not satisfied its aggregate retention of $21 million for fiscal 2006 and therefore the Company's submitted claims in excess of the aggregate retention for fiscal 2006 were not reimbursable by XL under the policy terms (XL disputed the Company's interpretation of certain definitions within the policy and therefore was denying coverage). The dispute was resolved as a result of mediation pursuant to which XL made a payment in October 2015 to the Company to fully settle coverage for its 2006 and 2007 insurance policy years. The Company is therefore self-insured for those policy years (policy years 2008 through 2010 remain in effect and to date, the Company has not met the aggregate retention for any of these other policy years). Additionally, we may need to significantly increase our construction defect and home warranty reserves as a result of insurance not being available for any of the reasons discussed above, such claims or the results of our annual actuarial study.

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

Our financial services segment originates mortgages, primarily for our homebuilding customers. Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although we remain liable for certain limited representations, such as fraud, and warranties related to loan sales. Accordingly, mortgage investors have in the past and could in the future seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations or warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to sellers' representations and warranties in particular loan sale agreements. We have established reserves for potential losses. While we believe these reserves are adequate for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed our expectations, additional expense may be incurred. There can be no assurance that we will not have significant liabilities in respect of such claims in the future, which could exceed our reserves, or that the impact of such claims on our results of operations will not be material. Further, an increase in the default rate on the mortgages we originate may adversely affect our ability to sell mortgages or the pricing we receive upon the sale of mortgages.

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

We compete not only for home buyers but also for desirable properties, financing, raw materials, and skilled labor often within larger subdivisions designed, planned, and developed by other homebuilders. Our competitors include other local, regional, and national homebuilders, some of which have greater sales and financial resources or more established relationships with suppliers and subcontractors in the markets in which we operate. In addition, we compete with other housing alternatives, such as existing homes and rental housing. In the homebuilding industry, we compete primarily on the basis of reputation, price, location, design, quality, service and amenities. Our financial services segment competes with other mortgage bankers, primarily on the basis of fees, interest rates and other features of mortgage loan products.

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

- difficulty in acquiring suitable land at acceptable prices;
- increased selling incentives;
- lower sales;

- delays in construction; or
- impairment of our ability to implement our strategies and operational actions.

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

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

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

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

Members of the Hovnanian family, including Ara K. Hovnanian, our chairman of the board, president, and chief executive officer, have voting control, through personal holdings, the limited partnership and the limited liability company established for members of Mr. Hovnanian's family and family trusts of Class A and Class B common stock that enabled them to cast approximately 57% of the votes that could be cast by the holders of our outstanding Class A and Class B common stock combined as of October 31, 2017. Their combined stock ownership enables them to exert significant control over us, including power to control the election of the Board of Directors and to approve matters presented to our stockholders. This concentration of ownership may also make some transactions, including mergers or other changes in control, more difficult or impossible without their support. Also, because of their combined voting power, circumstances may occur in which their interests could be in conflict with the interests of other stakeholders.

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

Based on past impairments and our current financial performance, we generated a federal net operating loss carryforward of $1.6 billion through the fiscal year ended October 31, 2017, and we may generate net operating loss carryforwards in future years.

Section 382 of the United States Internal Revenue Code of 1986, as amended (the "Code") contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three year period, to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership shifts among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

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

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

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

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

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

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

Geopolitical events, acts of war or terrorism, civil unrest, or any outbreak or escalation of hostilities throughout the world or health pandemics, may have a substantial impact on the economy, consumer confidence, the housing market, our associates and our customers. Further, perceived threats to national security and other actual or potential conflicts or wars and related geopolitical risks have created many economic and political uncertainties. If any such events were to occur, it could have a material adverse impact on our results of operations and financial condition.

We could be adversely impacted by the loss of key management personnel or if we fail to attract qualified personnel.

To a significant degree, our future success depends on the efforts of our senior management, many of whom have been with the Company for a significant number of years, and our ability to attract qualified personnel. Our operations could be adversely affected if key members of our senior management leave the Company or if we cannot attract qualified personnel to manage growth in our business.

Information technology failures and data security breaches could harm our business.

We use information technology, digital telecommunications and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our backup systems, are subject to damage or interruption from computer and telecommunications failures, computer viruses, power outages, security breaches (including through data-theft and cyber-attack), usage errors by our associates and catastrophic events, such as fires, floods, hurricanes and tornadoes. If our computer systems and our backup systems are breached, compromised, damaged, or otherwise cease to function properly, we could suffer interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information, including information about our business partners and home buyers, which could require us to incur significant costs to remediate or otherwise resolve these issues and could damage our reputation.

ITEM 1B
UNRESOLVED STAFF COMMENTS

None.

ITEM 2
PROPERTIES

At October 31, 2017, we owned a 69,000 square-foot office complex located in the Northeast that has served as our corporate headquarters, which was sold on November 1, 2017. We plan on renting approximately 57,000 square feet of office space in the Northeast beginning in January 2018 for our corporate headquarters. We own 215,000 square feet of office and warehouse space throughout the Midwest. We lease approximately 433,000 square feet of space for our segments located in the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Included in this amount is 6,800 square feet of abandoned lease space.

ITEM 3
LEGAL PROCEEDINGS

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

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

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. For example, for a number of years, the EPA and U.S. Army Corps of Engineers have been engaged in rulemakings to clarify the scope of federally regulated wetlands, which included a June 2015 rule many affected businesses contend impermissibly expanded the scope of such wetlands that was challenged in court, stayed, and remains in litigation, and a proposal in June 2017 to formally rescind the June 2015 rule and reinstate the rule scheme previously in place while the agencies initiate a new substantive rulemaking on the issue. 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 recent tests on soil samples from properties within the development conducted by the EPA show elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re-development project. We responded to the EPA's request. In August 2013, we were notified that the EPA considers us a potentially responsible party (or "PRP") with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and/or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution but do not know the scope or extent of the Company's obligations, if any, that may arise from the site and therefore cannot provide any assurance that this matter will not have a material impact on the Company. The EPA requested additional information in April 2014 and again in March 2017 and the Company has responded to its information requests.

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

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

Once a final judgment is entered, the relevant Hovnanian-affiliated defendants intend to appeal all aspects of the verdict against them. With respect to this case, depending on the outcome of all appeals, the range of loss is between $0 and $10.8 million, inclusive of attorneys' fees and costs. Management believes that a loss is probable and reasonably estimable and that the Company has reserved for its estimated probable loss amount in its construction defect reserves. However, our assessment of the probable loss may differ from the ultimate resolution of this matter.

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

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

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

ITEM 4
MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Part II

ITEM 5
MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock is traded on the New York Stock Exchange under the symbol "HOV" and was held by 457 stockholders of record at December 15, 2017. There is no established public trading market for our Class B Common Stock, which was held by 230 stockholders of record at December 15, 2017. If a shareholder desires to sell shares of Class B Common Stock (other than to Permitted Transferees (as defined in the Company's amended Certificate of Incorporation)), such stock must be converted into shares of Class A Common Stock at a one to one conversion rate. The high and low closing sales prices for our Class A Common Stock were as follows for each fiscal quarter during the years ended October 31, 2017 and 2016:

	October 31, 2017		October 31, 2016	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 2.89	$ 1.54	$ 2.05	$ 1.36
Second	$ 2.48	$ 2.16	$ 1.79	$ 1.30
Third	$ 2.96	$ 2.20	$ 1.93	$ 1.54
Fourth	$ 2.42	$ 1.72	$ 1.98	$ 1.55

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

For information regarding the equity securities that are authorized for issuance under our equity compensation plans, see Part III. Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” – Equity Compensation Plan Information.

Recent Sales of Unregistered Equity Securities

None.

Issuer Purchases of Equity Securities

No shares of our Class A Common Stock or Class B Common Stock were purchased by or on behalf of the Company or any affiliated purchaser during the fiscal fourth quarter of 2017. The maximum number of shares that may yet be purchased under the Company’s repurchase plans or programs is 0.5 million.

ITEM 6
SELECTED FINANCIAL DATA

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

		Year Ended			
Summary of Consolidated Statements of Operations Data (In thousands, except per share data)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**	**October 31, 2014**	**October 31, 2013**
Revenues	$ 2,451,665	$ 2,752,247	$ 2,148,480	$ 2,063,380	$ 1,851,253
Expenses excluding inventory impairment loss and land option write-offs	2,437,195	2,708,912	2,162,370	2,044,718	1,835,633
Inventory impairment loss and land option write-offs	17,813	33,353	12,044	5,224	4,965
Total expenses	2,455,008	2,742,265	2,174,414	2,049,942	1,840,598
Loss on extinguishment of debt	(34,854)	(3,200)	-	(1,155)	(760)
(Loss) income from unconsolidated joint ventures	(7,047)	(4,346)	4,169	7,897	12,040
(Loss) income before income taxes	(45,244)	2,436	(21,765)	20,180	21,935
State and federal income tax provision (benefit)	286,949	5,255	(5,665)	(286,964)	(9,360)
Net (loss) income	$ (332,193)	$ (2,819)	$ (16,100)	$ 307,144	$ 31,295
Per share data:					
Basic:					
(Loss) income per common share	$ (2.25)	$ (0.02)	$ (0.11)	$ 2.05	$ 0.22
Weighted-average number of common shares outstanding	147,703	147,451	146,899	146,271	145,087
Assuming dilution:					
(Loss) income per common share	$ (2.25)	$ (0.02)	$ (0.11)	$ 1.87	$ 0.22
Weighted-average number of common shares outstanding	147,703	147,451	146,899	162,441	162,329

Summary of Consolidated Balance Sheet Data

(In thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**	**October 31, 2014**	**October 31, 2013**
Total assets(1)	$ 1,900,898	$ 2,354,956	$ 2,577,398	$ 2,264,433	$ 1,737,373
Mortgages, lines of credit and revolving credit agreement(1)	$ 244,088	$ 294,015	$ 310,672	$ 193,104	$ 168,816
Senior secured term loan, senior secured notes, senior notes, senior amortizing notes, senior exchangeable notes and tangible equity unit (“TEU”) senior subordinated amortizing notes (net of discount)	$ 1,585,837	$ 1,573,333	$ 1,827,924	$ 1,636,402	$ 1,511,171
Total equity deficit	$ (460,371)	$ (128,510)	$ (128,084)	$ (117,799)	$ (432,799)

(1) In connection with our adoption of Accounting Standards Update 2015-03 in November 2016, certain prior year amounts for unamortized debt issuance costs were reclassified between the lines “Total assets” and “Mortgages, lines of credit and revolving credit agreement” and “Senior secured term loans, senior secured notes, senior notes, senior amortizing notes, senior exchangeable notes and tangible equity unit (“TEU”) senior subordinated amortizing note (net of discount”. See Note 1 to the Consolidated Financial Statements for additional information.

ITEM 7
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

During fiscal 2016, we had approximately $260 million of bonds mature, which we were unable to refinance because financing was unavailable in the capital markets to companies with comparable credit ratings to ours. As a result, we shifted our focus from growth to gaining operating efficiencies and improving our bottom line, and in order to preserve and increase cash to fund our maturing debt, we decided to temporarily reduce the amount of cash we were spending on future land acquisitions and to exit from four underperforming markets during fiscal 2016. In addition, we increased our use of land banking and joint ventures in order to enhance our liquidity position. The net effect of these liquidity enhancing efforts was to temporarily reduce our ability to invest as aggressively in new land parcels as previously planned. This resulted in a reduction in our community count in fiscal 2016 and 2017, along with a decrease in net contracts during these periods, as compared to the prior year periods. However, in the fourth quarter of fiscal 2016, we were able to refinance certain of our debt maturities and had homebuilding cash of $339.8 million as of October 31, 2016. In addition, in July 2017, we successfully refinanced and extended the maturities of certain of our senior secured notes which were scheduled to mature in October 2018 and October and November 2020, with $440.0 million of new senior secured notes maturing in July 2022 and $400.0 million of new senior secured notes maturing in July 2024. While these transactions extended the maturities of a significant amount of debt giving us the ability to more fully invest in new communities again, they also resulted in a $42.3 million loss on early extinguishment of debt. When added to prior period results, this created a three-year cumulative loss, which led us to reconsider the realizability of our deferred tax assets in accordance with GAAP and record a $294.1 million non-cash increase in the valuation allowance for our deferred tax assets. See Note 11 to our Consolidated Financial Statements.

Our cash position in fiscal 2017 has allowed us to spend $555.0 million on land purchases and land development during fiscal 2017 and still have $463.7 million of homebuilding cash and cash equivalents as of October 31, 2017. This cash and the July 2017 refinancing transaction, by extending our debt maturities, will enable us to allocate additional cash to further grow our business. We continue to see opportunities to purchase land at prices that make economic sense in light of our current sales prices and sales pace and plan to continue actively pursuing such land acquisitions. New land purchases at pricing that we believe will generate appropriate investment returns and drive greater operating efficiencies are needed to return to sustained profitability.

The above factors during fiscal 2016 led to a reduction in our land position and a 22.2% decline in our community count for fiscal 2017 as compared to fiscal 2016 and as a result, during fiscal 2017, we experienced mixed operating results compared to the prior year. Net contracts per average active selling community increased 12.1% to 35.1 for the year ended October 31, 2017 compared to 31.3 in the same period in the prior year. This improvement in net contracts per average active selling community demonstrates an increase in sales absorption, which allows us to be more efficient by permitting us to deliver more homes per community without any increase in fixed overheads in those communities. Active selling communities decreased from 167 at October 31, 2016 to 130 at October 31, 2017, and net contracts decreased 14.9% for the year ended October 31, 2017, compared to the same period of the prior year. For the year ended October 31, 2017, sale of homes revenues decreased 10.0% as compared to the same period of the prior year, as a result of the decreased community count. Gross margin percentage increased from 12.2% for the year ended October 31, 2016 to 13.2% for the year ended October 31, 2017. Gross margin percentage, before cost of sales interest expense and land charges, increased slightly from 16.9% for the year ended October 31, 2016 to 17.2% for the year ended October 31, 2017. The improvements in both gross margin percentage and gross margin percentage, before cost of sales interest expense and land charges, are primarily the result of the mix of communities delivering homes and the reduction of our warranty reserves, rather than significant changes in prices or costs. Additionally, gross margin percentage improved due to a decrease in land charges for the year ended October 31, 2017 compared to the prior year because of the impairments recorded in fiscal 2016, which related to the sale of our land portfolio in Minneapolis, Minnesota. Selling, general and administrative costs (including corporate general and administrative expenses) increased $2.6 million for the year ended October 31, 2017 as compared to the prior year. As a percentage of total revenue such costs increased from 9.2% for the year ended October 31, 2016, to 10.4% for the year ended October 31, 2017 due to the decrease in sale of homes revenues resulting from our decreased community count, as discussed above. The increase in selling, general and administrative costs (including corporate general and administrative expenses) is primarily due to a $12.5 million adjustment recorded during the fourth quarter of fiscal 2017 to our construction defect reserves related to litigation. Excluding this adjustment, selling, general and administrative costs (including corporate general and administrative expenses) decreased $9.9 million for the year ended October 31, 2017 as compared to the prior year.

When comparing sequentially from the third quarter of fiscal 2017 to the fourth quarter of fiscal 2017, our gross margin percentage increased from 12.8% to 13.7% and our gross margin percentage, before cost of sales interest expense and land charges, increased from 16.8% to 18.2%. Gross margin percentage increased primarily as a result of product mix and the reduction of our warranty reserves, along with price increases in certain communities primarily in the West. Selling, general and administrative costs (including corporate general and administrative expenses) as a percentage of total revenues decreased slightly from 10.3% to 10.1%, as compared to the third quarter of fiscal 2017, and decreased to 8.4% excluding the adjustment to our construction defect reserves discussed above. Selling, general and administrative costs include some fixed costs that are not impacted by delivery volume. Therefore, as revenues increased from the third quarter of fiscal 2017 to the fourth quarter of fiscal 2017, consistent with our normal seasonality trends, selling, general and administrative costs as a percentage of total revenues decreased. Improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of focus.

We had 1,983 homes in backlog with a dollar value of $808.0 million at October 31, 2017 (a decrease of 24.4% in dollar value compared to the prior year). As discussed above, we have invested $555.0 million in land purchases and land development during fiscal 2017, which along with continued land acquisitions is expected to eventually result in community count growth. However, there is typically a significant time lag from when we first control lots until the time that we open a community for sale. This timeline can vary significantly from a few months (in a market such as Houston) to three to five years (in a market such as New Jersey). Given the mix of land that we currently control and the land investment we currently anticipate, we are not expecting community count growth until the second half of fiscal 2018. Once our community count grows, absent adverse market factors, we expect delivery and revenue growth will follow.

Our fourth quarter results in fiscal 2017 were impacted by Hurricane Harvey. Fortunately, less than ten homes within two of our 45 Houston communities experienced flood damage. The storm damage and construction delays caused by Hurricane Harvey reduced our fourth quarter deliveries and may impact fiscal 2018 results. In spite of this temporary impact, the long-term prospect for the Houston market remains strong. The fourth quarter of fiscal 2017 results were also negatively impacted by an issue related to I-joist's coated with a certain type of fire resistance product that were manufactured by Weyerhaeuser Company. The Company identified a total of 63 homes located in our Delaware and New Jersey markets that were affected. Of these 63 impacted homes, 30 were scheduled to close in fiscal 2017 and did not as a result of this issue. Weyerhaeuser has accepted responsibility and is presently remediating all affected homes and we will not incur any material costs, expenses or charges as a result. We experienced a combination of delayed closings and cancellations with respect to these units which had a negative impact on net orders, closings and revenue in the fourth quarter of fiscal 2017. Subsequent to our fiscal year-end, there have been significant wildfires throughout Southern California. While none of our communities have been directly affected, we could experience labor shortages, construction delays or utility company delays, which in turn could impact our fiscal 2018 results.

Critical Accounting Policies

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

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

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

Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or compensate them for losses incurred on mortgages we have sold based on claims that we breached our limited representations and warranties. We believe there continues to be an industry-wide issue with the number of purchaser claims in which purchasers purport to have found inaccuracies related to the sellers' representations and warranties in particular loan sale agreements. We have established reserves for probable losses. While we believe these reserves are adequate for known losses and projected repurchase requests, given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, if either actual repurchases or the losses incurred resolving those repurchases exceed our expectations, additional expense may be incurred.

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

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

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 Consolidated Balance Sheets from "Sold and unsold homes and lots under development" to "Land and land options held for future development or sale." As of October 31, 2017, the net book value associated with our 22 mothballed communities was $36.7 million, net of impairment charges recorded in prior periods of $214.1 million. We regularly review communities to determine if mothballing is appropriate. During fiscal 2017, we did not mothball any communities, but we sold five previously mothballed communities and re-activated two previously mothballed communities.

From time to time we enter into option agreements that include specific performance requirements, whereby we are required to purchase a minimum number of lots. Because of our obligation to purchase these lots, for accounting purposes in accordance with ASC 360-20-40-38, we are required to record this inventory on our Consolidated Balance Sheets. As of October 31, 2017, we had no specific performance options recorded on our Consolidated Balance Sheets. Consolidated inventory not owned also consists of other options that were included on our Consolidated Balance Sheets in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

We have land banking arrangements, whereby we sell our land parcels to the land banker and they provide us an option to purchase back finished lots on a quarterly basis. Because of our options to repurchase these parcels, for accounting purposes, in accordance with ASC 360-20-40-38, these transactions are considered financings rather than sales. For purposes of our Consolidated Balance Sheets, at October 31, 2017, inventory of $66.3 million was recorded as "Consolidated inventory not owned," with a corresponding amount of $39.3 million recorded to "Liabilities from inventory not owned" for the amount of net cash received from the transactions.

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

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

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

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

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

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

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair-value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written down to its fair value. We determine the estimated fair value of each community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community, or in limited circumstances, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale), and recent bona fide offers received from outside third parties. Our discount rates used for all impairments recorded from October 31, 2015 to October 31, 2017 ranged from 16.8% to 19.8%. The estimated future cash flow assumptions are virtually the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative fair value basis.

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

Inventories held for sale are land parcels ready for sale in their current condition, where we have decided not to build homes but are instead actively marketing for sale. These land parcels represented $23.6 million and $48.7 million of our total inventories at October 31, 2017 and 2016, respectively, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interests in the joint ventures vary but our voting interests are generally 50% or less. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, "Investments - Equity Method and Joint Ventures – Overall," we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture's projected cash flows. This process requires significant management judgment and estimates. During fiscal 2017, we wrote down certain joint venture investments by $2.8 million. There were no write-downs in fiscal 2016 or 2015.

Post-Development Completion, Warranty Costs and *Insurance Deductible Reserves* - In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. We accrue for warranty costs that are covered under our existing general liability and construction defect policy as part of our general liability insurance deductible. This accrual is expensed as selling, general, and administrative costs. For homes delivered in fiscal 2017 and 2016, our deductible under our general liability insurance is a $20 million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2017 and 2016 is $0.25 million, up to a $5 million limit. Our aggregate retention in fiscal 2017 and 2016 is $21 million for construction defect, warranty and bodily injury claims. We do not have a deductible on our worker's compensation insurance. Reserves for estimated losses for construction defects, warranty and bodily injury claims have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty and construction defect data 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. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts. 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. See Note 16 to the Consolidated Financial Statements for additional information on the amount of warranty costs recognized in cost of goods sold and administrative expenses.

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

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

Recent Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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 with certain maturity requirements (a limitation that we expect to continue for the foreseeable future), even if market conditions would otherwise be favorable, which could also impact our ability to grow our business. In fiscal 2016, as a result of our evaluation of our geographic operating footprint as it relates to our strategic objectives, we exited the Minneapolis, Minnesota and Raleigh, North Carolina markets, and completed the sale of our land portfolios in those markets. In addition, we entered into a new joint venture by transferring eight communities to the joint venture and receiving cash in return. In fiscal 2017, we transferred an additional four communities to the joint venture, which resulted in $11.2 million of net cash proceeds to us during the period. We are in the process of completing a wind down of our operations in the San Francisco Bay area in Northern California and in Tampa, Florida by building and delivering homes to sell through our existing land position. Any other liquidity-enhancing transaction will depend on identifying counterparties, negotiation of documentation and applicable closing conditions and any required approvals.

Operating, Investing and Financing Activities – Overview

Our homebuilding cash balance at October 31, 2017 increased $123.9 million from October 31, 2016 to $463.7 million, which is above our target liquidity range of $170 million to $245 million. We would prefer to have our cash fully invested, but we are being disciplined in our underwriting of new land deals and the methods in which we control land (through more options and fewer direct purchases). In addition to using cash to pay down debt during fiscal 2017, we spent $555.0 million on land and land development. After considering this land and land development and all other operating activities, including revenue received from deliveries, we generated $297.6 million of cash from operations. During fiscal 2017, cash used in investing activities was $27.2 million, primarily related to investments in existing joint ventures, along with an investment in a new joint venture. Cash used in financing activities was $147.8 million during fiscal 2017, which included $862.0 million for repurchases of debt, $840.0 million of proceeds for debt issuances, $61.1 million used for model finance and land banking programs and a $31.0 million reduction in 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 year ended October 31, 2017 and 2016 were for operating expenses, land purchases, land deposits, land development, construction spending, debt payments, state income taxes, interest payments and investments in joint ventures. During these periods, we provided for our cash requirements from available cash on hand, housing and land sales, financing transactions, model sale leasebacks, land banking transactions, joint ventures, financial service revenues and other revenues. We believe that these sources of cash will be sufficient through fiscal 2018 to finance our working capital requirements.

Our net income (loss) historically does not approximate cash flow from operating activities. The difference between net income (loss) and cash flow from operating activities is primarily caused by changes in inventory levels together with changes in receivables, prepaid and other assets, mortgage loans held for sale, interest and other accrued liabilities, deferred income taxes, accounts payable and other liabilities, and noncash charges relating to depreciation, 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. In fiscal 2017, with spending on land purchases and land development relatively flat as compared to fiscal 2016, we continued to generate cash from operations. As we continue to increase spending on land purchases and land development, cash flow from operations will decrease. As we continue to actively seek land investment opportunities, we will also remain focused on liquidity.

See “Inventory Activities” below for a detailed discussion of our inventory position.

Debt Transactions

As of October 31, 2017, we had a $75.0 million outstanding senior secured term loan facility (the “Term Loan Facility”) ($73.0 million net of debt issuance costs), and $1,110.0 million of outstanding senior secured notes ($1,090.6 million, net of discount and debt issuance costs), comprised of $53.2 million 2.0% 2021 Notes (defined below), $141.8 million 5.0% 2021 Notes (defined below), $75.0 million 9.50% 2020 Notes (defined below), $440.0 million 10.0% Senior Secured Notes due 2022 and $400.0 million 10.5% Senior Secured Notes due 2024. As of October 31, 2017, we also had $368.5 million of outstanding senior notes ($366.3 million net of debt issuance costs), comprised of $132.5 million 7.0% Senior Notes due 2019 and $236.0 million 8.0% Senior Notes due 2019. In addition, as of October 31, 2017, we had outstanding $2.1 million 11.0% Senior Amortizing Notes due 2017 (issued as a component of our 6.0% Exchangeable Note Units) ($2.0 million net of debt issuance costs) and $53.9 million Senior Exchangeable Notes due 2017 (issued as a component of our 6.0% Exchangeable Note Units) ($53.9 million net of debt issuance costs).

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures and certain of our title insurance subsidiaries, we and each of our subsidiaries are guarantors of the Term Loan Facility and senior secured, senior, senior amortizing and senior exchangeable notes outstanding at October 31, 2017 (collectively, the "Notes Guarantors"). In addition to the Notes Guarantors, the 5.0% Senior Secured Notes due 2021 (the "5.0% 2021 Notes"), the 2.0% Senior Secured Notes due 2021 (the "2.0% 2021 Notes" and together with the 5.0% 2021 Notes, the "2021 Notes") and the 9.50% Senior Secured Notes due 2020 (the "9.50% 2020 Notes" and collectively with the 2021 Notes, the "JV Holdings Secured Group Notes") are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries, except for certain joint ventures and joint venture holding companies (collectively, the "JV Holdings Secured Group"). Members of the JV Holdings Secured Group do not guarantee K. Hovnanian's other indebtedness.

The credit agreement governing the Term Loans (defined below) and the indentures governing the notes outstanding at October 31, 2017 do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company's ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than nonrecourse indebtedness, certain permitted indebtedness and refinancing indebtedness (under the Term Loans and the 9.50% 2020 Notes, any new or refinancing indebtedness may not be scheduled to mature earlier than January 15, 2021 (so long as no member of the JV Holdings Secured Group is an obligor thereon), or February 15, 2021 (if otherwise), and under the 10.0% Senior Secured Notes due 2022 (the "10.0% 2022 Notes") and the 10.5% Senior Secured Notes due 2024 (the "10.5% 2024 Notes"), any refinancing indebtedness of the 7.0% Senior Notes due 2019 (the "7.0% Notes") and 8.0% Senior Notes due 2019 (the "8.0% Notes" and together with the 7.0% Notes, the "2019 Notes") may not be scheduled to mature earlier than July 16, 2024)), pay dividends and make distributions on common and preferred stock, repurchase subordinated indebtedness (with respect to the Term Loans and certain of the senior secured and senior notes) and common and preferred stock, make other restricted payments, including investments, sell certain assets (including in certain land banking transactions), incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets, enter into certain transactions with affiliates and make cash repayments of the 2019 Notes (with respect to the 10.0% 2022 Notes and 10.5% 2024 Notes). The credit agreement governing the Term Loans and the indentures also contain events of default which would permit the lenders/holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Term Loan facility (the "Term Loans")/notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the Term Loans/notes or other material indebtedness, cross default to other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy and insolvency, with respect to the Term Loans, material inaccuracy of representations and warranties and a change of control, and, with respect to the Term Loans and senior secured notes, the failure of the documents granting security for the Term Loans and senior secured notes to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the Term Loans and senior secured notes to be valid and perfected. As of October 31, 2017, we believe we were in compliance with the covenants of the Term Loan Facility and the indentures governing our outstanding notes.

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

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

During the year ended October 31, 2017, we repurchased in open market transactions $17.5 million aggregate principal amount of 7.0% Notes, $14.0 million aggregate principal amount of 8.0% Notes and 6,925 senior exchangeable note units representing $6.9 million stated amount of senior exchangeable note units. The aggregate purchase price for these transactions was $30.8 million, plus accrued and unpaid interest. These transactions resulted in a gain on extinguishment of debt of $7.8 million, which is included as "Loss on Extinguishment of Debt" on the Consolidated Statement of Operations. This gain was offset by $0.4 million of costs associated with the 9.50% 2020 Notes issued during the fourth quarter of fiscal 2016 and the debt transactions during the third quarter of fiscal 2017 discussed below.

On July 27, 2017, K. Hovnanian issued $440.0 million aggregate principal amount of 10.0% 2022 Notes and $400.0 million aggregate principal amount of 10.5% 2024 Notes. The net proceeds from these issuances together with available cash were used to (i) purchase $575,912,000 principal amount of 7.25% Senior Secured First Lien Notes due 2020 (the "7.25% First Lien Notes"), $87,321,000 principal amount of 9.125% Senior Secured Second Lien Notes due 2020 (the "9.125% Second Lien Notes" and, together with the 7.25% First Lien Notes, the "2020 Secured Notes") and all $75,000,000 principal amount of 10.0% Senior Secured Second Lien Notes due 2018 (the "10.0% Second Lien Notes") that were tendered and accepted for purchase pursuant to K. Hovnanian's offers to purchase for cash (the "Tender Offers") any and all of the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes and to pay related tender premiums and accrued and unpaid interest thereon to the date of purchase and (ii) satisfy and discharge all obligations (and cause the release of the liens on the collateral securing such indebtedness) under the indentures under which the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes were issued and in connection therewith to call for redemption on October 15, 2017 and on November 15, 2017 all remaining $1,088,000 principal amount of 7.25% First Lien Notes and all remaining $57,679,000 principal amount of 9.125% Second Lien Notes, respectively, that were not validly tendered and purchased in the applicable Tender Offer in accordance with the redemption provisions of the indentures governing the 2020 Secured Notes. These transactions resulted in a loss on extinguishment of debt of $42.3 million, which is included as "Loss on Extinguishment of Debt" on the Consolidated Statement of Operations.

The 10.0% 2022 Notes have a maturity of July 15, 2022 and bear interest at a rate of 10.0% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.0% 2022 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2019 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." K. Hovnanian may also redeem some or all of the 10.0% 2022 Notes at 105.0% of principal commencing July 15, 2019, at 102.50% of principal commencing July 15, 2020 and at 100.0% of principal commencing July 15, 2021. In addition, K. Hovnanian may also redeem up to 35% of the aggregate principal amount of the 10.0% 2022 Notes prior to July 15, 2019 with the net cash proceeds from certain equity offerings at 110.0% of principal.

The 10.5% 2024 Notes have a maturity of July 15, 2024 and bear interest at a rate of 10.5% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.5% 2024 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2020 at 100.0% of their principal amount plus an applicable "Make-Whole Amount." K. Hovnanian may also redeem some or all of the 10.5% 2024 Notes at 105.25% of principal commencing July 15, 2020, at 102.625% of principal commencing July 15, 2021 and at 100.0% of principal commencing July 15, 2022. In addition, K. Hovnanian may also redeem up to 35.0% of the aggregate principal amount of the 10.5% 2024 Notes prior to July 15, 2020 with the net cash proceeds from certain equity offerings at 110.50% of principal.

All of K. Hovnanian's obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes are guaranteed by the Notes Guarantors. In addition to pledges of the equity interests in K. Hovnanian and the subsidiary Notes Guarantors which secure the 10.0% 2022 Notes and the 10.5% 2024 Notes, the 10.0% 2022 Notes and the 10.5% 2024 Notes and the guarantees thereof will also be secured in accordance with the terms of the indenture and security documents governing such Notes by pari passu liens on substantially all of the assets owned by K. Hovnanian and the Notes Guarantors, in each case subject to permitted liens and certain exceptions (the collateral securing the 10.0% 2022 Notes and the 10.5% 2024 Notes will be the same as that securing the Term Loans). The liens securing the 10.0% 2022 Notes and the 10.5% 2024 Notes rank junior to the liens securing the Term Loans and any other future secured obligations that are senior in priority with respect to the assets securing the 10.0% 2022 Notes and the 10.5% 2024 Notes.

In connection with the issuance of the 10.0% 2022 Notes and the 10.5% 2024 Notes, K. Hovnanian and the Notes Guarantors entered into security and pledge agreements pursuant to which K. Hovnanian and the Notes Guarantors pledged substantially all of their assets to secure their obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes, subject to permitted liens and certain exceptions as set forth in such agreements. K. Hovnanian and the Notes Guarantors also entered into applicable intercreditor and collateral agency agreements which set forth agreements with respect to the relative priority of their various secured obligations.

The indenture governing the 10.0% 2022 Notes and the 10.5% 2024 Notes was entered into on July 27, 2017 among K. Hovnanian, the Notes Guarantors and Wilmington Trust, National Association, as trustee and collateral agent. The covenants and events of default in the indenture are described above.

See Note 9 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for a further discussion of K. Hovnanian's Term Loans, senior secured notes, senior notes and senior exchangeable note units.

Mortgages and Notes Payable

We have nonrecourse mortgage loans for certain communities totaling $64.5 million and $82.1 million (net of debt issuance costs) at October 31, 2017 and 2016, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of $157.8 million and $201.8 million, respectively. The weighted-average interest rate on these obligations was 5.3% and 4.9% at October 31, 2017 and 2016, respectively, and the mortgage loan payments on each community primarily correspond to home deliveries. We also had nonrecourse mortgage loans on our corporate headquarters totaling $13.0 million and $14.3 million at October 31, 2017 and 2016, respectively. These loans had a weighted-average interest rate of 8.9% at October 31, 2017 and 8.8% at October 31, 2016. As of October 31, 2017, these loans had installment obligations with annual principal maturities in the years ending October 31 of: $1.4 million in 2018, $1.5 million in 2019, $1.7 million in 2020, $1.8 million in 2021, $2.0 million in 2022 and $4.6 million after 2022. On November 1, 2017, the non-recourse loans on our corporate headquarters were paid in full, in connection with the sale of building.

In June 2013, K. Hovnanian, as borrower, and we and certain of our subsidiaries, as guarantors, entered into a five-year, $75.0 million unsecured revolving credit facility (the "Credit Facility") with Citicorp USA, Inc., as administrative agent and issuing bank, and Citibank, N.A., as a lender. The Credit Facility is available for both letters of credit and general corporate purposes. The Credit Facility does not contain any financial maintenance covenants, but does contain certain restrictive covenants that track those contained in our indenture governing the 8.0% Senior Notes due 2019, which are described in Note 9 to the Consolidated Financial Statements. The Credit Facility also contains certain customary events of default which would permit the administrative agent at the request of the required lenders to, among other things, declare all loans then outstanding to be immediately due and payable if such default is not cured within applicable grace periods, including the failure to make timely payments of amounts payable under the Credit Facility or other material indebtedness or the acceleration of other material indebtedness, the failure to comply with agreements and covenants or for representations or warranties to be correct in all material respects when made, specified events of bankruptcy and insolvency, and the entry of a material judgment against a loan party. Outstanding borrowings under the Credit Facility accrue interest at an annual rate equal to either, as selected by K. Hovnanian, (i) the alternate base rate plus the applicable spread determined on the date of such borrowing or (ii) an adjusted London Interbank Offered Rate ("LIBOR") rate plus the applicable spread determined as of the date two business days prior to the first day of the interest period for such borrowing. As of October 31, 2017 there were $52.0 million of borrowings and $14.6 million of letters of credit outstanding under the Credit Facility. As of October 31, 2016, there were $52.0 million of borrowings and $17.9 million of letters of credit outstanding under the Credit Facility. As of October 31, 2017, we believe we were in compliance with the covenants under the Credit Facility.

In addition to the Credit Facility which matures in 2018, we have certain stand–alone cash collateralized letter of credit agreements and facilities under which there were a total of $1.7 million letters of credit outstanding at both October 31, 2017 and 2016, 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 both October 31, 2017 and October 31, 2016, the amount of cash collateral in these segregated accounts was $1.7 million, respectively, which is reflected in "Restricted cash and cash equivalents" on the Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC ("K. Hovnanian Mortgage"), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. In certain instances, we retain the servicing rights for a small amount of loans. The loans are secured by the mortgages held for sale and repaid when we sell the underlying mortgage loans to permanent investors. As of October 31, 2017 and 2016, we had an aggregate of $114.6 million and $145.6 million, respectively, outstanding under several of K. Hovnanian Mortgage's short-term borrowing facilities.

See Note 8 to the Consolidated Financial Statements for a discussion of these agreements and facilities.

Equity

On July 3, 2001, our Board of Directors authorized a stock repurchase program to purchase up to 4 million shares of Class A Common Stock. We did not repurchase any shares under this program during fiscal 2017 or 2016. As of October 31, 2017, the maximum number of shares of Class A Common Stock that may yet be purchased under this program is 0.5 million. (See Part II, Item 5 for information on equity purchases).

On July 12, 2005, we issued 5,600 shares of 7.625% Series A Preferred Stock, with a liquidation preference of $25,000 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 Global Market under the symbol "HOVNP." In fiscal 2017, 2016 and 2015, we did not make any dividend payments on the Series A Preferred Stock as a result of covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

Ratings Actions

On November 9, 2015, Moody's Investors Services ("Moody's") took certain rating actions as follows:

- Corporate Family Rating, downgraded to Caa1;
- Probability of Default Rating, downgraded to Caa1;
- 7.625% Series A Preferred Stock, downgraded to Caa3;
- First Lien Notes, downgraded to B1;
- Existing Second Lien Notes, downgraded to Caa1; and
- Senior unsecured notes, downgraded to Caa2.

On December 9, 2015, Fitch Ratings ("Fitch") took certain rating actions as follows:

- Long-term Issuer Default Rating, downgraded to CCC;
- First Lien Notes, downgraded to B;
- Existing Second Lien Notes, downgraded to CCC-;
- Senior unsecured notes, downgraded to CCC-; and
- 7.625% Series A Preferred Stock, downgraded to C.

On April 20, 2016, Moody's took certain rating actions as follows:

- Corporate Family Rating, downgraded to Caa2;
- Probability of Default Rating, downgraded to Caa2;
- 7.625% Series A Preferred Stock, downgraded to Ca;
- First Lien Notes, downgraded to B2;
- Existing Second Lien Notes, downgraded to Caa2; and
- Senior unsecured notes, downgraded to Caa3.

On May 3, 2016, S&P Global Ratings took certain rating actions as follows:

- Corporate Credit Rating, downgraded to CCC+;
- First Lien Notes, downgraded to CCC+;
- 2021 Notes, downgraded to CCC;
- Existing Second Lien Notes, downgraded to CCC-; and
- Senior unsecured notes, downgraded to CCC-.

On August 1, 2016, Moody's took certain rating actions as follows:

- First Lien Notes, downgraded to B3;
- Existing Second Lien Notes, downgraded to Caa3

Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt or affect the interest rates charged on any of our debt issues or our debt covenant requirements or cause any other operating issue. A potential risk from negative changes in our credit ratings is that they may make it more difficult or costly for us to access capital.

Inventory Activities

Total inventory, excluding consolidated inventory not owned, decreased $189.4 million during the year ended October 31, 2017 from October 31, 2016. Total inventory, excluding consolidated inventory not owned, decreased in the Northeast by $56.4 million, in the Mid-Atlantic by $26.1 million, in the Midwest by $19.1 million, in the Southwest by $49.8 million and in the West by $59.6 million. These decreases were partially offset by an increase in the Southeast of $21.6 million. These inventory fluctuations were primarily attributable to home deliveries and land sales during the period, partially offset by new land purchases and land development. During the year ended October 31, 2017, we had aggregate impairments in the amount of $15.1 million. We wrote-off costs in the amount of $2.7 million during the year ended October 31, 2017 related to land options that expired or that we terminated, as the communities' forecasted profitability was not projected to produce adequate returns on investment commensurate with the risk. In the last few years, we have been able to acquire new land parcels at prices that we believe will generate reasonable returns under current homebuilding market conditions. There can be no assurances that this trend will continue in the near term. Substantially all homes under construction or completed and included in inventory at October 31, 2017 are expected to be closed during the next six to nine months.

Consolidated inventory not owned decreased $83.9 million. Consolidated inventory not owned consists of options related to land banking and model financing transactions that were added to our Consolidated Balance Sheet in accordance with US GAAP. The decrease from October 31, 2016 to October 31, 2017 was primarily due to a decrease in land banking transactions along with a decrease in the sale and leaseback of certain model homes during the period. We have land banking arrangements, whereby we sell land parcels to the land bankers and they provide us an option to purchase back finished lots on a predetermined schedule. Because of our options to repurchase these parcels, for accounting purposes in accordance with ASC 360-20-40-38, these transactions are considered a financing rather than a sale. For purposes of our Consolidated Balance Sheet, at October 31, 2017, inventory of $66.3 million was recorded to "Consolidated inventory not owned," with a corresponding amount of $39.3 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 360-20-40-38, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Consolidated Balance Sheet, at October 31, 2017, inventory of $58.5 million was recorded to "Consolidated inventory not owned," with a corresponding amount of $51.8 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 (other than with respect to specific performance options discussed above). 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 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 October 31, 2017, we had mothballed land in 22 communities. The book value associated with these communities at October 31, 2017 was $36.7 million, which was net of impairment charges recorded in prior periods of $214.1 million. We continually review communities to determine if mothballing is appropriate. During fiscal 2017, we did not mothball any additional communities, but we sold five previously mothballed communities and re-activated two previously mothballed communities.

Inventories held for sale, which are land parcels where we have decided not to build homes, represented $23.6 million and $48.7 million, respectively, of our total inventories at October 31, 2017 and October 31, 2016, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

The following tables summarize home sites included in our total residential real estate. The decrease in remaining home sites available at October 31, 2017 compared to October 31, 2016 was primarily attributable to our decreased community count and our delivering homes without investing in new land at the same rate during the period due to the reasons discussed above in "-Overview". As previously discussed, based on our cash position at October 31, 2017, we expect to continue to actively seek new land investment opportunities in fiscal 2018.

	Total Home Sites	Contracted Not Delivered	Remaining Home Sites Available
October 31, 2017:			
Northeast	4,527	98	4,429
Mid-Atlantic	4,241	309	3,932
Midwest	3,392	382	3,010
Southeast	3,356	285	3,071
Southwest	5,433	509	4,924
West	4,600	400	4,200
Consolidated total	25,549	1,983	23,566
Unconsolidated joint ventures	5,770	454	5,316
Owned	11,422	1,462	9,960
Optioned	13,907	301	13,606
Construction to permanent financing lots	220	220	-
Consolidated total	25,549	1,983	23,566
Lots controlled by unconsolidated joint ventures	5,770	454	5,316
October 31, 2016:			
Northeast	4,862	204	4,658
Mid-Atlantic	4,189	430	3,759
Midwest	4,093	374	3,719
Southeast	3,484	332	3,152
Southwest	4,652	763	3,889
West	5,517	295	5,222
Consolidated total	26,797	2,398	24,399
Unconsolidated joint ventures	4,631	251	4,380
Owned	13,542	1,837	11,705
Optioned	13,108	414	12,694
Construction to permanent financing lots	147	147	-
Consolidated total	26,797	2,398	24,399
Lots controlled by unconsolidated joint ventures	4,631	251	4,380

The following table summarizes our started or completed unsold homes and models, excluding unconsolidated joint ventures, in active and substantially completed communities. The decrease in the total homes from October 31, 2016 to October 31, 2017 is due to the decrease in community count during the period.

	October 31, 2017			October 31, 2016		
	Unsold Homes	Models	Total	Unsold Homes	Models	Total
Northeast	11	6	17	57	11	68
Mid-Atlantic	81	11	92	113	4	117
Midwest	21	13	34	33	14	47
Southeast	118	28	146	66	20	86
Southwest	348	15	363	425	8	433
West	23	10	33	33	20	53
Total	602	83	685	727	77	804
Started or completed unsold homes and models per active selling communities(1)	4.6	0.7	5.3	4.3	0.5	4.8

(1) Active selling communities (which are communities that are open for sale with ten or more home sites available) were 130 and 167 at October 31, 2017 and 2016, respectively. Ratio does not include substantially completed communities, which are communities with less than ten home sites available.

Other Balance Sheet Activities

Homebuilding – Restricted cash and cash equivalents decreased $1.8 million from October 31, 2016 to $2.1 million at October 31, 2017. The decrease was primarily due to the release of escrow cash related to our warranty obligations in certain communities which have been closed for more than a year.

Investments in and advances to unconsolidated joint ventures increased $14.6 million during the fiscal year ended October 31, 2017 compared to October 31, 2016. The increase was primarily due to additional investments and advances to existing joint ventures during fiscal 2017, along with an investment in a new joint venture in the second quarter of fiscal 2017. These increases were partially offset by decreases primarily related to partner distributions during the period. As of both October 31, 2017 and October 31, 2016, we had investments in 10 homebuilding joint ventures and one land development joint venture. We have no guarantees associated with our unconsolidated joint ventures, other than guarantees limited only to performance and completion of development, environmental indemnification and standard warranty and representation against fraud misrepresentation and similar actions, including a voluntary bankruptcy.

Receivables, deposits and notes, net increased $8.4 million from October 31, 2016 to $58.1 million at October 31, 2017. The increase was primarily due to a new receivable related to a land sale in the fourth quarter of fiscal 2017, partially offset by a decrease in refundable deposits resulting from reimbursements received during the period.

Prepaid expenses and other assets were as follows as of:

(In thousands)		October 31, 2017		October 31, 2016		Dollar Change
Prepaid insurance	$	1,893	$	3,228	$	(1,335)
Prepaid project costs		30,360		38,032		(7,672)
Net rental properties		-		447		(447)
Other prepaids		4,245		4,493		(248)
Other assets		528		562		(34)
Total	$	37,026	$	46,762	$	(9,736)

Prepaid insurance decreased due to the timing of premium payments. These costs are amortized over the life of the associated insurance policy, which can be one to three years. Prepaid project costs consist of community specific expenditures that are used over the life of the community. Such prepaids are expensed as homes are delivered and therefore have declined as our community count has declined.

Financial services other assets consist primarily of residential mortgages receivable held for sale of which $131.5 million and $155.0 million at October 31, 2017 and 2016, 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, 2016 was related to a decrease in the volume of loans originated during the fourth quarter of 2017 compared to the fourth quarter of 2016, along with a decrease in the average loan value.

Income Taxes Receivable decreased $285.8 million from $283.6 million at October 31, 2016 to a payable of $2.2 million at October 31, 2017. The decrease is due to the increase in the valuation allowance against our deferred tax assets during the period, as discussed in Note 11 to the Consolidated Financial Statements.

Nonrecourse mortgages decreased to $64.5 million at October 31, 2017, from $82.1 million at October 31, 2016. The decrease was primarily due to the payment of existing mortgages, including a mortgage on a community which was transferred to a joint venture, partially offset by new mortgages for communities mainly in the Northeast, Mid-Atlantic and Southwest obtained during the year ended October 31, 2017.

Accounts payable and other liabilities are as follows as of:

(In thousands)		October 31, 2017		October 31, 2016		Dollar Change
Accounts payable	$	128,844	$	160,924	$	(32,080)
Reserves		134,089		126,888		7,201
Accrued expenses		12,900		17,913		(5,013)
Accrued compensation		47,209		44,715		2,494
Other liabilities		12,015		18,788		(6,773)
Total	$	335,057	$	369,228	$	(34,171)

The decrease in accounts payable was primarily due to the 14.2% decrease in deliveries in the fourth quarter of fiscal 2017 compared to the fourth quarter of fiscal 2016. Reserves increased during fiscal 2017 primarily due to an increase in our construction defect reserves due to an adjustment for litigation, partially offset by a reduction in our warranty reserves, which were reduced based on our annual assessment, as discussed in Note 16 to the Consolidated Financial Statements. The decrease in accrued expenses was primarily due to the amortization of accruals related to abandoned lease space along with the timing of other accruals. The increase in accrued compensation was primarily due to accrued bonuses payable at the end of fiscal 2017 as compared to the end of fiscal 2016. Other liabilities decreased primarily due to deferred income recorded in fiscal 2016 and recognized in fiscal 2017 from municipality reimbursements for infrastructure costs and development fees related to work performed under a bond issuance in one of our communities in the West. This decrease was partially offset by an increase in deferred income related to the delay of home closings associated with the Weyerhaeuser-manufacture I-joist issue, discussed previously in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Customers' deposits decreased $3.7 million to $33.8 million at October 31, 2017. The decrease was primarily related to the decrease in backlog during the period.

Liabilities from inventory not owned decreased $59.1 million to $91.1 million at October 31, 2017. The decrease was due a decrease in land banking transactions during the period, along with a decrease in the sale and leaseback of certain model homes, both of which are accounted for as financing transactions as described above.

Financial services (liabilities) decreased $30.5 million from $172.4 million at October 31, 2016, to $141.9 million at October 31, 2017. The decrease is primarily due to the decrease in our mortgage warehouse lines of credit, and correlates to the decrease in the volume of mortgage loans held for sale during the period as discussed above.

Accrued interest increased $9.4 million to $41.8 million at October 31, 2017. The increase was primarily due to a combination of the timing of interest payments and higher interest rates on our 10.0% 2022 Notes and 10.5% 2024 Notes issued in July 2017.

Results of Operations

Total Revenues

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

	Year Ended		
(Dollars in thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**
Homebuilding:			
Sale of homes	$ (260,757)	$ 512,661	$ 75,116
Land sales	(27,445)	75,191	(4,374)
Other revenues	1,494	(37)	107
Financial services	(13,874)	15,952	14,251
Total change	$ (300,582)	$ 603,767	$ 85,100
Total revenues percent change	(10.9)%	28.1%	4.1%

Homebuilding

Sale of homes revenues decreased $260.8 million, or 10.0%, for the year ended October 31, 2017, increased $512.7 million, or 24.6%, for the year ended October 31, 2016 and increased $75.1 million, or 3.7%, for the year ended October 31, 2015 as compared to the same period of the prior year. The decreased revenues in fiscal 2017 were primarily due to the number of home deliveries decreasing 13.3%, partially offset by the average price per home increasing to $417,714 in fiscal 2017 from $402,350 in fiscal 2016. The decrease in deliveries is primarily the result of a reduction in community count by 22.2%. The increased revenues in fiscal 2016 were primarily due to the 17.4% increase in deliveries, as well as the average price per home increasing to $402,350 in fiscal 2016 from $379,177 in fiscal 2015. The increased revenues in fiscal 2015 were primarily due to the average price per home increasing to $379,177 in fiscal 2015 from $366,202 in fiscal 2014. For fiscal 2017, the fluctuations in average prices were primarily the result of the geographic and community mix of our deliveries, along with our ability to raise home prices in certain communities. For fiscal 2016 and 2015, the fluctuations in average prices were primarily a result of the geographic and community mix of our deliveries, as opposed to home price increases (which we increase or decrease in communities depending on the respective community's performance). For further detail on changes in segment revenues see "Homebuilding Operations by Segment" below. For further detail on land sales and other revenue, see the section titled "Land Sales and Other Revenues" below.

Information on homes delivered by segment is set forth below:

	Year Ended		
(Housing Revenue in thousands)	October 31, 2017	October 31, 2016	October 31, 2015
Northeast:			
Housing revenues	$ 166,752	$ 274,126	$ 189,049
Homes delivered	351	557	380
Average price	$ 475,077	$ 492,147	$ 497,497
Mid-Atlantic:			
Housing revenues	$ 463,271	$ 457,906	$ 398,132
Homes delivered	856	960	854
Average price	$ 541,205	$ 476,985	$ 466,197
Midwest:			
Housing revenues	$ 199,009	$ 287,469	$ 311,364
Homes delivered	640	921	958
Average price	$ 310,951	$ 312,127	$ 325,015
Southeast:			
Housing revenues	$ 257,066	$ 214,585	$ 207,407
Homes delivered	614	581	675
Average price	$ 418,675	$ 369,339	$ 307,269
Southwest:			
Housing revenues	$ 826,422	$ 1,024,410	$ 822,371
Homes delivered	2,357	2,750	2,263
Average price	$ 350,624	$ 372,512	$ 363,399
West:			
Housing revenues	$ 427,513	$ 342,294	$ 159,806
Homes delivered	784	695	377
Average price	$ 545,297	$ 492,509	$ 423,889
Consolidated total:			
Housing revenues	$ 2,340,033	$ 2,600,790	$ 2,088,129
Homes delivered	5,602	6,464	5,507
Average price	$ 417,714	$ 402,350	$ 379,177
Unconsolidated joint ventures:(1)			
Housing revenues	$ 310,573	$ 140,576	$ 119,920
Homes delivered	547	248	269
Average price	$ 567,774	$ 566,836	$ 445,799

(1) Represents housing revenue 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 20 to the Consolidated Financial Statements for a further discussion of our joint ventures.

The decrease in housing revenues during year ended October 31, 2017, as compared to year ended October 31, 2016, was primarily attributed to our decreased deliveries, partially offset by an increase in average sales price. Housing revenues in fiscal 2017 decreased in all of our homebuilding segments combined by 10.0%, while average sales price increased by 3.8%, excluding joint ventures. In our homebuilding segments, homes delivered decreased in fiscal 2017 as compared to fiscal 2016 by 37.0%, 10.8%, 30.5% and 14.3% in the Northeast, Mid-Atlantic, Midwest and Southwest, respectively, and increased by 5.7% and 12.8% in the Southeast and West, respectively. Overall in fiscal 2017 as compared to fiscal 2016 homes delivered decreased 13.3% across all our segments, excluding unconsolidated joint ventures.

The increase in housing revenues during year ended October 31, 2016, as compared to year ended October 31, 2015, was primarily attributed to our increased deliveries, along with an increase in average sales price. Housing revenues and average sales prices in fiscal 2016 increased in all of our homebuilding segments combined by 24.6% and 6.1%, respectively, excluding joint ventures. In our homebuilding segments, homes delivered increased in fiscal 2016 as compared to fiscal 2015 by 46.6%, 12.4%, 21.5% and 84.4% in the Northeast, Mid-Atlantic, Southwest and West, respectively, and decreased by 3.9% and 13.9% in the Midwest and Southeast, respectively. Overall in fiscal 2016 as compared to fiscal 2015 homes delivered increased 17.4% across all our segments, excluding unconsolidated joint ventures.

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Quarterly housing revenues and net sales contracts by segment, excluding unconsolidated joint ventures, for the years ended October 31, 2017, 2016 and 2015 are set forth below (Net contracts are defined as new contracts executed during the period for the purchase of homes, less cancellations of contracts in the same period):

	Quarter Ended			
(In thousands)	**October 31, 2017**	**July 31, 2017**	**April 30, 2017**	**January 31, 2017**
Housing revenues:				
Northeast	$ 27,913	$ 40,015	$ 45,917	$ 52,907
Mid-Atlantic	149,881	113,111	100,120	100,159
Midwest	72,944	40,620	41,794	43,651
Southeast	78,267	68,408	54,005	56,386
Southwest	209,223	209,041	224,898	183,260
West	128,555	103,087	100,819	95,052
Consolidated total	$ 666,783	$ 574,282	$ 567,553	$ 531,415
Sales contracts (net of cancellations):				
Northeast	$ 24,407	$ 26,648	$ 29,918	$ 38,045
Mid-Atlantic	77,112	97,017	123,045	102,246
Midwest(1)	38,139	48,257	61,489	45,566
Southeast(2)	56,354	73,896	55,577	46,451
Southwest	142,926	177,285	227,500	170,884
West	91,048	103,342	142,522	84,423
Consolidated total	$ 429,986	$ 526,445	$ 640,051	$ 487,615

	Quarter Ended			
(In thousands)	**October 31, 2016**	**July 31, 2016**	**April 30, 2016**	**January 31, 2016**
Housing revenues:				
Northeast	$ 81,467	$ 66,308	$ 53,913	$ 72,438
Mid-Atlantic	162,902	111,579	89,873	93,552
Midwest	62,193	56,643	76,793	91,840
Southeast	67,690	56,471	51,230	39,194
Southwest	298,689	248,228	273,304	204,189
West	104,531	101,157	81,044	55,562
Consolidated total	$ 777,472	$ 640,386	$ 626,157	$ 556,775
Sales contracts (net of cancellations):				
Northeast	$ 50,179	$ 61,945	$ 74,727	$ 39,784
Mid-Atlantic	99,179	97,338	150,369	130,316
Midwest(1)	38,339	54,318	69,445	67,569
Southeast(2)	53,372	59,242	84,665	90,259
Southwest	190,426	225,929	262,344	208,642
West	102,819	99,284	126,505	92,073
Consolidated total	$ 534,314	$ 598,056	$ 768,055	$ 628,643

(1) The Midwest net contracts include $1.9 million, $7.1 million and $18.4 million, respectively, for the quarters ended July 31, 2016, April 30, 2016 and January 31, 2016, from Minneapolis, Minnesota.

(2) The Southeast net contracts include $9.9 million and $21.7 million, respectively, for the quarters ended April 30, 2016 and January 31, 2016, from Raleigh, North Carolina.

(In thousands)	Quarter Ended October 31, 2015	July 31, 2015	April 30, 2015	January 31, 2015
Housing revenues:				
Northeast	$ 63,175	$ 36,109	$ 39,123	$ 50,642
Mid-Atlantic	127,233	113,886	76,102	80,911
Midwest	91,122	82,618	73,214	64,410
Southeast	63,074	57,294	49,255	37,784
Southwest	262,713	203,075	189,974	166,609
West	66,013	33,174	27,504	33,115
Consolidated total	$ 673,330	$ 526,156	$ 455,172	$ 433,471
Sales contracts (net of cancellations):				
Northeast	$ 66,846	$ 69,410	$ 69,717	$ 56,753
Mid-Atlantic	114,191	115,164	116,843	102,109
Midwest(1)	73,693	70,578	101,807	70,981
Southeast(2)	58,382	54,776	66,824	52,290
Southwest	216,371	248,907	290,901	193,584
West	95,419	60,573	54,648	27,440
Consolidated total	$ 624,902	$ 619,408	$ 700,740	$ 503,157

(1) The Midwest net contracts include $23.0 million, $21.8 million, $31.6 million and $21.8 million, respectively, for the quarters ended October 31, 2015, July 31, 2015, April 30, 2015 and January 31, 2015, from Minneapolis, Minnesota.
(2) The Southeast net contracts include $12.2 million, $7.8 million, $12.5 million and $9.9 million, respectively, for the quarters ended October 31, 2015, July 31, 2015, April 30, 2015 and January 31, 2015, from Raleigh, North Carolina.

Contracts per average active selling community in fiscal 2017 were 35.1 compared to fiscal 2016 of 31.3. Our reported level of sales contracts (net of cancellations) has been impacted by an increase in the pace of sales in most of the Company’s segments during fiscal 2017. Cancellation rates represent the number of cancelled contracts in the quarter divided by the number of gross sales contracts executed in the quarter. For comparison, the following are historical cancellation rates, excluding unconsolidated joint ventures:

Quarter	2017	2016	2015	2014	2013
First	19%	20%	16%	18%	16%
Second	18%	19%	16%	17%	15%
Third	19%	21%	20%	22%	17%
Fourth	22%	20%	20%	22%	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.

Quarter	2017	2016	2015	2014	2013
First	12%	13%	11%	11%	12%
Second	16%	14%	14%	17%	15%
Third	13%	12%	13%	13%	12%
Fourth	12%	11%	12%	14%	14%

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, the contract cancellations over the past several years have been within what we believe to be a normal range. However, market conditions remain uncertain and it is difficult to predict what cancellation rates will be in the future.

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

(Dollars in thousands)	October 31, 2017	October 31, 2016	October 31, 2015
Northeast:			
Total contract backlog	$ 51,778	$ 99,512	$ 147,004
Number of homes	98	204	293
Mid-Atlantic:			
Total contract backlog	$ 185,123	$ 248,974	$ 239,099
Number of homes	309	430	453
Midwest: (1)(3)			
Total contract backlog	$ 98,969	$ 104,527	$ 194,290
Number of homes	382	374	644
Southeast: (2)			
Total contract backlog	$ 120,382	$ 145,171	$ 105,935
Number of homes	285	332	279
Southwest:			
Total contract backlog	$ 177,818	$ 285,644	$ 422,711
Number of homes	509	763	1,033
West:			
Total contract backlog	$ 173,963	$ 185,274	$ 106,886
Number of homes	400	295	203
Totals:			
Total consolidated contract backlog	$ 808,033	$ 1,069,102	$ 1,215,925
Number of homes	1,983	2,398	2,905

(1) The Midwest contract backlog as of October 31, 2016 reflects the reduction of 64 homes and $24.1 million related to the sale of our land portfolio in Minneapolis, Minnesota.
(2) The Southeast contract backlog as of October 31, 2016 reflects the reduction of 67 homes and $33.7 million related to the sale of our land portfolio in Raleigh, North Carolina.
(3) Contract backlog as of October 31, 2016 excluded 9 homes that were sold to one of our joint ventures at the time of the joint venture formation.

Contract backlog dollars decreased 24.4% as of October 31, 2017 compared to October 31, 2016, and the number of homes in backlog decreased 17.3% for the same period. The decrease in backlog was driven by a 14.9% decrease in net contracts and the decrease in community count for the year ended October 31, 2017 compared to the prior fiscal year. In the month of November 2017, excluding unconsolidated joint ventures, we signed an additional 350 net contracts amounting to $131.0 million in contract value.

Total cost of sales on our Consolidated Statements of Operations includes expenses for consolidated housing and land and lot sales, including inventory impairment loss and land option write-offs (defined as “land charges” in the tables below). A breakout of such expenses for housing sales and 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 provides investors another way to 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.

	Year Ended		
(Dollars in thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**
Sale of homes	$ 2,340,033	$ 2,600,790	$ 2,088,129
Cost of sales, excluding interest expense and land charges	1,937,116	2,162,284	1,721,336
Homebuilding gross margin, before cost of sales interest expense and land charges	402,917	438,506	366,793
Cost of sales interest expense, excluding land sales interest expense	76,902	86,593	59,574
Homebuilding gross margin, after cost of sales interest expense, before land charges	326,015	351,913	307,219
Land charges	17,813	33,353	12,044
Homebuilding gross margin	$ 308,202	$ 318,560	$ 295,175
Gross margin percentage	13.2%	12.2%	14.1%
Gross margin percentage, before cost of sales interest expense and land charges	17.2%	16.9%	17.6%
Gross margin percentage, after cost of sales interest expense, before land charges	13.9%	13.5%	14.7%

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

	Year Ended		
	October 31, 2017	**October 31, 2016**	**October 31, 2015**
Sale of homes	100%	100%	100%
Cost of sales, excluding interest expense and land charges:			
Housing, land and development costs	73.1%	73.2%	72.0%
Commissions	3.4%	3.5%	3.6%
Financing concessions	1.2%	1.3%	1.4%
Overheads	5.1%	5.1%	5.4%
Total cost of sales, before interest expense and land charges	82.8%	83.1%	82.4%
Cost of sales interest	3.3%	3.4%	2.9%
Land charges	0.7%	1.3%	0.6%
Gross margin percentage	13.2%	12.2%	14.1%
Gross margin percentage, before cost of sales interest expense and land charges	17.2%	16.9%	17.6%
Gross margin percentage, after cost of sales interest expense and before land charges	13.9%	13.5%	14.7%

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 13.2% for the year ended October 31, 2017 compared to 12.2% for the same period last year. This increase was primarily attributed to the mix of communities delivering homes and the reduction of our warranty reserves, as a result of our annual analysis performed in the fourth quarter of each year. Additionally, there was a decrease in land charges compared to the prior year because of the impairments recorded in the prior year, which related to the sale of our land portfolio in Minneapolis, Minnesota. Total homebuilding gross margin percentage decreased to 12.2% for the year ended October 31, 2016 compared to 14.1% for fiscal 2015. We have experienced higher land and development costs as a percentage of sale of homes revenue in certain of our new communities delivering in fiscal 2016 compared to the same period last year, as well as higher construction costs in many of our markets, which resulted in a decrease in gross margin percentage for fiscal 2016 compared to fiscal 2015. For the years ended October 31, 2017, 2016 and 2015, gross margin was favorably impacted by the reversal of prior period inventory impairments of $74.4 million, $57.9 million and $35.6 million, respectively, which represented 3.2%, 2.2% and 1.7%, respectively, of "Sale of homes" revenue.

Reflected as inventory impairment loss and land option write-offs in cost of sales ("land charges"), we have written off or written down certain inventories totaling $17.8 million, $33.4 million and $12.0 million during the years ended October 31, 2017, 2016 and 2015, respectively, to their estimated fair value. See Note 12 to the Consolidated Financial Statements for an additional discussion. During the years ended October 31, 2017, 2016 and 2015, we wrote off residential land options and approval and engineering costs totaling $2.7 million, $8.9 million and $4.7 million, respectively, which are included in the total land charges mentioned 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 segments in fiscal 2017, 2016 and 2015. The inventory impairments amounted to $15.1 million, $24.5 million and $7.3 million for the years ended October 31, 2017, 2016 and 2015, respectively. The impairments recorded in fiscal 2017 were related to two communities in the Northeast, one community in the Mid-Atlantic, two communities in the Midwest, three communities in the Southeast and two communities in the West. The amount of inventory impairments recorded in fiscal 2016 was higher than the previous several years, primarily due to the land sales in the Midwest in fiscal 2016 related to our exit of the Minneapolis, Minnesota market, as previously discussed, along with certain land held for sale in the Northeast. It is difficult to predict impairment levels, and should it become necessary or desirable to have additional land sales, further 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.

Below is a breakdown of our lot option walk-aways and impairments by segment for fiscal 2017. In fiscal 2017, we walked away from 22.0% of all the lots we controlled under option contracts. The remaining 78.0% of our option lots are in communities that we believe remain economically feasible.

The following table represents lot option walk-aways by segment for the year ended October 31, 2017:

(Dollars in millions)		Dollar Amount of Walk Away	Number of Walk-Away Lots	% of Walk-Away Lots	Total Option Lots(1)	Walk-Away Lots as a % of Total Option Lots
Northeast	$	0.5	800	20.4%	4,434	18.0%
Mid-Atlantic		0.6	951	24.2%	3,280	29.0%
Midwest		0.3	935	23.8%	2,565	36.5%
Southeast		0.8	315	8.0%	2,197	14.3%
Southwest		0.4	611	15.5%	4,674	13.1%
West		0.1	318	8.1%	687	46.3%
Total	$	2.7	3,930	100.0%	17,837	22.0%

(1) Includes lots optioned at October 31, 2017 and lots optioned that the Company walked away from in the year ended October 31, 2017.

The following table represents impairments by segment for the year ended October 31, 2017:

(In millions)		Dollar Amount of Impairment	% of Impairments		Pre-Impairment Value(1)	% of Pre-Impairment Value
Northeast	$	3.3	21.9%	$	22.2	14.9%
Mid-Atlantic		1.5	9.9%		8.5	17.6%
Midwest		0.2	1.3%		0.8	25.0%
Southeast		8.1	53.7%		18.3	44.3%
Southwest		-	0%		-	0%
West		2.0	13.2%		3.1	64.5%
Total	$	15.1	100.0%	$	52.9	28.5%

(1) Represents carrying value, net of prior period impairments, if any, at the time of recording the applicable period's 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:

	Year Ended					
(In thousands)		October 31, 2017		October 31, 2016		October 31, 2015
Land and lot sales	$	48,596	$	76,041	$	850
Cost of sales, excluding interest		24,688		68,173		702
Land and lot sales gross margin, excluding interest		23,908		7,868		148
Land and lot sales interest expense		11,634		5,798		39
Land and lot sales gross margin, including interest	$	12,274	$	2,070	$	109

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. There were ten land sales in the year ended October 31, 2017, compared to 26 in the same period of the prior year, resulting in a $27.4 million decrease in land sales revenue. This decrease was primarily due to the sale of six land parcels in the Midwest and ten land parcels in the Southeast in the third quarter of fiscal 2016 in connection with our previously discussed strategy to exit the Minneapolis, Minnesota and Raleigh, North Carolina markets. As discussed, there were 26 land sales in the year ended October 31, 2016, compared to only three in the year ended October 31, 2015.

Land sales and other revenues decreased $26.0 million for the year ended October 31, 2017, and increased $75.2 million for the year ended October 31, 2016 compared to the same periods in the prior year. Other revenues include income from contract cancellations where the deposit has been forfeited due to contract terminations, interest income, cash discounts and miscellaneous one-time receipts. The decrease from fiscal 2016 to fiscal 2017 and the increase from fiscal 2015 to fiscal 2016 was mainly due to the fluctuations in land sales revenue noted above.

Homebuilding Selling, General and Administrative

Homebuilding selling, general and administrative ("SGA") expenses increased $3.4 million to $196.3 million for the year ended October 31, 2017 as compared to the year ended October 31, 2016. The increase was primarily due to a $12.5 million adjustment in the fourth quarter of fiscal 2017 in our construction defect reserves related to litigation. Excluding this adjustment, SGA expenses decreased $9.1 million to $183.8 million for the year ended October 31, 2017 as compared to the year ended October 31, 2016. The decrease was mainly due to our decision to exit four markets during 2016, the reduction of our community count and the increase of joint venture management fees received, which offset general and administrative expenses, as a result of more joint venture deliveries. SGA increased $4.5 million to $192.9 million for the year ended October 31, 2016 compared to the year ended October 31, 2015. This increase was mainly due to increases in sales and other compensation related to increased headcount and increased compensation reflective of the competitive homebuilding market, increased advertising costs related to community count growth that occurred at the end of fiscal 2015 and higher bonus expense due to higher profits in certain markets. These increases were partially offset by the decrease of $3.7 million from the impact of our exit from the Minneapolis, Minnesota and Raleigh, North Carolina markets during the third quarter of fiscal 2016 and a decrease in insurance reserves of $9.2 million, as a result of our annual actuarial analysis of estimated construction defect costs on previously delivered homes, as discussed further in Note 16 to the Consolidated Financial Statements.

Homebuilding Operations by Segment

Financial information relating to the Company's operations was as follows:

Segment Analysis (Dollars in thousands, except average sales price)

	Years Ended October 31,				
	2017	Variance 2017 Compared to 2016	2016	Variance 2016 Compared to 2015	2015
Northeast					
Homebuilding revenue	$ 209,509	$ (68,519)	$ 278,028	$ 88,531	$ 189,497
Income (loss) before income taxes	$ 2,300	$ 6,169	$ (3,869)	$ 3,873	$ (7,742)
Homes delivered	351	(206)	557	177	380
Average sales price	$ 475,077	$ (17,070)	$ 492,147	$ (5,350)	$ 497,497
Mid-Atlantic					
Homebuilding revenue	$ 464,126	$ 5,547	$ 458,579	$ 59,079	$ 399,500
Income before income taxes	$ 17,191	$ (285)	$ 17,476	$ (3,955)	$ 21,431
Homes delivered	856	(104)	960	106	854
Average sales price	$ 541,205	$ 64,220	$ 476,985	$ 10,788	$ 466,197
Midwest					
Homebuilding revenue	$ 199,770	$ (111,552)	$ 311,322	$ (127)	$ 311,449
(Loss) income before income taxes	$ (1,151)	$ 10,265	$ (11,416)	$ (25,428)	$ 14,012
Homes delivered	640	(281)	921	(37)	958
Average sales price	$ 310,951	$ (1,176)	$ 312,127	$ (12,888)	$ 325,015
Southeast					
Homebuilding revenue	$ 260,402	$ (182)	$ 260,584	$ 52,922	$ 207,662
Loss before income taxes	$ (6,199)	$ 11,592	$ (17,791)	$ (11,461)	$ (6,330)
Homes delivered	614	33	581	(94)	675
Average sales price	$ 418,675	$ 49,336	$ 369,339	$ 62,070	$ 307,269
Southwest					
Homebuilding revenue	$ 827,503	$ (201,026)	$ 1,028,529	$ 204,676	$ 823,853
Income before income taxes	$ 71,540	$ (12,884)	$ 84,424	$ 16,987	$ 67,437
Homes delivered	2,357	(393)	2,750	487	2,263
Average sales price	$ 350,624	$ (21,888)	$ 372,512	$ 9,113	$ 363,399
West					
Homebuilding revenue	$ 430,546	$ 88,099	$ 342,447	$ 182,478	$ 159,969
Income (loss) before income taxes	$ 19,636	$ 16,191	$ 3,445	$ 20,590	$ (17,145)
Homes delivered	784	89	695	318	377
Average sales price	$ 545,297	$ 52,788	$ 492,509	$ 68,620	$ 423,889

Homebuilding Results by Segment

Northeast – Homebuilding revenues decreased 24.6% in fiscal 2017 compared to fiscal 2016 primarily due to a 37.0% decrease in homes delivered and a 3.5% decrease in average selling price. The decrease in average sales price was the result of new communities delivering lower priced townhomes and single family homes in lower-end submarkets of the segment in fiscal 2017 compared to some communities that are no longer delivering that had higher priced townhomes and single family homes in higher-end submarkets of the segment in fiscal 2016.

Loss before income taxes decreased $6.2 million to income of $2.3 million, which was mainly due a $38.9 million increase in land sales and other revenue, a $7.3 million decrease in inventory impairment loss and land option write-offs and a $4.5 million decrease in selling, general and administrative costs, partially offset by the decrease in homebuilding revenues discussed above. Additionally, the gross margin percentage before interest expense was flat for fiscal 2017 compared to fiscal 2016.

Homebuilding revenues increased 46.7% in fiscal 2016 compared to fiscal 2015 primarily due to a 46.6% increase in homes delivered and a $3.5 million increase in land sales and other revenue, partially offset by a 1.1% decrease in average selling price. The decrease in average sales price was the result of new communities delivering lower priced townhomes and single family homes in lower-end submarkets of the segment in fiscal 2016 compared to some communities that are no longer delivering that had higher priced single family homes in higher-end submarkets of the segment in fiscal 2015.

Loss before income taxes decreased $3.9 million to a loss of $3.9 million, which was mainly due to the increase in homebuilding revenues discussed above and a $4.0 million decrease in selling, general and administrative costs. Additionally, the gross margin percentage before interest expense was relatively flat for fiscal 2016 compared to fiscal 2015.

Mid-Atlantic – Homebuilding revenues increased 1.2% in fiscal 2017 compared to fiscal 2016 primarily due to a 13.5% increase in average sales price, partially offset by a 10.8% decrease in homes delivered. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in fiscal 2017 compared to some communities that are no longer delivering that had lower priced, entry-level single family homes in lower-end submarkets of the segment in fiscal 2016. The increase in average sales price was also impacted by our ability to raise prices in fiscal 2017 in certain communities that were delivering homes during both periods. This increase had a minimal impact on our gross margin percentage as it was partially offset by higher construction costs we experienced during the same period.

Income before income taxes decreased $0.3 million to $17.2 million, due mainly to a $0.8 million increase in selling, general and administrative costs and a $1.3 million increase in inventory impairment loss and land option write-offs, partially offset by the increase in homebuilding revenues discussed above and a $1.2 million increase in income from unconsolidated joint ventures. Additionally, the gross margin percentage before interest expense was flat for fiscal 2017 compared to fiscal 2016.

Homebuilding revenues increased 14.8% in fiscal 2016 compared to fiscal 2015 primarily due to a 12.4% increase in homes delivered and a 2.3% increase in average sales price. The increase in average sales price was the result of new communities delivering higher priced, larger single family homes in higher-end submarkets of the segment in fiscal 2016 compared to some communities that are no longer delivering that had lower priced townhomes and single family homes in lower-end submarkets of the segment in fiscal 2015.

Income before income taxes decreased $4.0 million to $17.4 million, due mainly to a $4.5 million decrease in income from unconsolidated joint ventures. Additionally, the gross margin percentage before interest expense was relatively flat for fiscal 2016 compared to fiscal 2015.

Midwest – Homebuilding revenues decreased 35.8% in fiscal 2017 compared to fiscal 2016. There was a 30.5% decrease in homes delivered and a 0.4% decrease in average sales price. The decrease in average sales price was the result of less deliveries and home sales revenue for the segment due to our decision to exit the Minneapolis, Minnesota market in fiscal 2016, which had higher priced, single family homes delivering compared to the lower priced, single family homes delivering for the remaining markets in the segment. Also impacting the decrease was a $23.1 million decrease in land sales and other revenue due to the sale of our land portfolio in our Minneapolis, Minnesota division in fiscal 2016.

Loss before income taxes decreased $10.3 million to a loss of $1.2 million. The decrease in loss was primarily due to a $14.3 million decrease in inventory impairment loss and land option write-offs relating to our land portfolio sold in our Minneapolis, Minnesota division, a $5.7 million decrease in selling, general and administrative costs and a slight increase in gross margin percentage before interest expense.

Homebuilding revenues were essentially flat for fiscal 2016 compared to fiscal 2015. There was a 3.9% decrease in homes delivered and a 4.0% decrease in average sales price. The decrease in average sales price was the result of new communities delivering lower priced single family homes in lower-end submarkets of the segment in fiscal 2016 compared to some communities that are no longer delivering that had higher priced single family homes in higher-end submarkets of the segment in fiscal 2015. These decreases were partially offset by a $23.8 million increase in land sales and other revenue due primarily to the sale of our land portfolio in our Minneapolis, Minnesota division.

Income before income taxes decreased $25.4 million to a loss of $11.4 million. The decrease in income was primarily due to a $12.9 million increase in inventory impairment loss and land option write-offs relating to our land portfolio sold in our Minneapolis, Minnesota division, a $1.2 million decrease in income from unconsolidated joint ventures and a decrease in gross margin percentage before interest expense.

Southeast – Homebuilding revenues decreased 0.1% in fiscal 2017 compared to fiscal 2016. The decrease was primarily due to a $42.7 million decrease in land sales and other revenue due to the sale of our land portfolio in our Raleigh, North Carolina division during fiscal 2016, partially offset by 13.4% increase in average sales price and a 5.7% 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 fiscal 2017 compared to some communities that are no longer delivering that had lower priced, townhomes and single family homes in lower-end and submarkets of the segment in fiscal 2016. The increase in average sales price was also impacted by our ability to raise prices in fiscal 2017 in certain communities that were delivering homes during both periods. This increase had a minimal impact on our gross margin percentage as it was partially offset by higher construction costs we experienced during the same period.

Loss before income taxes decreased $11.6 million to a loss of $6.2 million due to a $6.8 million decrease in selling, general and administrative costs and a $2.6 million increase in income from unconsolidated joint ventures, while gross margin percentage before interest expense remained flat. This decrease in loss was partially offset by the decrease in land sales and other revenue noted above and a $5.6 million increase in inventory impairment loss and land option write-offs.

Homebuilding revenues increased 25.5% in fiscal 2016 compared to fiscal 2015. The increase was primarily due to a 20.2% increase in average sales price, partially offset by a 13.9% decrease in homes delivered. In addition, there was a $45.7 million increase in land sales and other revenue mainly due to the sale of our land portfolio in our Raleigh, North Carolina division during the period. 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 fiscal 2016 compared to some communities that are no longer delivering that had lower priced single family homes in lower-end and submarkets of the segment in fiscal 2015.

Loss before income taxes increased $11.5 million to a loss of $17.8 million due to a $3.2 million increase in selling, general and administrative costs, a $3.0 million decrease in income from unconsolidated joint ventures and a slight decrease in gross margin percentage before interest expense.

Southwest – Homebuilding revenues decreased 19.5% in fiscal 2017 compared to fiscal 2016 primarily due to a 14.3% decrease in homes delivered, a 5.9% decrease in average sales price and a $3.0 million decrease in land sales and other revenue. The decrease in average sales price was the result of new communities delivering lower priced, single family homes in lower-end submarkets of the segment in fiscal 2017 compared to some communities that are no longer delivering that had higher priced, single family homes in higher-end submarkets of the segment in fiscal 2016. The decrease in average sales price was partially offset our ability to raise prices in fiscal 2017 in certain communities that were delivering homes during both periods. This increase had a minimal impact on our gross margin percentage as it was partially offset by higher construction costs we have been experienced during the same period.

Income before income taxes decreased $12.9 million to $71.5 million in fiscal 2017 mainly due to the decrease in homebuilding revenues discussed above, partially offset by a $1.5 million decrease in selling, general and administrative costs and a $2.8 million decrease in inventory impairment loss and land option write-offs. Additionally, the gross margin percentage before interest expense was flat for fiscal 2017 compared to fiscal 2016.

Homebuilding revenues increased 24.8% in fiscal 2016 compared to fiscal 2015 primarily due to a 21.5% increase in homes delivered, a 2.5% increase in average sales price and a $2.6 million increase in land sales and other revenue. The increase in average sales price was the result of new communities delivering higher priced, townhomes and larger single family homes in higher-end submarkets of the segment in fiscal 2016 compared to some communities that are no longer delivering that had lower priced, single family homes in lower-end and submarkets of the segment in fiscal 2015.

Income before income taxes increased $17.0 million to $84.4 million in fiscal 2016 mainly due to the increase in homebuilding revenues discussed above.

West – Homebuilding revenues increased 25.7% in fiscal 2017 compared to fiscal 2016 primarily due to a 12.8% increase in homes delivered and a 10.7% increase in average sales price. The increase in average sales price was the result of our ability to raise prices in fiscal 2017 in certain communities that were delivering homes during both periods. In addition, there was a $2.9 million increase in land sales and other revenue for fiscal 2017 compares to fiscal 2016.

Income before income taxes increased $16.2 million to $19.6 million in fiscal 2017 due mainly to the increase in homebuilding revenues discussed above, a $2.9 million decrease in selling, general and administrative costs and a slight increase in gross margin percentage before interest expense. This increase in income was partially offset by a $4.4 million decrease in income from unconsolidated joint ventures and a $1.9 million increase in inventory impairment loss and land option write-offs.

Homebuilding revenues increased 114.1% in fiscal 2016 compared to fiscal 2015 primarily due to an 84.4% increase in homes delivered, mainly resulting from increased community count, as well as a 16.2% increase in average sales price. The increase in average sales price was the result of our ability to raise prices in certain communities that were delivering homes during both periods.

Loss before income taxes decreased $20.6 million to income of $3.4 million in fiscal 2016 due mainly to the increase in homebuilding revenues discussed above, a $1.9 million decrease in inventory impairment loss and land option write-offs and an increase in gross margin percentage before interest expense. This decrease in loss was partially offset by a $3.6 million increase in selling, general and administrative costs.

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 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 years ended October 31, 2017, 2016 and 2015, FHA/VA loans represented 25.1%, 25.5%, and 27.1%, respectively, of our total loans. While the origination of FHA/VA loans have decreased over the last three fiscal years, our conforming conventional loan originations as a percentage of our total loans increased from 69.2% for fiscal 2015 to 69.6% for fiscal 2016 and decreased slightly to 69.0% for fiscal 2017. The remaining 5.9%, 4.9% and 3.7% of our loan originations represent USDA and/or jumbo loans. 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 years ended October 31, 2017, 2016, and 2015, financial services provided a $26.4 million, $35.5 million and $24.7 million pretax profit, respectively. In fiscal 2017, financial services pretax profit decreased $9.1 million due to the decrease in the homebuilding deliveries, along with a decrease in the average price of loans settled. In fiscal 2016, financial services pretax profit increased $10.8 million compared to fiscal 2015 due to the increase in homebuilding deliveries, along with an increase in the average price of loans settled. In the market areas served by our wholly owned mortgage banking subsidiaries, 67.8%, 67.3%, and 73.4% of our noncash home buyers obtained mortgages originated by these subsidiaries during the years ended October 31, 2017, 2016, and 2015, respectively. Additionally, approximately 77% and 75%, excluding cash homebuyers and mortgages which we do not originate, obtained mortgages originated by these subsidiaries in fiscal 2016 and 2015. Servicing rights on new mortgages originated by us are sold with the loans.

Corporate General and Administrative

Corporate general and administrative expenses include the operations at our headquarters in Red Bank, New Jersey. These expenses include payroll, stock compensation, facility and other costs associated with our executive offices, information services, human resources, corporate accounting, training, treasury, process redesign, internal audit, construction services and administration of insurance, quality and safety. Corporate general and administrative expenses decreased $0.8 million for the year ended October 31, 2017 compared to the year ended October 31, 2016, and decreased $2.4 million for the year ended October 31, 2016 compared to the year ended October 31, 2015. The minor decrease in expense for 2017 was due mainly to the reversal of previously recognized expense for certain performance based stock compensation plans for which certain requirements are not expected to be satisfied, partially offset by the increase from an adjustment to reserves for self-insured medical claims that were reduced based on claim estimates that occurred in the prior year and which did not recur in 2017. The decrease in expense for fiscal 2016 was due mainly to the reversal of previously recognized expense for certain performance based stock grants for which the performance metrics are no longer expected to be satisfied, along with a decrease in stock compensation expense resulting from lower fair values on our more recent grants.

Other Interest

Other interest increased $6.3 million to $97.3 million for the year ended October 31, 2017 compared to October 31, 2016, but decreased $0.8 million to $91.0 million for the year ended October 31, 2016 compared to October 31, 2015. Our assets that qualify for interest capitalization (inventory under development) are less than our debt, and therefore a portion of interest not covered by qualifying assets must be directly expensed. In fiscal 2017, the increase can be attributed to the full year of interest from our senior secured term loan compared to one month in the prior year, as well as the higher interest rate on our secured debt that was refinanced in July 2017. In fiscal 2016, the slight decrease was attributed to the reduction in total notes payable as a result of debt maturities that occurred over the course of the year, offset by the increase in land banking transactions during the year.

Other Operations

Other operations consist of rent expense for commercial office space and amortization of prepaid bond fees. Compared to the previous year, other operations decreased $3.4 million to $1.5 million for the year ended October 31, 2017, and decreased $1.1 million to $4.9 million for the year ended October 31, 2016. The decrease in other operations for the year ended October 31, 2017 compared to the prior year is due amortizing bond fees to interest expense instead of amortizing them to other expense as a result of implementing ASU 2015-03 during fiscal 2017. The decrease in other operations for the year ended October 31, 2016 compared to the prior year was due to decreased prepaid bond fees amortization as a result of the maturity of our 11.875% Senior Notes due October 2015, 6.25% Senior Notes due January 2016 and 7.5% Senior Notes due May 2016.

Loss on Extinguishment of Debt

We incurred a $34.9 million loss on extinguishment of debt during the year ended October 31, 2017. This was due to three items that occurred during fiscal 2017. First, we repurchased in open market transactions $17.5 million aggregate principal amount of 7.0% Notes, $14.0 million aggregate principal amount of 8.0% Notes and 6,925 senior exchangeable note units representing $6.9 million stated amount of senior exchangeable note units. The aggregate purchase price for these transactions was $30.8 million, plus accrued and unpaid interest. These transactions resulted in a gain on extinguishment of debt of $7.8 million. Second, we incurred $0.4 million of costs associated with the 9.50% 2020 Notes issued during the fourth quarter of fiscal 2016. Third, we issued $440.0 million aggregate principal amount of 10.0% 2022 Notes and $400.0 million aggregate principal amount of 10.5% 2024 Notes. The net proceeds from these issuances together with available cash were used to (i) purchase $575,912,000 principal amount of 7.25% First Lien Notes, $87,321,000 principal amount of 9.125% Second Lien Notes and all $75,000,000 principal amount of 10.0% Second Lien Notes that were tendered and accepted for purchase pursuant to the Tender Offers and to pay related tender premiums and accrued and unpaid interest thereon to the date of purchase and (ii) satisfy and discharge all obligations (and cause the release of the liens on the collateral securing such indebtedness) under the indentures under which the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes were issued and in connection therewith to call for redemption on October 15, 2017 and on November 15, 2017 all remaining $1,088,000 principal amount of 7.25% First Lien Notes and all remaining $57,679,000 principal amount of 9.125% Second Lien Notes, respectively, that were not validly tendered and purchased in the applicable Tender Offer in accordance with the redemption provisions of the indentures governing the 2020 Secured Notes. These transactions resulted in a loss on extinguishment of debt of $42.3 million.

We incurred a $3.2 million loss on extinguishment of debt for the year ended October 31, 2016, due to the redemption of the remaining outstanding principal amount of our 8.625% Senior Notes due 2017 and the exchange of a portion of our Existing Second Lien Notes for Exchange Notes. These losses were slightly offset by a gain from the purchase of 20,823 6.0% Exchangeable Note Units due December 2017. We did not incur any loss on the extinguishment of debt for the year ended October 31, 2015.

(Loss) Income from Unconsolidated Joint Ventures

(Loss) income from unconsolidated joint ventures consists of our share of the earnings or losses of our joint ventures. Loss from unconsolidated joint ventures increased $2.7 million for the year ended October 31, 2017 from a loss of $4.3 million for the year ended October 31, 2016 to a loss of $7.0 million. The increase in loss is due to the recognition of our share of losses on our newly formed joint ventures, some of which have not delivered any homes, and the write-off of our investment on a joint venture that has delivered its last home during fiscal 2017 and we have determined that for which we will not receive any future distributions. Income from unconsolidated joint ventures decreased $8.5 million for the year ended October 31, 2016 from income of $4.2 million for the year ended October 31, 2015 to a loss of $4.3 million for the year ended October 31, 2016. The decrease in income to a loss was mainly due to fewer deliveries at certain of our joint ventures and recognition of our share of losses on our newly formed joint ventures that have not yet begun delivering homes.

Total Taxes

The total income tax expense of $286.9 million for the period ended October 31, 2017 was primarily due to increasing our valuation allowance to fully reserve against our deferred tax assets (“DTAs”). In addition, this period was also impacted by state tax expense from income generated in some states, which was not offset by tax benefits in other states that had losses for which we fully reserve the net operating losses. The total income tax expense of $5.3 million for the period ended October 31, 2016 was primarily due to current state taxes and permanent differences related to stock compensation, partially offset by a federal tax benefit related to receiving a specified liability loss refund of taxes paid in fiscal year 2002. The total income tax benefit of $5.7 million recognized for the year ended October 31, 2015 was primarily due to deferred taxes resulting from the loss before income taxes plus the reversal of state tax reserves for uncertain state tax positions, partially offset by state tax expenses.

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

As of October 31, 2017, we considered all available positive and negative evidence to determine whether, based on the weight of that evidence, an adjustment to our valuation allowance for our DTAs was necessary in accordance with ASC 740. As listed in Note 11 to the Consolidated Financial Statements, in order of the weighting of each factor, is the available positive and negative evidence that we considered in determining that it is more likely than not that all of our DTAs will not be realized. In analyzing these factors, overall the negative evidence, both objective and subjective, outweighed the positive evidence. Based on this analysis, we increased the valuation allowance against our DTAs such that we have a full valuation allowance and determined that the current valuation allowance for deferred taxes of $918.2 million as of October 31, 2017 is appropriate.

Off-Balance Sheet Financing

In the ordinary course of business, we enter into land and lot option purchase contracts in order to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with a minimal capital investment and substantially reduce the risks associated with land ownership and development. At October 31, 2017, we had $57.1 million in option deposits in cash and letters of credit to purchase land and lots with a total purchase price of $1.0 billion. Our financial exposure is generally limited to forfeiture of the nonrefundable deposits, letters of credit and other nonrefundable amounts incurred. We have no material third-party guarantees.

Contractual Obligations

The following summarizes our aggregate contractual commitments at October 31, 2017.

	Payments Due by Period (1)				
(In thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long term debt (2)(3)(4)	$ 2,279,939	$ 246,840	$ 745,391	$ 809,181	$ 478,527
Operating leases	31,066	8,139	13,236	5,349	4,342
Purchase obligations (5)	-	-	-	-	-
Total	$ 2,311,005	$ 254,979	$ 758,627	$ 814,530	$ 482,869

(1) Total contractual obligations exclude our accrual for uncertain tax positions of $1.4 million recorded for financial reporting purposes as of October 31, 2017 because we were unable to make reasonable estimates as to the period of cash settlement with the respective taxing authorities.

(2) Represents our revolving credit facility, senior secured term loan, senior secured, senior, senior amortizing and senior exchangeable notes, and other notes payable and $604.8 million of related interest payments for the life of such debt.

(3) Does not include $64.5 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.

(4) Does not include the mortgage warehouse lines of credit made under our Master Repurchase Agreements. See "- Capital Resources and Liquidity." Also does not include $14.6 million of letters of credit issued as of October 31, 2017 under our $75.0 million revolving Credit Facility.

(5) Represents obligations under option contracts with specific performance provisions, net of cash deposits.

We had outstanding letters of credit and performance bonds of $16.3 million and $199.5 million, respectively, at October 31, 2017, related principally to our obligations to local governments to construct roads and other improvements in various developments. We do not believe that any such letters of credit or bonds are likely to be drawn upon.

Inflation

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

Inflation has a lesser short-term effect, because we generally negotiate fixed-price contracts with many, but not all, of our subcontractors and material suppliers for the construction of our homes. These prices usually are applicable for a specified number of residential buildings or for a time period of between three to twelve months. Construction costs for residential buildings represent approximately 53% of our homebuilding cost of sales for fiscal 2017.

Safe Harbor Statement

All statements in this Annual Report on Form 10-K 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 sustained homebuilding downturn;

- Adverse weather and other environmental conditions and natural disasters;
- Levels of indebtedness and restrictions on the Company's operations and activities imposed by the agreements governing the Company's outstanding indebtedness;
- The Company's sources of liquidity;
- Changes in credit ratings;
- Changes in market conditions and seasonality of the Company's business;
- The availability and cost of suitable land and improved lots;
- Shortages in, and price fluctuations of, raw materials and labor;
- 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;
- Fluctuations in interest rates and the availability of mortgage financing;
- Changes in tax laws affecting the after-tax costs of owning a home;
- Operations through joint ventures with third parties;
- Government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, tax laws and the environment;
- Product liability litigation, warranty claims and claims made by mortgage investors;
- Levels of competition;
- Availability and terms of financing to the Company;
- Successful identification and integration of acquisitions;
- Significant influence of the Company's controlling stockholders;
- Availability of net operating loss carryforwards;
- Utility shortages and outages or rate fluctuations;
- Geopolitical risks, terrorist acts and other acts of war;
- Increases in cancellations of agreements of sale;
- Loss of key management personnel or failure to attract qualified personnel;
- Information technology failures and data security breaches; and
- Legal claims brought against us and not resolved in our favor.

Certain risks, uncertainties and other factors are described in detail in Part I, Item 1 "Business" and Part I, Item 1A "Risk Factors" in this Annual Report on Form 10-K as updated by our subsequent filings with the SEC. 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 Annual Report on Form 10-K.

ITEM 7A
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 tables set forth as of October 31, 2017 and 2016, our long-term debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair value ("FV").

Long-Term Debt Tables

	Long-Term Debt as of October 31, 2017 by Fiscal Year of Debt Maturity							
(Dollars in thousands)	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**	**FV at 10/31/17**
Long term debt(1)(2):								
Fixed rate	$ 109,414	$ 209,082	$ 237,634	$ 76,825	$ 636,994	$ 404,572	$ 1,674,521	$ 1,760,337
Weighted-average interest rate	4.09%	7.46%	8.00%	9.48%	8.22%	10.49%	8.43%	

(1) Does not include the mortgage warehouse lines of credit made under our Master Repurchase Agreements. Also does not include $14.6 million of letters of credit issued as of October 31, 2017 under our $75.0 million revolving Credit Facility.

(2) Does not include $64.5 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.

	Long-Term Debt as of October 31, 2016 by Fiscal Year of Debt Maturity							
(Dollars in thousands)	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**	**FV at 10/31/16**
Long term debt(1)(2):								
Fixed rate	$ 5,457	$ 188,412	$ 226,536	$ 828,673	$ 221,825	$ 201,566	$ 1,672,469	$ 1,337,496
Weighted-average interest rate	10.33%	6.48%	7.26%	7.48%	9.25%	4.34%	7.20%	

(1) Does not include the mortgage warehouse lines of credit made under our Master Repurchase Agreements. Also does not include $17.9 million of letters of credit issued as of October 31, 2016 under our $75.0 million revolving Credit Facility.

(2) Does not include $82.1 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 8
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements of Hovnanian Enterprises, Inc. and its consolidated subsidiaries are set forth herein beginning on page 67.

ITEM 9
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A
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 October 31, 2017. 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.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended October 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of October 31, 2017 has been audited by Deloitte & Touche LLP, the Company's independent registered public accounting firm, as stated in their report below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hovnanian Enterprises, Inc.
Red Bank, New Jersey

We have audited the internal control over financial reporting of Hovnanian Enterprises, Inc. and subsidiaries (the "Company") as of October 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2017, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended October 31, 2017 of the Company and our report dated December 28, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

New York, New York
December 28, 2017

ITEM 9B
OTHER INFORMATION

None.

PART III

ITEM 10
DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information called for by Item 10, except as set forth in this Item 10, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 13, 2018, which will involve the election of directors.

Executive Officers of the Registrant

Our executive officers are listed below and brief summaries of their business experience and certain other information with respect to them are set forth following the table. Each executive officer holds such office for a one-year term.

Name	Age	Position	Year Started With Company
Ara K. Hovnanian	60	Chairman of the Board, Chief Executive Officer, President and Director of the Company	1979
Lucian T. Smith, III	57	Chief Operating Officer	2007
J. Larry Sorsby	62	Executive Vice President, Chief Financial Officer and Director of the Company	1988
Brad G. O'Connor	47	Vice President, Chief Accounting Officer and Corporate Controller	2004

Mr. Hovnanian has been Chief Executive Officer since July 1997 after being appointed President in 1988 and Executive Vice President in 1983. Mr. Hovnanian joined the Company in 1979 and has been a Director of the Company since 1981 and was Vice Chairman from 1998 through November 2009. In November 2009, he was elected Chairman of the Board following the death of Kevork S. Hovnanian, the chairman and founder of the Company and the father of Mr. Hovnanian.

Mr. Smith was appointed Chief Operating Officer, effective November 1, 2016. Mr. Smith joined the Company in April 2007 as a Region President and was promoted to Group President in January 2010. Most recently Mr. Smith has served as Executive Vice President of Homebuilding Operations, a position he had held since August 2015.

Mr. Sorsby has been Chief Financial Officer of Hovnanian Enterprises, Inc. since 1996, and Executive Vice President since November 2000. Mr. Sorsby was also Senior Vice President from March 1991 to November 2000 and was elected as a Director of the Company in 1997. He is Chairman of the Board of Visitors for Urology at The Children's Hospital of Philadelphia ("CHOP") and also serves on the Foundation Board of Overseers at CHOP.

Mr. O'Connor joined the Company in April 2004 as Vice President and Associate Corporate Controller. In December 2007, he was promoted to Vice President, Corporate Controller and then in May 2011, he also became Vice President, Chief Accounting Officer. Prior to joining the Company, Mr. O'Connor was the Corporate Controller for Amershem Biosciences, and prior to that a Senior Manager in the audit practice of PricewaterhouseCoopers LLP.

Code of Ethics and Corporate Governance Guidelines

In more than 50 years of doing business, we have been committed to enhancing our shareholders' investment through conduct that is in accordance with the highest levels of integrity. Our Code of Ethics is a set of guidelines and policies that govern broad principles of ethical conduct and integrity embraced by our Company. Our Code of Ethics applies to our principal executive officer, principal financial officer, chief accounting officer, and all other associates of our Company, including our directors and other officers.

We also remain committed to fostering sound corporate governance principles. The Company's Corporate Governance Guidelines assist the Board of Directors of the Company (the "Board") in fulfilling its responsibilities related to corporate governance conduct. These guidelines serve as a framework, addressing the function, structure, and operations of the Board, for purposes of promoting consistency of the Board's role in overseeing the work of management.

We have posted our Code of Ethics on our web site at www.khov.com under "Investor Relations/Corporate Governance." We have also posted our Corporate Governance Guidelines on our web site at www.khov.com under "Investor Relations/Corporate Governance." A printed copy of the Code of Ethics and Guidelines is also available to the public at no charge by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800. We will post amendments to or waivers from our Code of Ethics that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange (the "NYSE") on our web site at www.khov.com under "Investor Relations/Corporate Governance."

Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee Charters

We have adopted charters that apply to the Company's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee. We have posted the text of these charters on our web site at www.khov.com under "Investor Relations/Corporate Governance." A printed copy of each charter is available at no charge to any shareholder who requests it by writing to: Hovnanian Enterprises, Inc., Attn: Human Resources Department, 110 West Front Street, P.O. Box 500, Red Bank, N.J. 07701 or calling corporate headquarters at 732-747-7800.

ITEM 11
EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 13, 2018.

ITEM 12
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12, except as set forth in this Item 12, is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 13, 2018.

The following table provides information as of October 31, 2017, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Class A Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)(1)(4) (a)	Number of Class B Common Stock securities to be issued upon exercise of outstanding options, warrants and rights (in thousands)(1) (a)	Weighted-average exercise price of outstanding Class A Common Stock options, warrants and rights(2) (b)	Weighted-average exercise price of outstanding Class B Common Stock options, warrants and rights(3) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (in thousands)(5) (c)
Equity compensation plans approved by security holders:	8,216	7,956	$ 3.23	$ 3.64	7,154
Equity compensation plans not approved by security holders:	-	-	-	-	-
Total	8,216	7,956	$ 3.23	$ 3.64	7,154

(1) *Includes the maximum number of shares that are potentially issuable under the Market Stock Units granted in fiscal 2014, fiscal 2015, fiscal 2016 and fiscal 2017 ("the "MSUs") under the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as further amended and restated from time to time, the "Stock Plan") and the actual number of shares for which performance has been met that are issuable under the 2013 Long-Term Incentive Program under the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as further amended and restated from time to time, the "Stock Plan"), subject to vesting. Also includes the maximum number of shares that are potentially issuable under the 2016 Long-Term Incentive Program under the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan (as further amended and restated from time to time, the "Stock Plan"), subject to vesting.*

(2) *Does not take into account 4,074,937 shares that may be issued upon the vesting of restricted stock and performance-based awards discussed in (1) above, nor 193,623 shares of restricted stock vested and deferred at the associates' election or 118,796 shares of restricted stock deferred due to mandatory hold requirements, in each case, because they have no exercise price.*

(3) *Does not take into account 4,923,834 shares that may be issued upon the vesting of the performance-based awards discussed in (1) above because they have no exercise price.*

(4) These shares include 514,250 shares of Class A Common Stock and 675,000 Class B Common Stock, respectively, shares that may be issued upon exercise of outstanding options with exercise prices greater than $6.00 per share.

(5) Under the Company's equity compensation plans, securities may be issued in either Class A Common Stock or Class B Common Stock.

ITEM 13
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 13, 2018.

ITEM 14
PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference to our definitive proxy statement to be filed pursuant to Regulation 14A in connection with our annual meeting of shareholders to be held on March 13, 2018.

PART IV
ITEM 15
EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

No schedules have been prepared because the required information of such schedules is not present, is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the financial statements and notes thereto.

ITEM 16
Form 10-K Summary

None.

Exhibits:

3(a)	Restated Certificate of Incorporation of the Registrant.(5)
3(b)	Amended and Restated Bylaws of the Registrant.(23)
4(a)	Specimen Class A Common Stock Certificate.(13)
4(b)	Specimen Class B Common Stock Certificate.(13)
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.(11)
4(d)	Certificate of Designations of the Series B Junior Preferred Stock of Hovnanian Enterprises, Inc., dated August 14, 2008.(1)
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.(21)
4(f)	Indenture dated as of July 27, 2017, relating to the 10.0% Senior Secured Notes due 2022 and the 10.5% Senior Secured Notes due 2024, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein and Wilmington Trust, National Association, as Trustee and Collateral Agent, including the forms of 10.0% Senior Secured Note due 2022 and the 10.5% Senior Secured Note due 2024. (18)
4(g)	Indenture dated as of September 8, 2016, relating to the 9.50% Senior Secured Notes due 2020, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., and the other guarantors named therein and Wilmington Trust, National Association, as Trustee and Collateral Agent, including form of 9.50% Senior Secured Notes due 2020.(2)
4(h)	Indenture, dated as of February 14, 2011, relating to Senior Debt Securities, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Wilmington Trust Company, as Trustee.(12)
4(i)	Indenture dated as of January 10, 2014, relating to the 7.000% Senior Notes due 2019, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors named therein and Wilmington Trust, National Association, as Trustee, including the form of 7.000% Senior Note due 2019.(15)
4(j)	Indenture, dated as of February 9, 2011, relating to Senior Subordinated Debt Securities, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Wilmington Trust Company, as Trustee.(12)
4(k)	Secured Notes Indenture dated as of November 1, 2011 relating to the 5.0% Senior Secured Notes due 2021 and 2.0% Senior Secured Notes due 2021, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors named therein and Wilmington Trust, National Association, as Trustee and Collateral Agent, including the forms of 5.0% Senior Secured Notes due 2021 and 2.0% Senior Secured Notes due 2021.(4)
4(l)	Units Agreement, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and Wilmington Trust Company, as Units Agent, including form of Unit, component amortizing notes and component exchangeable notes.(14)
4(m)	Amortizing Notes Indenture, dated as of October 2, 2012, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other guarantors named therein and Wilmington Trust Company, as Trustee, including the form of Amortizing Note.(14)
4(n)	Exchangeable Notes Indenture, dated as of October 2, 2012, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc. and the other guarantors named therein and Wilmington Trust Company, as Trustee, including the form of Exchangeable Note.(14)
4(o)	Indenture, dated as of November 5, 2014, relating to the 8.000% Senior Notes due 2019, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors party thereto and Wilmington Trust, National Association, as Trustee, including the form of 8.000% Senior Note due 2019.(10)
10(a)	Collateral Agency Agreement, dated as of July 27, 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein, Wilmington Trust, National Association, as Notes Collateral Agent and Wilmington Trust, National Association, as Collateral Agent. (18)
10(b)	Security Agreement, dated as of July 27, 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein and Wilmington Trust, National Association, as Collateral Agent. (18)
10(c)	Pledge Agreement, dated as of July 27, 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein and Wilmington Trust, National Association, as Collateral Agent. (18)
10(d)	Joinder to the Amended and Restated Intercreditor Agreement, dated as of July 27, 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein, Wilmington Trust, National Association, as Trustee and Notes Collateral Agent, Wilmington Trust, National Association, as Senior Credit Agreement Administrative Agent, Wilmington Trust, National Association, as Junior Joint Collateral Agent and Wilmington Trust, National Association, as Mortgage Tax Collateral Agent. (18)
10(e)	Second Amended and Restated Mortgage Tax Collateral Agency Agreement, dated as of July 27 2017, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the Subsidiary Guarantors named therein, Wilmington Trust, National Association, as Notes Collateral Agent, Wilmington Trust, National Association, as Senior Credit Agreement Administrative Agent, Wilmington Trust, National Association, as Junior Joint Collateral Agent and Wilmington Trust, National Association, as Mortgage Tax Collateral Agent. (18)
10(f)	Trademark Security Agreement, dated as of July 27, 2017, between K. HOV IP II, Inc. and Wilmington Trust, National Association, as Collateral Agent. (18)
10(g)	Amended and Restated Intercreditor Agreement, dated September 8, 2016, among Hovnanian Enterprises, Inc., K. Hovnanian Enterprises, Inc., the other guarantors party thereto, Wilmington Trust, National Association, in its capacities as Senior Notes Trustee and Senior Notes Collateral Agent (each as defined therein), Wilmington Trust, National Association, in its capacity as Administrative Agent (as defined therein), Wilmington Trust, National Association, in its capacity as Mortgage Tax Collateral Agent (as defined therein), Wilmington Trust, National Association, in its capacities as 9.125% Junior Trustee and 9.125% Junior Collateral Agent (each as defined therein), Wilmington Trust, National Association, in its capacities as 10.000% Junior Trustee and 10.000% Junior Collateral Agent (each as defined therein) and Wilmington Trust, National Association, in its capacity as Junior Joint Collateral Agent (as defined therein).(2)
10(h)	Amended and Restated First Lien Pledge Agreement, dated as of September 8, 2016, relating to the 5.0% Senior Secured Notes due 2021, the 2.0% Senior Secured Notes due 2021 and the 9.50% Senior Secured Notes due 2020.(2)
10(i)	Amended and Restated First Lien Security Agreement, dated as of September 8, 2016, relating to the 5.0% Senior Secured Notes due 2021, the 2.0% Senior Secured Notes due 2021 and the 9.50% Senior Secured Notes due 2020.(2)
10(j)	Credit Agreement, dated as of July 29, 2016, among K. Hovnanian Enterprises, Inc., Hovnanian Enterprises, Inc., the other guarantors named therein, Wilmington Trust, National Association, as Administrative Agent, and the lenders party thereto.(2)

10(k)*	Form of Non-Qualified Stock Option Agreement (2012) for Ara K. Hovnanian. (29)
10(l)*	Form of Nonqualified Stock Option Agreement (Class A shares).(24)
10(m)*	Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan.(16)
10(n)*	1983 Stock Option Plan (as amended and restated).(17)
10(o)	Management Agreement dated August 12, 1983, for the management of properties by K. Hovnanian Investment Properties, Inc.(3)
10(p)	Management Agreement dated December 15, 1985, for the management of properties by K. Hovnanian Investment Properties, Inc.(20)
10(q)*	Executive Deferred Compensation Plan as amended and restated on May 24, 2012. (29)
10(r)*	Death and Disability Agreement between the Registrant and Ara K. Hovnanian, dated February 2, 2006. (26)
10(s)*	Form of Hovnanian Deferred Share Policy for Senior Executives.(8)
10(t)*	Form of Hovnanian Deferred Share Policy.(8)
10(u)*	Form of Nonqualified Stock Option Agreement (Class B shares).(8)
10(v)*	Form of Incentive Stock Option Agreement.(8)
10(w)*	Form of Stock Option Agreement for Directors.(8)
10(x)*	Form of Restricted Share Unit Agreement.(8)
10(y)*	Form of Incentive Stock Option Agreement.(25)
10(z)*	Form of Restricted Share Unit Agreement.(25)
10(aa)*	Form of Performance Vesting Incentive Stock Option Agreement.(25)
10(bb)*	Form of Performance Vesting Nonqualified Stock Option Agreement.(25)
10(cc)*	Form of Restricted Share Unit Agreement for Directors.(24)
10(dd)*	Form of 2016 Long Term Incentive Program Award Agreement.(22)
10(ee)*	Form of Change in Control Severance Protection Agreement entered into with Brad G. O'Connor.(27)
10(ff)*	Form of Amendment to Outstanding Stock Option Grants.(28)
10(gg)*	Form of Amendment to 2011 Restricted Share Unit Agreement for Ara K. Hovnanian and J. Larry Sorsby.(28)
10(hh)*	Form of Amendment to 2011 Non-Qualified Stock Option Agreement for Ara K. Hovnanian.(28)
10(ii)*	Form of Amendment to 2011 Incentive Stock Option Agreement for J. Larry Sorsby.(28)
10(jj)*	Form of Incentive Stock Option Agreement (2012).(29)
10(kk)*	Form of Restricted Share Unit Agreement (2012).(29)
10(ll)*	Form of Stock Option Agreement (2012) for Directors.(29)
10(mm)*	Form of Restricted Share Unit Agreement (2012) for Directors.(29)
10(nn)*	Form of 2013 Long-Term Incentive Program Award.(30)
10(oo)*	Form of 2013 Incentive Stock Option Agreement – Performance Option Grant (Class A shares).(31)
10(pp)*	Form of 2013 Non-Qualified Stock Option Agreement – Performance Option Grant (Class B shares).(31)
10(qq)*	Form of Market Share Unit Agreement Class A shares (2014 grants and thereafter).(9)

10(rr)*	Form of Market Share Unit Agreement Class B shares (2014 grants and thereafter).(9)
10(ss)*	Form of Market Share Unit Agreement (Performance Vesting) Class A (2014 grants and thereafter).(9)
10(tt)*	Form of Market Share Unit Agreement (Performance Vesting) Class B shares (2014 grants and thereafter) (9)
10(uu)*	Form of Incentive Stock Option Agreement (2014 grants and thereafter).(9)
10(vv)*	Form of Restricted Share Unit Agreement (2014 grants and thereafter).(9)
10(ww)*	Form of Stock Option Agreement for Directors (2014 grants and thereafter).(9)
10(xx)*	Form of Restricted Share Unit Agreement for Directors (2014 grants and thereafter).(9)
10(yy)*	2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan.(7)
10(zz)*	Amended and Restated Hovnanian Enterprises, Inc. Senior Executive Short-Term Incentive Plan.(6)
10(aaa)*	Form of Letter Agreement Relating to Change in Control Severance Protection Agreement entered into with Brad G. O'Connor.(19)
10(bbb)*	Market Share Unit Agreement Class A (2016 grants and thereafter).(2)
10(ccc)*	Market Share Unit Agreement Class B (2016 grants and thereafter).(2)
10(ddd)*	Market Share Unit Agreement (Gross Margin Performance Vesting) Class A (2016 grants and thereafter).(2)
10(eee)*	Market Share Unit Agreement (Gross Margin Performance Vesting) Class B (2016 grants and thereafter).(2)
10(fff)*	Market Share Unit Agreement (Debt Reduction Performance Vesting) Class A (2016 grants and thereafter).(2)
10(ggg)*	Market Share Unit Agreement (Debt Reduction Performance Vesting) Class B (2016 grants and thereafter).(2)
10(hhh)*	Premium-Priced Incentive Stock Option Agreement Class A (2016 grants and thereafter).(2)
10(iii)*	Premium-Priced Non-qualified Stock Option Agreement Class B (2016 grants and thereafter).(2)
10(jjj)*	Incentive Stock Option Agreement Class A (2016 grants and thereafter).(2)
10(kkk)*	Restricted Share Unit Agreement Class A (2016 grants and thereafter).(2)
10(lll)*	Director Restricted Share Unit Agreement Class A (2016 grants and thereafter).(2)
10(mmm)*	Market Share Unit Agreement (Pre-tax Profit performance Vesting) Class A (2017 grants and thereafter) (32)
10(nnn)*	Market Share Unit Agreement (Pre-tax Profit performance Vesting) Class B (2017 grants and thereafter) (32)
10(ooo)*	Market Share Unit Agreement (Gross Margin Improvement Performance Vesting) Class A (2017 grants and thereafter) (32)
10(ppp)*	Market Share Unit Agreement (Gross Margin Improvement Performance Vesting) Class B (2017 grants and thereafter) (32)
10(qqq)*	Form of Letter Agreement entered into with Lucian Theon Smith III
10(rrr)	First Lien Intercreditor Agreement, dated September 8, 2016, among Hovnanian Enterprises, Inc., K. Hovnanian Enterprises, Inc., the other guarantors party thereto, Wilmington Trust, National Association in its capacity as Super Priority Administrative Agent (as defined therein),Wilmington Trust, National Association, in its capacity as Mortgage Tax Collateral Agent (as defined therein), and Wilmington Trust, National Association, in its capacities as First Lien Trustee and First Lien Collateral Agent (each as defined therein).(2)
10(sss)	First Lien Collateral Agency Agreement, dated as of September 8, 2016, among Wilmington Trust, National Association, in its capacity as Existing Collateral Agent (as defined therein), Wilmington Trust, National Association, in its capacity as 9.50% Collateral Agent (as defined therein), Wilmington Trust, National Association, in its capacity as Collateral Agent (as defined therein), K. Hovnanian Enterprises, Inc., and the Grantors (as defined therein).(2)
10(ttt)	Security Agreement, dated as of September 8, 2016, relating to the Credit Agreement dated as of July 29, 2016.(2)
10(uuu)	Pledge Agreement, dated as of September 8, 2016, relating to the Credit Agreement dated as of July 29, 2016.(2)
10(vvv)	First Lien Intellectual Property Agreement, dated as of September 8, 2016, relating to the Credit Agreement dated as of July 29, 2016.(2)
12	Statements re Computation of Ratios.
21	Subsidiaries of the Registrant.
23(a)	Consent of Deloitte & Touche LLP.
23(b)	Consent of Deloitte & Touche LLP.
23(c)	Consent of Deloitte & Touche LLP.
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.
99(a)	Financial Statements of GTIS – HOV Holdings, L.L.C.
99(b)	Financial Statements of GTIS – HOV Holdings V, L.L.C.
101	The following financial information from our Annual Report on Form 10-K for the year ended October 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets at October 31, 2017 and October 31, 2016, (ii) the Consolidated Statements of Operations for the years ended October 31, 2017, 2016 and 2015, (iii) the Consolidated Statements of Equity for years ended October 31, 2017, 2016 and 2015 (iv) the Consolidated Statements of Cash Flows for the years ended October 31, 2017, 2016 and 2015, and (v) the Notes to Consolidated Financial Statements.

* *Management contracts or compensatory plans or arrangements.*

(1) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2008 (No. 001-08551) of the Registrant.*

(2) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2016 (No. 001-08551) of the Registrant.*

(3) *Incorporated by reference to Exhibits to Registration Statement (No. 2-85198) on Form S-1 of the Registrant.*

(4) *Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on November 7, 2011.*

(5) *Incorporated by reference to Exhibits to Current Report of the Registrant on Form 8-K (No. 001-08551) filed on March 15, 2013.*

(6) *Incorporated by reference to Appendix B to the Registrant's definitive Proxy Statement on Schedule 14A (No. 001-08551) filed on January 27, 2014.*

(7) *Incorporated by reference to Appendix A to the Registrant's definitive Proxy Statement on Schedule 14A (No. 001-08551) filed on February 1, 2016.*

(8) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2008 (No. 001-08551) of the Registrant.*

(9) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2014 (No. 001-08551) of the Registrant.*

(10) *Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551) filed November 5, 2014.*

(11) *Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on July 13, 2005.*

(12) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2011 (No. 001-08551) of the Registrant.*

(13) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2009 (No. 001-08551) of the Registrant.*

(14) *Incorporated by reference to Exhibits to Current Report on Form 8-K (No. 001-08551) of the Registrant filed on October 2, 2012.*

(15) *Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551) filed on January 10, 2014.*

(16) *Incorporated by reference to Appendix A to the Registrant's definitive Proxy Statement on Schedule 14A of the Registrant filed on February 1, 2010.*

(17) *Incorporated by reference to Appendix C of the definitive Proxy Statement of the Registration on Schedule 14A filed on February 19, 2008.*

(18) *Incorporated by reference to Exhibits to Current Report on Form 8-K (001-08551) of the Registrant filed on July 28, 2017.*

(19) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2015 of the Registrant (No. 001-08551).*

(20) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2003 (No. 001-08551), of the Registrant.*

(21) *Incorporated by reference to Exhibits to the Registration Statement (No. 001-08551) on Form 8-A of the Registrant filed August 14, 2008*

(22) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2016 (No. 001-08551), of the Registrant.*

(23) *Incorporated by reference to Exhibits to Current Report on Form 8-K of the Registrant (No. 001-08551), filed March 11, 2015*

(24) *Incorporated by reference to Exhibits to Annual Report on Form 10-K for the year ended October 31, 2009 (No. 001-08551), of the Registrant.*

(25) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2009 (No. 001-08551), of the Registrant.*

(26) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2006 (No. 001-08551) of the Registrant.*

(27) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended January 31, 2012 (No. 001-08551) of the Registrant.*

(28) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended April 30, 2012 (No. 001-08551) of the Registrant.*

(29) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2012 (No. 001-08551) of the Registrant.*

(30) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended April 30, 2013 (No. 001-08551) of the Registrant.*

(31) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2013 (No. 001-08551) of the Registrant.*

(32) *Incorporated by reference to Exhibits to Quarterly Report on Form 10-Q for the quarter ended July 31, 2017 (No. 001-08551) of the Registrant.*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.

By: /s/ ARA K. HOVNANIAN
Ara K. Hovnanian
Chairman of the Board, Chief Executive Officer and President
December 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on December 28, 2017, and in the capacities indicated.

/s/ ARA K. HOVNANIAN Ara K. Hovnanian	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ J. LARRY SORSBY J. Larry Sorsby	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
/s/ BRAD G. O’CONNOR Brad G. O’Connor	Vice President – Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
/s/ EDWARD A. KANGAS Edward A. Kangas	Chairman of Audit Committee and Director
/s/ STEPHEN D. WEINROTH Stephen D. Weinroth	Chairman of Compensation Committee and Director

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
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No schedules have been prepared because the required information of such schedules is not present, is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the financial statements and notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hovnanian Enterprises, Inc.
Red Bank, New Jersey

We have audited the accompanying consolidated balance sheets of Hovnanian Enterprises, Inc. and subsidiaries (the "Company") as of October 31, 2017 and 2016, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended October 31, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Hovnanian Enterprises, Inc. and subsidiaries as of October 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of October 31, 2017, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 28, 2017, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
December 28, 2017

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)		October 31, 2017		October 31, 2016
ASSETS				
Homebuilding:				
Cash and cash equivalents	$	463,697	$	339,773
Restricted cash and cash equivalents		2,077		3,914
Inventories:				
Sold and unsold homes and lots under development		744,119		899,082
Land and land options held for future development or sale		140,924		175,301
Consolidated inventory not owned		124,784		208,701
Total inventories		1,009,827		1,283,084
Investments in and advances to unconsolidated joint ventures		115,090		100,502
Receivables, deposits and notes, net		58,149		49,726
Property, plant and equipment, net		52,919		50,332
Prepaid expenses and other assets		37,026		46,762
Total homebuilding		1,738,785		1,874,093
Financial services cash and cash equivalents		5,623		6,992
Financial services other assets		156,490		190,238
Income taxes receivable – including net deferred tax benefits (Note 11)		-		283,633
Total assets	$	1,900,898	$	2,354,956
LIABILITIES AND EQUITY				
Homebuilding:				
Nonrecourse mortgages secured by inventory, net of debt issuance costs	$	64,512	$	82,115
Accounts payable and other liabilities		335,057		369,228
Customers' deposits		33,772		37,429
Nonrecourse mortgages secured by operating properties		13,012		14,312
Liabilities from inventory not owned, net of debt issuance costs		91,101		150,179
Revolving credit facility		52,000		52,000
Notes payable and term loan, net of discount and debt issuance costs		1,627,674		1,605,758
Total homebuilding		2,217,128		2,311,021
Financial services		141,914		172,445
Income taxes payable		2,227		-
Total liabilities		2,361,269		2,483,466
Stockholders' equity deficit:				
Preferred stock, $0.01 par value - authorized 100,000 shares; issued and outstanding 5,600 shares with a liquidation preference of $140,000 at October 31, 2017 and 2016		135,299		135,299
Common stock, Class A, $0.01 par value - authorized 400,000,000 shares; issued 144,046,073 shares at October 31, 2017 and 143,806,775 shares at October 31, 2016		1,440		1,438
Common stock, Class B, $0.01 par value (convertible to Class A at time of sale) - authorized 60,000,000 shares; issued 15,999,355 shares at October 31, 2017 and 15,942,809 shares at October 31, 2016		160		159
Paid in capital - common stock		706,466		706,137
Accumulated deficit		(1,188,376)		(856,183)
Treasury stock - at cost – 11,760,763 shares of Class A common stock and 691,748 shares of Class B common stock at October 31, 2017 and 2016		(115,360)		(115,360)
Total stockholders' equity deficit		(460,371)		(128,510)
Total liabilities and equity	$	1,900,898	$	2,354,956

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
(In thousands except per share data)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**
Revenues:			
Homebuilding:			
Sale of homes	$ 2,340,033	$ 2,600,790	$ 2,088,129
Land sales and other revenues	52,889	78,840	3,686
Total homebuilding	2,392,922	2,679,630	2,091,815
Financial services	58,743	72,617	56,665
Total revenues	2,451,665	2,752,247	2,148,480
Expenses:			
Homebuilding:			
Cost of sales, excluding interest	1,961,804	2,230,457	1,722,038
Cost of sales interest	88,536	92,391	59,613
Inventory impairment loss and land option write-offs	17,813	33,353	12,044
Total cost of sales	2,068,153	2,356,201	1,793,695
Selling, general and administrative	196,320	192,938	188,403
Total homebuilding expenses	2,264,473	2,549,139	1,982,098
Financial services	32,346	37,144	31,972
Corporate general and administrative	59,367	60,141	62,506
Other interest	97,304	90,967	91,835
Other operations	1,518	4,874	6,003
Total expenses	2,455,008	2,742,265	2,174,414
Loss on extinguishment of debt	(34,854)	(3,200)	-
(Loss) income from unconsolidated joint ventures	(7,047)	(4,346)	4,169
(Loss) income before income taxes	(45,244)	2,436	(21,765)
State and federal income tax provision (benefit):			
State	11,261	2,457	4,293
Federal	275,688	2,798	(9,958)
Total income taxes	286,949	5,255	(5,665)
Net loss	$ (332,193)	$ (2,819)	$ (16,100)
Per share data:			
Basic:			
Loss per common share	$ (2.25)	$ (0.02)	$ (0.11)
Weighted-average number of common shares outstanding	147,703	147,451	146,899
Assuming dilution:			
Loss per common share	$ (2.25)	$ (0.02)	$ (0.11)
Weighted-average number of common shares outstanding	147,703	147,451	146,899

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	A Common Stock		B Common Stock		Preferred Stock					
(Dollars In thousands)	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balance, October 31, 2014	131,075,800	$ 1,428	14,805,795	$ 155	5,600	$ 135,299	$ 697,943	$ (837,264)	$ (115,360)	$ (117,799)
Stock options, amortization and issuances	18,125						723			723
Restricted stock amortization, issuances and forfeitures	438,093	5	179,386	2			5,085			5,092
Conversion of Class B to Class A common stock	100		(100)							-
Net loss								(16,100)		(16,100)
Balance, October 31, 2015	131,532,118	1,433	14,985,081	157	5,600	135,299	703,751	(853,364)	(115,360)	(128,084)
Stock options, amortization and issuances							(1,502)			(1,502)
Restricted stock amortization, issuances and forfeitures	445,522	4	334,352	3			3,888			3,895
Conversion of Class B to Class A common stock	68,372	1	(68,372)	(1)						-
Net loss								(2,819)		(2,819)
Balance, October 31, 2016	132,046,012	1,438	15,251,061	159	5,600	135,299	706,137	(856,183)	(115,360)	(128,510)
Stock options, amortization and issuances	48,250						556			556
Restricted stock amortization, issuances and forfeitures	188,548	2	59,046	1			(227)			(224)
Conversion of Class B to Class A common stock	2,500		(2,500)							-
Net loss								(332,193)		(332,193)
Balance, October 31, 2017	132,285,310	$ 1,440	15,307,607	$ 160	5,600	$ 135,299	$ 706,466	$ (1,188,376)	$ (115,360)	$ (460,371)

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
(In thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**
Cash flows from operating activities:			
Net loss	$ (332,193)	$ (2,819)	$ (16,100)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	4,249	3,565	3,388
Compensation from stock options and awards	557	2,921	8,816
Amortization of bond discounts and deferred financing costs	13,875	12,830	11,687
Gain on sale and retirement of property and assets	(166)	(632)	(1,119)
Loss (income) from unconsolidated joint ventures	7,047	4,346	(4,169)
Distributions of earnings from unconsolidated joint ventures	1,864	1,002	8,438
Loss on extinguishment of debt	34,854	3,200	-
Inventory impairment and land option write-offs	17,813	33,353	12,044
Deferred income tax provision (benefit)	285,578	6,851	(4,691)
(Increase) decrease in assets:			
Origination of mortgage loans	(1,045,991)	(1,274,284)	(1,042,407)
Sale of mortgage loans	1,078,649	1,239,521	1,007,425
Restricted cash, receivables, prepaids, deposits and other assets	1,224	23,574	10,855
Inventories	255,444	328,141	(312,312)
(Decrease) increase in liabilities:			
State and federal income tax payable	282	(205)	(1,045)
Customers' deposits	(3,657)	(6,789)	9,249
Accounts payable, accrued interest and other accrued liabilities	(21,876)	13,090	(10,594)
Net cash provided by (used in) by operating activities	297,553	387,665	(320,535)
Cash flows from investing activities:			
Proceeds from sale of property and assets	270	764	1,573
Purchase of property, equipment, and other fixed assets and acquisitions	(6,478)	(8,007)	(2,054)
Decrease in restricted cash related to mortgage company	2,555	2,034	1,555
Increase in restricted cash related to letters of credit	(3)	872	2,993
Investment in and advances to unconsolidated joint ventures	(36,803)	(49,905)	(18,707)
Distributions of capital from unconsolidated joint ventures	13,304	5,264	17,112
Net cash (used in) provided by investing activities	(27,155)	(48,978)	2,472
Cash flows from financing activities:			
Proceeds from mortgages and notes	199,275	211,209	180,284
Payments related to mortgages and notes	(218,468)	(272,220)	(140,901)
Proceeds from model sale leaseback financing programs	10,270	24,297	43,181
Payments related to model sale leaseback financing programs	(28,798)	(41,435)	(20,197)
Proceeds from land bank financing programs	29,190	174,211	16,985
Payments related to land bank financing programs	(71,757)	(108,577)	(24,330)
Net (payments) proceeds related to mortgage warehouse lines of credit	(31,023)	36,713	31,956
Borrowings from revolving credit facility	-	5,000	47,000
Proceeds from senior secured term loan facility	-	75,000	-
Proceeds from senior secured notes	840,000	71,250	-
Proceeds from senior notes	-	-	250,000
Payments related to senior notes, senior exchangeable notes and senior amortizing notes	(861,976)	(409,646)	(65,053)
Deferred financing costs from land banking financing programs and note issuances	(14,556)	(11,469)	(9,015)
Net cash (used in) provided by financing activities	(147,843)	(245,667)	309,910
Net increase (decrease) in cash and cash equivalents	122,555	93,020	(8,153)
Cash and cash equivalents balance, beginning of year	346,765	253,745	261,898
Cash and cash equivalents balance, end of year	$ 469,320	$ 346,765	$ 253,745
Supplemental disclosures of cash flows:			
Cash paid (received) during the period for:			
Interest, net of capitalized interest (see Note 3 to the Consolidated Financial Statements)	$ 89,836	$ 101,796	$ 85,719
Income taxes	$ 1,089	$ (1,390)	$ 1,779

See notes to consolidated financial statements.

HOVNANIAN ENTERPRISES, INC.
Notes to Consolidated Financial Statements

1. Basis of Presentation

Basis of Presentation - The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and include our accounts and those of all wholly owned subsidiaries, after elimination of all intercompany balances and transactions. Our fiscal year ends October 31.

Reclassifications - In November 2016, we adopted Accounting Standards Update ("ASU") 2015-03, "Interest - Imputation of Interest," which changes the presentation of debt issuance costs in the balance sheet from an asset to a direct reduction of the carrying amount of the related debt. The adoption of this guidance resulted in the reclassification of applicable unamortized debt issuance costs from "Prepaid expenses and other assets" of $24.5 million to "Nonrecourse mortgages secured by inventory" of $1.3 million, "Liabilities from inventory not owned" of $3.0 million and "Notes payable and term loan" of $20.2 million on our Consolidated Balance Sheets as of October 31, 2016. We applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the fiscal 2017 presentation. Additionally, in November 2016, we adopted ASU 2015-15 "Interest - Imputation of Interest (Subtopic 835-30)" ("ASU 2015-15"), which was issued as a follow-up to ASU 2015-03. ASU 2015-15 allows an entity to defer and present debt issuance costs for line-of-credit arrangements as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. Therefore, there was no change to the presentation of our "Revolving credit facility" on the Consolidated Balance Sheets for any of the periods presented.

2. Business

Our operations consist of homebuilding, financial services and corporate. Our homebuilding operations are made up of six reportable segments defined as Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. Homebuilding operations comprise the substantial part of our business, representing approximately 98% of consolidated revenues for the year ended October 31, 2017 and approximately 97% for the years ended October 31, 2016 and 2015. We are a Delaware corporation, building and selling homes at October 31, 2017 in 130 consolidated new home communities in Arizona, California, Delaware, Florida, Georgia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, South Carolina, Texas, Virginia, Washington, D.C. and West Virginia. We offer a wide variety of homes that are designed to appeal to first-time buyers, first and second-time move-up buyers, luxury buyers, active lifestyle buyers and empty nesters. Our financial services operations, which are a reportable segment, provide mortgage banking and title services to the homebuilding operations' customers. We do not typically retain or service the mortgages that we originate but rather sell the mortgages and related servicing rights to investors. Corporate primarily includes the operations of our corporate office whose primary purpose is to provide executive services, accounting, information services, human resources, management reporting, training, cash management, internal audit, risk management, and administration of process redesign, quality, and safety.

During fiscal 2016, we exited the Minneapolis, Minnesota and Raleigh, North Carolina markets and in the third quarter of fiscal 2016, we completed the sale of our portfolios in those markets. We are in the process of completing a wind down of our operations in the San Francisco Bay area in Northern California and in Tampa, Florida by building and delivering homes to sell through our existing land position.

See Note 10 "Operating and Reporting Segments" for further disclosure of our reportable segments.

3. Summary of Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with US 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 financial statements.

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

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

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

Substantially all of the mortgage loans originated are sold within a short period of time in the secondary mortgage market on a servicing released, nonrecourse basis, although the Company remains liable for certain limited representations, such as fraud, and warranties related to loan sales. Mortgage investors could seek to have us buy back loans or compensate them from losses incurred on mortgages we have sold based on claims that we breached our limited representations and warranties. We have established reserves for probable losses.

Cash and Cash Equivalents - 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 October 31, 2017 and 2016, $13.3 million and $9.4 million, respectively, of the total cash and cash equivalents was in cash equivalents, the book value of which approximates fair value.

Fair Value of Financial Instruments - The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Our financial instruments consist of cash and cash equivalents, restricted cash and cash equivalents, receivables, deposits and notes, accounts payable and other liabilities, customer deposits, mortgage loans held for sale, nonrecourse mortgages, mortgage warehouse lines of credit, revolving credit facility, accrued interest, senior secured term loan and the senior secured notes, senior notes, senior amortizing notes and senior exchangeable notes. The fair value of the senior secured notes, senior notes, senior amortizing notes and senior exchangeable notes is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

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

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

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 Consolidated Balance Sheets from “Sold and unsold homes and lots under development” to “Land and land options held for future development or sale.” During fiscal 2017, we did not mothball any communities, but we sold five previously mothballed communities and re-activated two previously mothballed communities. As of October 31, 2017 and 2016, the net book value associated with our 22 and 29 total mothballed communities was $36.7 million and $74.4 million, respectively, which was net of impairment charges recorded in prior periods of $214.1 million and $296.3 million, respectively.

From time to time we enter into option agreements that include specific performance requirements, whereby we are required to purchase a minimum number of lots. Because of our obligation to purchase these lots, for accounting purposes in accordance with Accounting Standards Codification (“ASC”) 360-20-40-38, we are required to record this inventory on our Consolidated Balance Sheets. As of October 31, 2017 and 2016, we had no specific performance options.

We sell and lease back certain of our model homes with the right to participate in the potential profit when each home is sold to a third party at the end of the respective lease. As a result of our continued involvement, for accounting purposes in accordance with ASC 360-20-40-38, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of our Consolidated Balance Sheets, at October 31, 2017 and 2016, inventory of $58.5 million and $79.2 million, respectively, was recorded to “Consolidated inventory not owned,” with a corresponding amount of $51.8 million and $69.7 million, 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 banker and they provide us an option to purchase back finished lots on a predetermined schedule. Because of our options to repurchase these parcels, for accounting purposes, in accordance with ASC 360-20-40-38, these transactions are considered a financing rather than a sale. For purposes of our Consolidated Balance Sheets, at October 31, 2017 and 2016, inventory of $66.3 million and $129.5 million, respectively, was recorded to "Consolidated inventory not owned," with a corresponding amount of $39.3 million and $80.5 million, respectively, recorded to "Liabilities from inventory not owned" for the amount of net cash received from the transactions.

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

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

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

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

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

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

These and other local market-specific conditions that may be present are considered by management in preparing projection assumptions for each community. The sales objectives can differ between our communities, even within a given market. For example, facts and circumstances in a given community may lead us to price our homes with the objective of yielding a higher sales absorption pace, while facts and circumstances in another community may lead us to price our homes to minimize deterioration in our gross margins, although it may result in a slower sales absorption pace. In addition, the key assumptions included in our estimate of future undiscounted cash flows may be interrelated. For example, a decrease in estimated base sales price or an increase in homes sales incentives may result in a corresponding increase in sales absorption pace. Additionally, a decrease in the average sales price of homes to be sold and closed in future reporting periods for one community that has not been generating what management believes to be an adequate sales absorption pace may impact the estimated cash flow assumptions of a nearby community. Changes in our key assumptions, including estimated construction and development costs, absorption pace and selling strategies, could materially impact future cash flow and fair value estimates. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

If the undiscounted cash flows are more than the carrying value of the community, then the carrying amount is recoverable, and no impairment adjustment is required. However, if the undiscounted cash flows are less than the carrying amount, then the community is deemed impaired and is written down to its fair value. We determine the estimated fair value of each community by determining the present value of its estimated future cash flows at a discount rate commensurate with the risk of the respective community, or in limited circumstances, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale), and recent bona fide offers received from outside third parties. Our discount rates used for all impairments recorded from October 31, 2015 to October 31, 2017 ranged from 16.8% to 19.8%. The estimated future cash flow assumptions are virtually the same for both our recoverability and fair value assessments. Should the estimates or expectations used in determining estimated cash flows or fair value, including discount rates, decrease or differ from current estimates in the future, we may be required to recognize additional impairments related to current and future communities. The impairment of a community is allocated to each lot on a relative fair value basis.

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

Inventories held for sale are land parcels ready for sale in their current condition, where we have decided not to build homes but are instead actively marketing for sale. These land parcels represented $23.6 million and $48.7 million of our total inventories at October 31, 2017 and 2016, respectively, and are reported at the lower of carrying amount or fair value less costs to sell. In determining fair value for land held for sale, management considers, among other things, prices for land in recent comparable sale transactions, market analysis studies, which include the estimated price a willing buyer would pay for the land (other than in a forced liquidation sale) and recent bona fide offers received from outside third parties.

Post-Development Completion, Warranty Costs and *Insurance Deductible Reserves* - In those instances where a development is substantially completed and sold and we have additional construction work to be incurred, an estimated liability is provided to cover the cost of such work. We accrue for warranty costs that are covered under our existing general liability and construction defect policy as part of our general liability insurance deductible. This accrual is expensed as selling, general and administrative costs. For homes delivered in fiscal 2017 and 2016, our deductible under our general liability insurance is a $20 million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2017 and 2016 is $0.25 million, up to a $5 million limit. Our aggregate retention in fiscal 2017 and 2016 is $21 million for construction defect, warranty and bodily injury claims. We do not have a deductible on our worker's compensation insurance. Reserves for estimated losses for construction defects, warranty and bodily injury claims have been established using the assistance of a third-party actuary. We engage a third-party actuary that uses our historical warranty and construction defect data 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. These estimates are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products we build, claim settlement patterns, insurance industry practices and legal interpretations, among others. Because of the high degree of judgment required in determining these estimated liability amounts, actual future costs could differ significantly from our currently estimated amounts. 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. See Note 16 for additional information on the amount of warranty costs recognized in cost of goods sold and administrative expenses.

Interest - Interest attributable to properties under development during the land development and home construction period is capitalized and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized, which occurs when assets qualifying for interest capitalization are less than our outstanding debt balances, is expensed as incurred in “Other interest.”

Interest costs incurred, expensed and capitalized were:

	Year Ended		
(In thousands)	October 31, 2017	October 31, 2016	October 31, 2015
Interest capitalized at beginning of year	$ 96,688	$ 123,898	$ 109,158
Plus interest incurred(1)	160,203	166,824	166,188
Less cost of sales interest expensed	88,536	92,391	59,613
Less other interest expensed(2)(3)	97,304	90,967	91,835
Less interest contributed to unconsolidated joint venture(4)	-	10,676	-
Interest capitalized at end of year(5)	$ 71,051	$ 96,688	$ 123,898

(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 $69.1 million, $50.4 million and $77.6 million for the years ended October 31, 2017, 2016 and 2015, 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 $28.2 million, $40.6 million and $14.2 million for the years ended October 31, 2017, 2016 and 2015.*

(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:*

	Year Ended		
(In thousands)	October 31, 2017	October 31, 2016	October 31, 2015
Other interest expensed	$ 97,304	$ 90,967	$ 91,835
Interest paid by our mortgage and finance subsidiaries	1,944	2,866	2,050
(Increase) decrease in accrued interest	(9,412)	7,963	(8,166)
Cash paid for interest, net of capitalized interest	$ 89,836	$ 101,796	$ 85,719

(4) *Represents capitalized interest which was included as part of the assets contributed to the joint venture the Company entered into in November 2015, as discussed in Note 20. There was no impact to the Consolidated Statement of Operations as a result of this transaction.*

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

Land Options - Costs incurred to obtain options to acquire improved or unimproved home sites are capitalized. Such amounts are either included as part of the purchase price if the land is acquired or charged to “Inventory impairments loss and land option write-offs” if we determine we will not exercise the option. If the options are with variable interest entities and we are the primary beneficiary, we record the land under option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned.” If the option includes an obligation to purchase land under specific performance or has terms that require us to record it as financing, then we record the option on the Consolidated Balance Sheets under “Consolidated inventory not owned” with an offset under “Liabilities from inventory not owned.” In accordance with ASC 810-10 “Consolidation – Overall,” we record costs associated with other options on the Consolidated Balance Sheets under “Land and land options held for future development or sale.”

Unconsolidated Homebuilding and Land Development Joint Ventures - Investments in unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses earned by the joint venture upon the delivery of lots or homes to third parties. Our ownership interests in the joint ventures vary but our voting interests are generally 50% or less. In determining whether or not we must consolidate joint ventures where we are the managing member of the joint venture, we assess whether the other partners have specific rights to overcome the presumption of control by us as the manager of the joint venture. In most cases, the presumption is overcome because the joint venture agreements require that both partners agree on establishing the significant operating and capital decisions of the partnership, including budgets, in the ordinary course of business. The evaluation of whether or not we control a venture can require significant judgment. In accordance with ASC 323-10, “Investments - Equity Method and Joint Ventures – Overall,” we assess our investments in unconsolidated joint ventures for recoverability, and if it is determined that a loss in value of the investment below its carrying amount is other than temporary, we write down the investment to its fair value. We evaluate our equity investments for impairment based on the joint venture’s projected cash flows. This process requires significant management judgment and estimates. During fiscal 2017, we wrote down certain joint venture investments by $2.8 million. There were no write-downs in fiscal 2016 or 2015.

Deferred Bond Issuance Costs - Costs associated with borrowings under our revolving credit facility and senior secured term loan and the issuance of senior secured, senior, senior amortizing and senior exchangeable notes are capitalized and amortized over the term of each note's issuance. The capitalization of the costs are recorded as a contra liability within our debt balances, except for the revolving credit facility costs, which are recorded as a prepaid asset.

Debt Issued At a Discount - Debt issued at a discount to the face amount is accreted up to its face amount utilizing the effective interest method over the term of the note and recorded as a component of interest on the Consolidated Statements of Operations.

Advertising Costs - Advertising costs are expensed as incurred. During the years ended October 31, 2017, 2016 and 2015, advertising costs expensed totaled $17.9 million, $21.4 million and $21.0 million, respectively.

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

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

Depreciation - Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of the assets ranging from 3 to 40 years.

Prepaid Expenses - Prepaid expenses which relate to specific housing communities (model setup, architectural fees, homeowner warranty program fees, etc.) are amortized to cost of sales as the applicable inventories are sold. All other prepaid expenses are amortized over a specific time period or as used and charged to overhead expense.

Allowance for Doubtful Accounts – We regularly review our receivable balances, which are included in Receivables, deposits and notes on the Consolidated Balance Sheets, for collectability and record an allowance against a receivable when it is deemed that collectability is uncertain. These receivables include receivables from our insurance carriers, receivables from municipalities related to the development of utilities or other infrastructure, and other miscellaneous receivables. The balance for allowance for doubtful accounts was $7.3 million and $7.6 million at October 31, 2017 and 2016, respectively, which primarily related to allowances for receivables from municipalities and an allowance for a receivable for a prior year land sale. During fiscal 2017 and 2016, we recorded $0.2 million and $0.8 million, respectively, in recoveries. In addition, there were $0.1 million and $0.2 million of write-offs in fiscal 2017 and 2016, respectively. During fiscal 2016, we recorded $1.0 million of additional reserves.

Stock Options - We account for our stock options under ASC 718-10, "Compensation - Stock Compensation – Overall," which requires the fair-value based method of accounting for stock awards granted to employees and measures and records the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Compensation cost arising from nonvested stock granted to employees and from nonemployee stock awards is based on the fair value of the awards at the grant date recognized as expense using the straight-line method over the vesting period.

Per Share Calculations - Basic earnings per share is computed by dividing net income (loss) (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, as well as common shares issuable upon exchange of our Senior Exchangeable Notes issued as part of our 6.0% Exchangeable Note Units. 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 where we have net income. The Company's restricted common stock ("nonvested shares") are considered participating securities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), ("ASU 2014-09"). ASU 2014-09 requires entities to recognize revenue that represents the transfer of promised goods or services to customers in an amount equivalent to the consideration to which the entity expects to be entitled to in exchange for those goods or services. The following steps should be applied to determine this amount: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in ASU 605, "Revenue Recognition," and most industry-specific guidance in the Accounting Standards Codification. In August 2015, the FASB issued ASU 2015-14 on this same topic, which defers for one year the effective date of ASU 2014-09, therefore making the guidance effective for the Company beginning November 1, 2018. Additionally, the FASB also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this guidance on our Consolidated Financial Statements, and have been involved in industry-specific discussions with the FASB on the treatment of certain items. However, due to the nature of our operations, we expect to identify similar performance obligations in our contracts under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our recognition of revenues to remain generally the same. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change upon its adoption.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU 2014-15 was effective for the Company as of our fiscal year ending October 31, 2017 and the adoption did not have a material impact on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which provides guidance for accounting for leases. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or on a straight line basis over the term of the lease. Accounting for lessors remains largely unchanged from current GAAP. ASU 2016-02 is effective for the Company beginning November 1, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for the Company's fiscal year beginning November 1, 2018. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). ASU 2016-16 provides improvement for the accounting of income taxes related to intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for the Company's fiscal year beginning November 1, 2018. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

In October 2016, the FASB issued ASU No. 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control" ("ASU 2016-17"). ASU 2016-17 amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is a primary beneficiary of that VIE. ASU 2016-17 is effective for the Company's fiscal year beginning November 1, 2017. Early adoption is permitted. We do not anticipate the adoption of ASU 2016-17 to have a material impact on our Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). ASU 2016-18 amends the classification and presentation of changes in restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for the Company’s fiscal year beginning November 1, 2018. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

4. Leases

We lease certain property under non-cancelable leases. Office leases are generally for terms of three to five years and generally provide renewal options. Model home leases are generally for shorter terms of approximately one to three years with renewal options on a month-to-month basis. In most cases, we expect that in the normal course of business, leases that will expire will be renewed or replaced by other leases. The future lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

Years Ending October 31,		(In Thousands)
2018	$	8,139
2019		7,882
2020		5,354
2021		2,915
2022		2,434
Thereafter		4,342
Total	$	31,066

Net rental expense for the three years ended October 31, 2017, 2016 and 2015, was $10.8 million, $12.8 million and $11.6 million, respectively. These amounts include rent expense for various month-to-month leases on model homes, furniture and equipment. These amounts also include the amortization of abandoned lease costs for leased space that we have abandoned due to our reduction in size and consolidation of certain locations. Certain leases contain renewal or purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

5. Property, Plant and Equipment

Homebuilding property, plant, and equipment consists of land, land improvements, buildings, building improvements, furniture and equipment used to conduct day-to-day business and are recorded at cost less accumulated depreciation. Included in these amounts are $1.0 million in land, $60.1 million in buildings and $26.4 million in accumulated depreciation for our current corporate headquarters, for a net book value of $34.7 million, which was held for sale at October 31, 2017 and sold on November 1, 2017 as discussed in Note 24.

Property, plant, and equipment balances as of October 31, 2017 and 2016 were as follows:

	October 31,			
(In thousands)		2017		2016
Land and land improvements	$	2,625	$	2,398
Buildings		69,279		67,860
Building improvements		9,458		8,231
Furniture		5,571		5,788
Equipment, including capitalized software		35,328		35,770
Total		122,261		120,047
Less accumulated depreciation		69,342		69,715
Total		52,919	$	50,332

6. Restricted Cash and Deposits

Restricted cash and cash equivalents on the Consolidated Balance Sheets totaled to $24.4 million and $22.9 million as of October 31, 2017 and 2016, respectively, which included cash collateralizing our letter of credit agreements and facilities as discussed in Note 8. Also included in this balance were (1) homebuilding and financial services customers’ deposits of $0.4 million and $20.0 million at October 31, 2017, respectively, and $2.2 million and $15.1 million as of October 31, 2016, respectively, which are restricted from use by us, and (2) $2.3 million at October 31, 2017 and $3.9 million at October 31, 2016 of restricted cash under the terms of our mortgage warehouse lines of credit. Financial services restricted cash is included in Financial services other assets on the Consolidated Balance Sheets.

Total Homebuilding Customers’ deposits are shown as a liability on the 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.

7. Mortgage Loans Held for Sale

Our mortgage banking subsidiary 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 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 Consolidated Statements of Operations in “Revenues: Financial services.”

At October 31, 2017 and 2016, $119.6 million and $147.4 million, respectively, of mortgages held for sale were pledged against our mortgage warehouse lines of credit (see Note 8). 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 – Accounts payable and other liabilities” balances on the Consolidated Balance Sheets. As of October 31, 2017 and 2016, we had reserves specifically for 45 and 130 identified mortgage loans, respectively, as well as reserves for an estimate for future losses on mortgages sold but not yet identified to us. In fiscal 2017, the adjustment to pre-existing provisions for losses from changes in estimates is primarily due to the settlement of a dispute for significantly less than the amount previously reserved.

The activity in our loan origination reserves in fiscal 2017 and 2016 was as follows:

(In thousands)	Year Ended October 31, 2017	2016
Loan origination reserves, beginning of period	$ 8,137	$ 8,025
Provisions for losses during the period	165	261
Adjustments to pre-existing provisions for losses from changes in estimates	(4,571)	48
Payments/settlements	(573)	(197)
Loan origination reserves, end of period	$ 3,158	$ 8,137

8. Mortgages and Notes Payable

We have nonrecourse mortgage loans for certain communities totaling $64.5 million and $82.1 million (net of debt issuance costs) at October 31, 2017 and 2016, respectively, which are secured by the related real property, including any improvements, with an aggregate book value of $157.8 million and $201.8 million, respectively. The weighted-average interest rate on these obligations was 5.3% and 4.9% at October 31, 2017 and 2016, respectively, and the mortgage loan payments on each community primarily correspond to home deliveries. We also had nonrecourse mortgage loans on our corporate headquarters totaling $13.0 million and $14.3 million at October 31, 2017 and 2016, respectively. These loans had a weighted-average interest rate of 8.9% at October 31, 2017 and 8.8% at October 31, 2016. As of October 31, 2017, these loans had installment obligations with annual principal maturities in the years ending October 31 of: $1.4 million in 2018, $1.5 million in 2019, $1.7 million in 2020, $1.8 million in 2021, $2.0 million in 2022 and $4.6 million after 2022. On November 1, 2017, the non-recourse loans on our corporate headquarters were paid in full in connection with the sale of the building.

In June 2013, K. Hovnanian Enterprises, Inc. (“K. Hovnanian”), as borrower, and we and certain of our subsidiaries, as guarantors, entered into a five-year, $75.0 million unsecured revolving credit facility (the “Credit Facility”) with Citicorp USA, Inc., as administrative agent and issuing bank, and Citibank, N.A., as a lender. The Credit Facility is available for both letters of credit and general corporate purposes. The Credit Facility does not contain any financial maintenance covenants, but does contain certain restrictive covenants that track those contained in our indenture governing the 8.0% Senior Notes due 2019, which are described in Note 9. The Credit Facility also contains certain customary events of default which would permit the administrative agent at the request of the required lenders to, among other things, declare all loans then outstanding to be immediately due and payable if such default is not cured within applicable grace periods, including the failure to make timely payments of amounts payable under the Credit Facility or other material indebtedness or the acceleration of other material indebtedness, the failure to comply with agreements and covenants or for representations or warranties to be correct in all material respects when made, specified events of bankruptcy and insolvency, and the entry of a material judgment against a loan party. Outstanding borrowings under the Credit Facility accrue interest at an annual rate equal to either, as selected by K. Hovnanian, (i) the alternate base rate plus the applicable spread determined on the date of such borrowing or (ii) an adjusted London Interbank Offered Rate (“LIBOR”) rate plus the applicable spread determined as of the date two business days prior to the first day of the interest period for such borrowing. As of October 31, 2017 there were $52.0 million of borrowings and $14.6 million of letters of credit outstanding under the Credit Facility. As of October 31, 2016, there were $52.0 million of borrowings and $17.9 million of letters of credit outstanding under the Credit Facility. As of October 31, 2017, we believe we were in compliance with the covenants under the Credit Facility.

In addition to the Credit Facility, which matures in 2018, we have certain stand–alone cash collateralized letter of credit agreements and facilities under which there were a total of $1.7 million letters of credit outstanding at both October 31, 2017 and 2016. 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 both October 31, 2017 and October 31, 2016, the amount of cash collateral in these segregated accounts was $1.7 million, which is reflected in “Restricted cash and cash equivalents” on the Consolidated Balance Sheets.

Our wholly owned mortgage banking subsidiary, K. Hovnanian American Mortgage, LLC (“K. Hovnanian Mortgage”), originates mortgage loans primarily from the sale of our homes. Such mortgage loans and related servicing rights are sold in the secondary mortgage market within a short period of time. In certain instances, we retain the servicing rights for a small amount of loans. Our secured Master Repurchase Agreement with JPMorgan Chase Bank, N.A. (“Chase Master Repurchase Agreement”), which has a maturity date of July 31, 2018, is a short-term borrowing facility that provides up to $50.0 million through maturity. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly on outstanding advances at an adjusted LIBOR rate, which was 1.24% at October 31, 2017, plus the applicable margin of 2.5% or 2.63% based upon type of loan. As of October 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Chase Master Repurchase Agreement was $41.5 million and $44.1 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 February 16, 2018. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable daily or as loans are sold to permanent investors on outstanding advances at the current LIBOR rate, plus the applicable margin ranging from 2.5% to 5.25% based on the type of loan and the number of days outstanding on the warehouse line. As of October 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Customers Master Repurchase Agreement was $40.7 million and $38.8 million, respectively.

K. Hovnanian Mortgage also has a secured Master Repurchase Agreement with Comerica Bank ("Comerica Master Repurchase Agreement"), which has a maturity date of June 21, 2018. The Comerica Master Repurchase Agreement is a short-term borrowing facility that provides up to $50.0 million through maturity. The loan is secured by the mortgages held for sale and is repaid when we sell the underlying mortgage loans to permanent investors. Interest is payable monthly at the current LIBOR rate, subject to a floor of 0.25%, plus the applicable margin of 2.5%. As of October 31, 2017 and October 31, 2016, the aggregate principal amount of all borrowings outstanding under the Comerica Master Repurchase Agreement was $32.4 million and $29.8 million, respectively.

K. Hovnanian Mortgage had a secured Master Repurchase Agreement with Credit Suisse First Boston Mortgage Capital LLC which was a short-term borrowing facility that provided up to $50.0 million through its maturity on February 21, 2017. The facility was not renewed after maturity, therefore there were no outstanding borrowings thereunder as of October 31, 2017. As of October 31, 2016, the aggregate principal amount of all borrowings outstanding was $32.9 million.

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 October 31, 2017, we believe we were in compliance with the covenants under the Master Repurchase Agreements.

9. Senior Notes and Term Loan

Senior Notes and Term Loan balances as of October 31, 2017 and October 31, 2016, were as follows:

(In thousands)		October 31, 2017(1)(2)		October 31, 2016(1)(2)
Senior Secured Term Loan, net of debt issuance costs	$	72,987	$	72,646
Senior Secured Notes:				
7.25% Senior Secured First Lien Notes due October 15, 2020	$	-	$	569,641
10.0% Senior Secured Second Lien Notes due October 15, 2018 (net of discount)		-		68,951
9.125% Senior Secured Second Lien Notes due November 15, 2020		-		143,337
9.50% Senior Secured Notes due November 15, 2020		74,350		74,140
2.0% Senior Secured Notes due November 1, 2021 (net of discount)		53,058		53,022
5.0% Senior Secured Notes due November 1, 2021 (net of discount)		133,732		131,998
10.0% Senior Secured Notes due July 15, 2022		434,543		-
10.5% Senior Secured Notes due July 15, 2024		394,953		-
Total Senior Secured Notes, net of debt issuance costs	$	1,090,636	$	1,041,089
Senior Notes:				
7.0% Senior Notes due January 15, 2019	$	131,957	$	148,800
8.0% Senior Notes due November 1, 2019		234,293		247,348
Total Senior Notes, net of debt issuance costs	$	366,250	$	396,148
11.0% Senior Amortizing Notes due December 1, 2017, net of debt issuance costs	$	2,045	$	6,152
Senior Exchangeable Notes due December 1, 2017, net of debt issuance costs	$	53,919	$	57,298

(1) "Notes payable and term loan" on our Consolidated Balance Sheets as of October 31, 2017 and October 31, 2016 consists of the total senior secured, senior, senior amortizing and senior exchangeable notes and senior secured term loan shown above, as well as accrued interest of $41.8 million and $32.4 million, respectively.

(2) As discussed in Note 1, we adopted ASU 2015-03 in November 2016. We applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the fiscal 2017 presentation. As a result, $20.2 million of debt issuance costs at October 31, 2016, were reclassified from prepaids and other assets to a reduction in our senior secured term loan, senior secured, senior, senior amortizing and senior exchangeable notes. Debt issuance costs at October 31, 2017 were $16.1 million.

As of October 31, 2017, future maturities of our borrowings (assuming no exchange of our senior exchangeable notes), were as follows (*in thousands*):

Fiscal Year Ended October 31,		
2018	$	56,002
2019		207,546
2020		235,961
2021		75,000
2022		635,000
Thereafter		400,000
Total	$	1,609,509

General

Except for K. Hovnanian, the issuer of the notes, our home mortgage subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures and certain of our title insurance subsidiaries, we and each of our subsidiaries are guarantors of the senior secured term loan and senior secured, senior, senior amortizing and senior exchangeable notes outstanding at October 31, 2017 (collectively, the “Notes Guarantors”). In addition to the Notes Guarantors, the 5.0% Senior Secured Notes due 2021 (the “5.0% 2021 Notes”), the 2.0% Senior Secured Notes due 2021 (the “2.0% 2021 Notes” and together with the 5.0% 2021 Notes, the “2021 Notes”) and the 9.50% 2020 Notes (defined below) collectively with the 2021 Notes, the “JV Holdings Secured Group Notes”) are guaranteed by K. Hovnanian JV Holdings, L.L.C. and its subsidiaries, except for certain joint ventures and joint venture holding companies (collectively, the “JV Holdings Secured Group”). Members of the JV Holdings Secured Group do not guarantee K. Hovnanian's other indebtedness.

The credit agreement governing the Term Loans (defined below) and the indentures governing the notes outstanding at October 31, 2017 do not contain any financial maintenance covenants, but do contain restrictive covenants that limit, among other things, the Company’s ability and that of certain of its subsidiaries, including K. Hovnanian, to incur additional indebtedness (other than nonrecourse indebtedness, certain permitted indebtedness and refinancing indebtedness (under the Term Loans and the 9.50% 2020 Notes, any new or refinancing indebtedness may not be scheduled to mature earlier than January 15, 2021 (so long as no member of the JV Holdings Secured Group is an obligor thereon), or February 15, 2021 (if otherwise), and under the 10.0% Senior Secured Notes due 2022 (the “10.0% 2022 Notes”) and the 10.5% Senior Secured Notes due 2024 (the “10.5% 2024 Notes”), any refinancing indebtedness of the 7.0% Senior Notes due 2019 (the “7.0% Notes”) and 8.0% Senior Notes due 2019 (the “8.0% Notes” and together with the 7.0% Notes, the “2019 Notes”) may not be scheduled to mature earlier than July 16, 2024)), pay dividends and make distributions on common and preferred stock, repurchase subordinated indebtedness (with respect to the Term Loans and certain of the senior secured and senior notes) and common and preferred stock, make other restricted payments, including investments, sell certain assets (including in certain land banking transactions), incur liens, consolidate, merge, sell or otherwise dispose of all or substantially all assets, enter into certain transactions with affiliates and make cash repayments of the 2019 Notes (with respect to the 10.0% 2022 Notes and 10.5% 2024 Notes). The credit agreement governing the Term Loans and the indentures also contain events of default which would permit the lenders/holders thereof to exercise remedies with respect to the collateral (as applicable), declare the loans made under the Term Loan Facility (defined below) (the “Term Loans”)/notes to be immediately due and payable if not cured within applicable grace periods, including the failure to make timely payments on the Term Loans/notes or other material indebtedness, cross default to other material indebtedness, the failure to comply with agreements and covenants and specified events of bankruptcy and insolvency, with respect to the Term Loans, material inaccuracy of representations and warranties and a change of control, and, with respect to the Term Loans and senior secured notes, the failure of the documents granting security for the Term Loans and senior secured notes to be in full force and effect, and the failure of the liens on any material portion of the collateral securing the Term Loans and senior secured notes to be valid and perfected. As of October 31, 2017, we believe we were in compliance with the covenants of the Term Loan Facility and the indentures governing our outstanding notes.

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

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

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

Fiscal 2017

During the year ended October 31, 2017, we repurchased in open market transactions $17.5 million aggregate principal amount of 7.0% Notes, $14.0 million aggregate principal amount of 8.0% Notes and 6,925 senior exchangeable note units representing $6.9 million stated amount of senior exchangeable note units. The aggregate purchase price for these transactions was $30.8 million, plus accrued and unpaid interest. These transactions resulted in a gain on extinguishment of debt of $7.8 million, which is included as “Loss on Extinguishment of Debt” on the Consolidated Statement of Operations. This gain was offset by $0.4 million of costs associated with the 9.50% Senior Secured Notes due 2020 (the “9.50% 2020 Notes”) issued during the fourth quarter of fiscal 2016 and the debt transactions during the third quarter of fiscal 2017 discussed below.

On July 27, 2017, K. Hovnanian issued $440.0 million aggregate principal amount of 10.0% 2022 Notes and $400.0 million aggregate principal amount of 10.5% 2024 Notes. The net proceeds from these issuances together with available cash were used to (i) purchase $575,912,000 principal amount of 7.25% Senior Secured First Lien Notes due 2020 (the “7.25% First Lien Notes”), $87,321,000 principal amount of 9.125% Senior Secured Second Lien Notes due 2020 (the “9.125% Second Lien Notes” and, together with the 7.25% First Lien Notes, the “ 2020 Secured Notes”) and all $75,000,000 principal amount of 10.0% Senior Secured Second Lien Notes due 2018 (the “10.0% Second Lien Notes”) that were tendered and accepted for purchase pursuant to K. Hovnanian’s offers to purchase for cash (the “Tender Offers”) any and all of the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes and to pay related tender premiums and accrued and unpaid interest thereon to the date of purchase and (ii) satisfy and discharge all obligations (and cause the release of the liens on the collateral securing such indebtedness) under the indentures under which the 7.25% First Lien Notes, the 9.125% Second Lien Notes and the 10.0% Second Lien Notes were issued and in connection therewith to call for redemption on October 15, 2017 and on November 15, 2017 all remaining $1,088,000 principal amount of 7.25% First Lien Notes and all remaining $57,679,000 principal amount of 9.125% Second Lien Notes, respectively, that were not validly tendered and purchased in the applicable Tender Offer in accordance with the redemption provisions of the indentures governing the 2020 Secured Notes. These transactions resulted in a loss on extinguishment of debt of $42.3 million, which is included as “Loss on Extinguishment of Debt” on the Consolidated Statement of Operations.

The 10.0% 2022 Notes have a maturity of July 15, 2022 and bear interest at a rate of 10.0% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.0% 2022 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2019 at 100.0% of their principal amount plus an applicable “Make-Whole Amount.” K. Hovnanian may also redeem some or all of the 10.0% 2022 Notes at 105.0% of principal commencing July 15, 2019, at 102.50% of principal commencing July 15, 2020 and at 100.0% of principal commencing July 15, 2021. In addition, K. Hovnanian may also redeem up to 35.0% of the aggregate principal amount of the 10.0% 2022 Notes prior to July 15, 2019 with the net cash proceeds from certain equity offerings at 110.0% of principal.

The 10.5% 2024 Notes have a maturity of July 15, 2024 and bear interest at a rate of 10.5% per annum payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2018, to holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding such interest payment dates. The 10.5% 2024 Notes are redeemable in whole or in part at our option at any time prior to July 15, 2020 at 100.0% of their principal amount plus an applicable “Make-Whole Amount.” K. Hovnanian may also redeem some or all of the 10.5% 2024 Notes at 105.25% of principal commencing July 15, 2020, at 102.625% of principal commencing July 15, 2021 and at 100.0% of principal commencing July 15, 2022. In addition, K. Hovnanian may also redeem up to 35.0% of the aggregate principal amount of the 10.5% 2024 Notes prior to July 15, 2020 with the net cash proceeds from certain equity offerings at 110.50% of principal.

All of K. Hovnanian’s obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes are guaranteed by the Notes Guarantors. In addition to pledges of the equity interests in K. Hovnanian and the subsidiary Notes Guarantors which secure the 10.0% 2022 Notes and the 10.5% 2024 Notes, the 10.0% 2022 Notes and the 10.5% 2024 Notes and the guarantees thereof will also be secured in accordance with the terms of the indenture and security documents governing such Notes by pari passu liens on substantially all of the assets owned by K. Hovnanian and the Notes Guarantors, in each case subject to permitted liens and certain exceptions (the collateral securing the 10.0% 2022 Notes and the 10.5% 2024 Notes will be the same as that securing the Term Loans). The liens securing the 10.0% 2022 Notes and the 10.5% 2024 Notes rank junior to the liens securing the Term Loans and any other future secured obligations that are senior in priority with respect to the assets securing the 10.0% 2022 Notes and the 10.5% 2024 Notes.

In connection with the issuance of the 10.0% 2022 Notes and the 10.5% 2024 Notes, K. Hovnanian and the Notes Guarantors entered into security and pledge agreements pursuant to which K. Hovnanian and the Notes Guarantors pledged substantially all of their assets to secure their obligations under the 10.0% 2022 Notes and the 10.5% 2024 Notes, subject to permitted liens and certain exceptions as set forth in such agreements. K. Hovnanian and the Notes Guarantors also entered into applicable intercreditor and collateral agency agreements which set forth agreements with respect to the relative priority of their various secured obligations.

The indenture governing the 10.0% 2022 Notes and the 10.5% 2024 Notes was entered into on July 27, 2017 among K. Hovnanian, the Notes Guarantors and Wilmington Trust, National Association, as trustee and collateral agent. The covenants and events of default in the indenture are described above under "—General".

Fiscal 2016

On January 15, 2016, $172.7 million principal amount of our 6.25% Senior Notes due 2016 matured and was paid and on May 15, 2016, $86.5 million principal amount of our 7.5% Senior Notes due 2016 matured and was paid. On October 11, 2016 (the next business day following the redemption date of October 8, 2016), all $121.0 million principal amount of our 8.625% Senior Notes due 2017 were redeemed for a redemption price of approximately $126.1 million, which included accrued and unpaid interest.

On September 8, 2016, the Company and K. Hovnanian completed certain financing transactions with certain investment funds managed by affiliates of H/2 Capital Partners LLC (collectively, the "Investor") pursuant to which the Investor (1) funded a $75.0 million senior secured term loan facility (the "Term Loan Facility"), which was borrowed by K. Hovnanian and guaranteed by the Notes Guarantors, (2) purchased $75.0 million aggregate principal amount of 10.0% Second Lien Notes issued by K. Hovnanian and guaranteed by the Notes Guarantors (all such notes were subsequently purchased in the Tender Offers as described above under "-Fiscal 2017"), and (3) exchanged $75.0 million aggregate principal amount of 9.125% Second Lien Notes held by such Investor for $75.0 million of newly issued 9.50% 2020 Notes issued by K. Hovnanian and guaranteed by the Notes Guarantors and the members of the JV Holdings Secured Group, for aggregate cash proceeds of approximately $146.3 million, before expenses.

The Term Loan Facility has a maturity of August 1, 2019 (provided that if any of K. Hovnanian's 7.0% Senior Notes due 2019 (the "7.0% Notes") remain outstanding on October 15, 2018, the maturity date of the Term Loan Facility will be October 15, 2018, or if any refinancing indebtedness with respect to the 7.0% Notes has a maturity date prior to January 15, 2021, the maturity date of the Term Loan Facility will be October 15, 2018) and bears interest at a rate equal to LIBOR plus an applicable margin of 7.0% or, at K. Hovnanian's option, a base rate plus an applicable margin of 6.0%, payable monthly. At any time from and after September 8, 2018, K. Hovnanian may voluntarily repay outstanding Term Loans, provided that voluntary prepayments of Eurodollar loans made on a date other than the last day of an interest period applicable thereto are subject to customary breakage costs and voluntary prepayments made prior to February 1, 2019 are subject to a premium equal to 1.0% of the aggregate principal amount of the Term Loans so prepaid (any prepayment of the Term Loans made on or after February 1, 2019 are without any prepayment premium).

The 9.50% 2020 Notes have a maturity of November 15, 2020, and bear interest at a rate of 9.50% 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 9.50% 2020 Notes are redeemable in whole or in part at our option at any time prior to November 15, 2018 at 100% of their principal amount plus an applicable "Make-Whole Amount." At any time and from time to time on or after November 15, 2018, K. Hovnanian may also redeem some or all of the 9.50% 2020 Notes at a redemption price equal to 100% of their principal amount. In addition, we may also redeem up to 35% of the aggregate principal amount of the 9.50% 2020 Notes prior to November 15, 2018 with the net cash proceeds from certain equity offerings at 109.50% of principal.

All of K. Hovnanian's obligations under the Term Loan Facility are guaranteed by the Notes Guarantors. The Term Loan Facility and the guarantees thereof are secured, subject to permitted liens and other exceptions, on a first lien priority basis relative to the 10.0% 2022 Notes and the 10.5% 2024 Notes (and on a first lien super priority basis relative to future first lien indebtedness). The 9.50% 2020 Notes are guaranteed by the Notes Guarantors and the members of the JV Holdings Secured Group. The Exchange Notes are secured on a pari passu first lien basis with K. Hovnanian's 2021 Notes, by substantially all of the assets of the members of the JV Holdings Secured Group, subject to permitted liens and certain exceptions.

At October 31, 2017, the aggregate book value of the real property that constituted collateral securing the Term Loans was $419.9 million, which does not include the impact of inventory investments, home deliveries or impairments thereafter and which may differ from the value if it were appraised. Cash and cash equivalents collateral that secured the Term Loans was $381.1 million as of October 31, 2017, which included $1.7 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. In addition, collateral securing the Term Loans includes equity interest in K Hovnanian and the subsidiary Notes Guarantors.

Other Secured Obligations

On November 1, 2011, K. Hovnanian issued $141.8 million aggregate principal amount of 5.0% 2021 Notes and $53.2 million aggregate principal amount of 2.0% 2021 Notes. The 5.0% 2021 Notes and the 2.0% 2021 Notes were issued as separate series under an indenture, but have substantially the same terms other than with respect to interest rate and related redemption provisions, and vote together as a single class. The 2021 Notes are redeemable in whole or in part at our option at any time, at 100.0% of the principal amount plus the greater of 1% of the principal amount and an applicable "Make-Whole Amount."

The guarantees of the JV Holdings Secured Group with respect to the 2021 Notes and the 9.50% 2020 Notes are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the assets of the members of the JV Holdings Secured Group. As of October 31, 2017, the collateral securing the guarantees included (1) $84.3 million of cash and cash equivalents (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) $128.9 million aggregate book value of real property of the JV Holdings Secured Group, 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 owned by guarantors that are members of the JV Holdings Secured Group. Members of the JV Holdings Secured Group also own equity in joint ventures, either directly or indirectly through ownership of joint venture holding companies, with a book value of $88.2 million as of October 31, 2017; this equity is not pledged to secure, and is not collateral for, the 2021 Notes. Members of the JV Holdings Secured Group are "unrestricted subsidiaries" under K. Hovnanian's other senior secured notes and senior notes and the Term Loan Facility, and thus have not guaranteed such indebtedness.

Senior Notes

K. Hovnanian's 7.0% Notes are redeemable in whole or in part at our option at any time at 101.75% of principal commencing January 15, 2017 and 100.0% of principal commencing January 15, 2018.

K. Hovnanian's 8.0% Notes are redeemable in whole or in part at K. Hovnanian's option at any time prior to August 1, 2019 at a redemption price equal to 100.0% of their principal amount plus an applicable "Make-Whole Amount." At any time and from time to time on or after August 1, 2019, K. Hovnanian may also redeem some or all of the notes at a redemption price equal to 100.0% of their principal amount.

Units

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

Each Senior Exchangeable Note had an initial principal amount of $768.51 (which will accrete to $1,000 over the term of the Senior Exchangeable Note at an annual rate of 5.17% from the date of issuance, calculated on a semi-annual bond equivalent yield basis). Holders may exchange their Senior Exchangeable Notes at their option at any time prior to 5:00 p.m., New York City time, on the business day immediately preceding December 1, 2017. Each Senior Exchangeable Note will be exchangeable for shares of Class A Common Stock at an initial exchange rate of 185.5288 shares of Class A Common Stock per Senior Exchangeable Note (equivalent to an initial exchange price, based on $1,000 principal amount at maturity, of approximately $5.39 per share of Class A Common Stock). The exchange rate will be subject to adjustment in certain events. If certain corporate events occur prior to the maturity date, the Company will increase the applicable exchange rate for any holder who elects to exchange its Senior Exchangeable Notes in connection with such corporate event. In addition, holders of Senior Exchangeable Notes will also have the right to require K. Hovnanian to repurchase such holders' Senior Exchangeable Notes upon the occurrence of certain of these corporate events. As of October 31, 2017, 18,305 Senior Exchangeable Notes have been converted into 3.4 million shares of our Class A Common Stock, all of which were converted during the first quarter of fiscal 2013. In September 2016, K. Hovnanian purchased a total of 20,823 Units for an aggregate purchase price of $20.6 million, in November 2016, K. Hovnanian purchased a total of 6,925 Units for an aggregate purchase price of $6.9 million and during the year ended October 31, 2017, K. Hovnanian purchased certain Units as discussed above under "—Fiscal 2017".

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

10. Operating and Reporting Segments

Our operating segments are components of our 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 our communities qualifies as an operating segment, and therefore, it is impractical to provide segment disclosures for this many segments. As such, we have aggregated the homebuilding operating segments into six reportable segments.

Our 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. Our reportable segments consist of the following six homebuilding segments and a financial services segment noted below. During fiscal 2016, we decided to exit the Minneapolis, Minnesota and Raleigh, North Carolina markets and in the third quarter of fiscal 2016, we completed the sale of our portfolios in those markets.

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 Company’s 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 Company’s Financial Services segment include mortgage banking and title services provided to the homebuilding operations’ customers. We 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 Red Bank, 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 for income taxes (“Income (loss) before income taxes”). Income (loss) before income taxes for the Homebuilding segments consist of revenues generated from the sales of homes and land, income (loss) from unconsolidated entities, management fees and other income, less the cost of homes and land sold, selling, general and administrative expenses and interest expense. Income 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 the Company's segment operations was as follows:

(In thousands)	Year Ended October 31, 2017	2016	2015
Revenues:			
Northeast	$ 209,509	$ 278,028	$ 189,497
Mid-Atlantic	464,126	458,579	399,500
Midwest	199,770	311,322	311,449
Southeast	260,402	260,584	207,662
Southwest	827,503	1,028,529	823,853
West	430,546	342,447	159,969
Total homebuilding	2,391,856	2,679,489	2,091,930
Financial services	58,743	72,617	56,665
Corporate and unallocated	1,066	141	(115)
Total revenues	$ 2,451,665	$ 2,752,247	$ 2,148,480
(Loss) income before income taxes:			
Northeast	$ 2,300	$ (3,869)	$ (7,742)
Mid-Atlantic	17,191	17,476	21,431
Midwest	(1,151)	(11,416)	14,012
Southeast	(6,199)	(17,791)	(6,330)
Southwest	71,540	84,424	67,437
West	19,636	3,445	(17,145)
Total homebuilding	103,317	72,269	71,663
Financial services	26,397	35,473	24,693
Corporate and unallocated (1)	(174,958)	(105,306)	(118,121)
(Loss) income before income taxes	$ (45,244)	$ 2,436	$ (21,765)

(1) Corporate and unallocated for the year ended October 31, 2017 included corporate general and administrative costs of $59.4 million, interest expense of $69.1 million (a component of Other interest on our Consolidated Statements of Operations), loss on extinguishment of debt of $34.9 million, $12.5 million adjustment for construction defect reserves (discussed in Note 16) and $0.9 million of other income and expenses primarily related to interest income, rental income, bond amortization and stock compensation. Corporate and unallocated for the year ended October 31, 2016 included corporate general and administrative costs of $60.1 million, interest expense of $50.4 million (a component of Other interest on our Consolidated Statements of Operations), loss on extinguishment of debt of $3.2 million, $(9.2) million adjustment for construction defect reserves (discussed in Note 16) and $0.8 million of other income and expenses primarily related to bond amortization, stock compensation and rental income. Corporate and unallocated for the year ended October 31, 2015 included corporate general and administrative costs of $62.5 million, interest expense of $64.5 million (a component of Other interest on our Consolidated Statements of Operations), $(14.4) million adjustment for construction defect reserves (discussed in Note 16) and $5.5 million of other income and expenses primarily related to bond amortization, stock compensation and rental income.

(In thousands)	October 31, 2017	2016
Assets:		
Northeast	$ 180,545	$ 219,363
Mid-Atlantic	224,398	292,899
Midwest	84,960	111,596
Southeast	231,644	226,124
Southwest	294,337	341,472
West	175,347	269,400
Total homebuilding	1,191,231	1,460,854
Financial services	162,113	197,230
Corporate and unallocated (1)	547,554	696,872
Total assets	$ 1,900,898	$ 2,354,956

(1) Includes $283.6 million of income taxes receivable - including deferred tax assets in fiscal 2016.

(In thousands)	October 31, 2017	2016
Investments in and advances to unconsolidated joint ventures:		
Northeast	$ 36,411	$ 28,115
Mid-Atlantic	20,873	22,407
Midwest	4,268	5,516
Southeast	36,320	22,876
Southwest	11,832	3,625
West	4,451	17,547
Total homebuilding	114,155	100,086
Corporate and unallocated	935	416
Total investments in and advances to unconsolidated joint ventures	$ 115,090	$ 100,502

(In thousands)	Year Ended October 31, 2017	2016	2015
Homebuilding interest expense:			
Northeast	$ 20,308	$ 19,417	$ 14,150
Mid-Atlantic	23,886	23,662	16,268
Midwest	7,799	12,275	10,405
Southeast	13,646	16,770	9,552
Southwest	25,278	37,552	26,147
West	25,799	23,295	10,381
Total homebuilding	116,716	132,971	86,903
Corporate and unallocated	69,124	50,387	64,545
Financial services interest expense (1)	(630)	(763)	(1,066)
Total interest expense, net	$ 185,210	$ 182,595	$ 150,382

(1) *Financial services interest expenses are included in the Financial services lines on the Consolidated Statements of Operations in the respective revenues and expenses sections.*

(In thousands)	Year Ended October 31, 2017	2016	2015
Depreciation:			
Northeast	$ 71	$ 62	$ 136
Mid-Atlantic	50	56	28
Midwest	858	497	361
Southeast	83	82	40
Southwest	78	104	89
West	94	92	79
Total homebuilding	1,234	893	733
Financial services	16	41	47
Corporate and unallocated	2,999	2,631	2,608
Total depreciation	$ 4,249	$ 3,565	$ 3,388

(In thousands)	Year Ended October 31, 2017	2016	2015
Net additions to operating properties and equipment:			
Northeast	$ 442	$ 78	$ -
Mid-Atlantic	71	208	58
Midwest	3,773	3,180	637
Southeast	28	233	227
Southwest	18	199	173
West	80	91	88
Total homebuilding	4,412	3,989	1,183
Financial services	-	30	-
Corporate and unallocated	2,066	3,988	871
Total net additions to operating properties and equipment	$ 6,478	$ 8,007	$ 2,054

(In thousands)	Year Ended October 31, 2017	2016	2015
Equity in (losses) earnings from unconsolidated joint ventures:			
Northeast	$ (4,376)	$ (2,639)	$ 856
Mid-Atlantic	1,180	(27)	4,502
Midwest	(1,424)	(1,304)	(105)
Southeast	837	(1,774)	1,213
Southwest	(306)	(64)	-
West	(2,958)	1,462	(2,297)
Total equity in (losses) earnings from unconsolidated joint ventures	$ (7,047)	$ (4,346)	$ 4,169

11. Income Taxes

Income taxes payable (receivable), including deferred benefits, consists of the following:

	Year Ended October 31,	
(In thousands)	2017	2016
State income taxes:		
Current	$ 2,227	$ 1,945
Deferred	-	(9,890)
Federal income taxes:		
Current	-	-
Deferred	-	(275,688)
Total	$ 2,227	$ (283,633)

The provision for income taxes is composed of the following charges (benefits):

	Year Ended October 31,		
(In thousands)	2017	2016	2015
Current income tax expense (benefit):			
Federal (1)	$ -	$ (2,796)	$ (1,497)
State (2)	1,371	1,200	523
Total current income tax expense (benefit):	1,371	(1,596)	(974)
Federal	275,688	5,594	(8,461)
State	9,890	1,257	3,770
Total deferred income tax expense (benefit):	285,578	6,851	(4,691)
Total	$ 286,949	$ 5,255	$ (5,665)

(1) *The current federal income tax did not include the use of federal net operating losses for the year ended October 31, 2017. The current federal income tax benefit is net of the use of federal net operating losses totaling* $4.4 *million and* $3.7 *million for the years ended* October 31, 2016 *and* 2015, *respectively.*

(2) *The current state income tax expense (benefit) is net of the use of state net operating losses totaling* $18.2 *million,* $16.4 *million and* $12.3 *million for the years ended* October 31, 2017, 2016 *and* 2015, *respectively.*

The total income tax expense of $286.9 million for the period ended October 31, 2017 was primarily due to increasing our valuation allowance to fully reserve against our deferred tax assets ("DTAs"). In addition, the same periods were also impacted by state tax expense from income generated in some states, which was not offset by tax benefits in other states that had losses for which we fully reserve the net operating losses. The total income tax expense of $5.3 million for the period ended October 31, 2016 was primarily due to current state taxes and permanent differences related to stock compensation, partially offset by a federal tax benefit related to receiving a specified liability loss refund of taxes paid in fiscal year 2002. The total income tax benefit of $5.7 million recognized for the year ended October 31, 2015 was primarily due to deferred taxes resulting from the loss before income taxes plus the reversal of state tax reserves for uncertain state tax positions, partially offset by state tax expenses.

The permanent difference in fiscal 2016 related to stock compensation arose because for tax purposes, the amount of stock compensation the Company expenses is the amount reported on an associate's W-2 when the equity award is exercised or received, whereas for accounting purposes, the amount the Company expenses is based on the fair value of the equity award on the date of grant. Therefore, the permanent difference due to stock compensation was because of this different treatment, which does not arise until the time the equity award is exercised or received by the associate and therefore reported on an associate's W-2. The amount was significant because of the issuance in fiscal 2016 of stock to Company executives in respect of awards that had been granted over ten years ago at significantly higher stock prices and thus significantly higher fair values as compared to the time of issuance to the executive. As a result, at the time the stock awards were issued in fiscal 2016, a significant permanent difference between book and tax was created impacting the effective tax rate for 2016.

The federal specified liability loss refund of taxes in fiscal year 2002 was due to an amendment of a prior year's tax return. The Internal Revenue Service issued the refund following the Company's application therefor during the year ended October 31, 2016. The refund related to the portion of the fiscal year 2012 NOL attributable to a specified liability loss which, pursuant to Internal Revenue Code Section 172(b)(1)(C), can be carried back ten years to October 31, 2002. A specified liability is any amount allowable as a deduction attributable to a product liability or expense incurred in investigation or settlement of claims because of a product liability. The refund was received in February 2016 and therefore the tax credit was recorded in the second quarter of fiscal 2016.

Our federal net operating losses of $1.6 billion expire between 2028 and 2037. Our state NOLs of $2.3 billion expire between 2018 and 2037. Of the total state amount, $247.1 million will expire between 2018 through 2022; $463.1 million will expire between 2023 through 2027; $1.2 billion will expire between 2028 through 2032; and $348.6 million will expire between 2033 through 2037.

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

As of October 31, 2017, we considered all available positive and negative evidence to determine whether, based on the weight of that evidence, an additional valuation allowance for our DTAs was necessary in accordance with ASC 740. Listed below, in order of the weighting of each factor, is the available positive and negative evidence that we considered in determining that it is more likely than not that all of our DTAs will not be realized. In analyzing these factors, overall the negative evidence, both objective and subjective, outweighed the positive evidence. Based on this analysis, we increased the valuation allowance against our DTAs such that we have a full valuation allowance and determined that the current valuation allowance for deferred taxes of $918.2 million as of October 31, 2017 is appropriate.

1. Fiscal 2017 financial results, especially the $50.2 million pre-tax loss in the third quarter of 2017 primarily from the $42.3 million loss on extinguishment of debt during the quarter, that put us in a cumulative three-year loss position as of July 31, 2017, and we are still in a cumulative three-year loss position as of October 31, 2017. Per ASC 740, cumulative losses are one of the most objectively verifiable forms of negative evidence. (Negative Objective Evidence)
2. In the third quarter of fiscal 2017, we completed a debt refinancing/restructuring transaction which, by extending our debt maturities, will enable us to allocate cash to invest in new communities and grow our community count to get back to sustained profitability. (Positive Objective Evidence)
3. Recent financial results of $12.3 pre-tax income in the fourth quarter of 2017. (Positive Objective Evidence)
4. The refinancing discussed above will increase our interest incurred in fiscal 2018 and future years (based on our longer term modeling) by $23.4 million per year. (Negative Objective Evidence)
5. We incurred pre-tax losses during the housing market decline and the slower than expected housing market recovery. (Negative Objective Evidence)
6. We exited two geographic markets and are winding down operations in two other markets that have historically had losses. By exiting these underperforming markets, the Company will be able to redeploy capital to better performing markets, which over time should improve our profitability. (Positive Subjective Evidence)
7. Evidence of a sustained recovery in the housing markets in which we operate, supported by economic data showing housing starts, homebuilding volume and prices all increasing and forecasted to continue to increase. (Positive Subjective Evidence)
8. The historical cyclicality of the U.S. housing market, a more restrictive mortgage lending environment compared to before the housing downturn, the uncertainty of the overall US economy and government policies and consumer confidence, all or any of which could continue to hamper a faster, stronger recovery of the housing market. (Negative Subjective Evidence)

The deferred tax assets and liabilities have been recognized in the Consolidated Balance Sheets as follows:

	Year Ended October 31,	
(In thousands)	**2017**	**2016**
Deferred tax assets:		
Depreciation	$ 246	$ 1,729
Inventory impairment loss	122,584	174,489
Uniform capitalization of overhead	5,766	6,802
Warranty and legal reserves	8,763	13,238
Deferred income	2,341	5,061
Acquisition intangibles	4,420	8,829
Restricted stock bonus	4,202	4,526
Rent on abandoned space	101	1,006
Stock options	6,539	7,073
Provision for losses	38,831	34,505
Joint venture loss	12,028	4,171
Federal net operating losses	549,862	520,117
State net operating losses	172,307	170,014
Other	20,678	22,862
Total deferred tax assets	948,668	974,422
Deferred tax liabilities:		
Debt repurchase income	30,465	60,901
Total deferred tax liabilities	30,465	60,901
Valuation allowance	(918,203)	(627,943)
Net deferred income taxes	$ -	$ 285,578

The effective tax rate varied from the statutory federal income tax rate. The effective tax rate is affected by a number of factors, the most significant of which has been the valuation allowance related to our deferred tax assets. Due to the effects of these factors, our effective tax rates for 2017, 2016 and 2015 are not correlated to the amount of our income or loss before income taxes. The sources of these factors were as follows:

	Year Ended October 31,		
	2017	**2016**	**2015**
Computed "expected" tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	1.0	65.4	(15.6)
Permanent differences, net	(2.4)	222.2	(0.4)
Deferred tax asset valuation allowance impact	(667.8)	-	-
Tax contingencies	-	0.3	3.2
Adjustments to prior years' tax accruals(1)	-	(107.2)	3.8
Effective tax rate	(634.2)%	215.7%	26.0%

(1) *The adjustments to prior years' tax accruals includes the impact of a federal specified liability loss refund of taxes paid in fiscal year* 2002 *of (*114.8%*) for the year ended* October 31, 2016.

ASC 740-10 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC 740-10 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We recognize tax liabilities in accordance with ASC 740-10 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a liability that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheet.

The following is a tabular reconciliation of the total amount of unrecognized tax benefits for the year (in millions) excluding interest and penalties:

	Year Ended October 31,	
	2017	2016
Unrecognized tax benefit—November 1,	$ 1.1	$ 1.1
Gross increases—tax positions in current period	0.2	0.2
Decrease related to tax positions taken during a prior period	-	-
Lapse of statute of limitations	(0.2)	(0.2)
Unrecognized tax benefit—October 31,	$ 1.1	$ 1.1

Related to the unrecognized tax benefits noted above, as of October 31, 2017 and 2016, we have recognized a liability for interest and penalties of $0.3 million and $0.3 million, respectively. For the years ended October 31, 2017, 2016 and 2015, we recognized $(45) thousand, $(2) thousand and $(91) thousand respectively, of interest and penalties in income tax benefit.

It is likely that, within the next year, the amount of the Company's unrecognized tax benefits will decrease by $0.2 million, excluding penalties and interest. This reduction is expected primarily due to the expiration of the statutes of limitation. The portion of unrecognized tax benefits that, if recognized, would affect the Company’s effective tax rate (excluding any related impact to the valuation allowance) is $1.1 million as of both October 31, 2017 and 2016. The recognition of unrecognized tax benefits could have an impact on the Company’s deferred tax assets and the valuation allowance.

The consolidated federal tax returns have been audited through October 31, 2016 and these years are closed. We are also subject to various income tax examinations in the states in which we do business. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit, appeal, and in some cases, litigation process. As each audit is concluded, adjustments, if any, are appropriately recorded in the period determined. To provide for potential exposures, tax reserves are recorded, if applicable, based on reasonable estimates of potential audit results. However, if the reserves are insufficient upon completion of an audit, there could be an adverse impact on our financial position and results of operations. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2013-2016.

12. Reduction of Inventory to Fair Value

We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the years ended October 31, 2017, 2016 and 2015, our discount rates used for the impairments recorded ranged from 18.3% to 19.8%, 16.8% to 18.8% and 17.3% to 19.8%, respectively. 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 years ended October 31, 2017 and 2016, we evaluated inventories of all 372 and 413 communities under development and held for future development or sale, respectively, for impairment indicators through preparation and review of detailed budgets or other market indicators of impairment. We performed detailed impairment calculations during the years ended October 31, 2017 and 2016 for 12 and 30 of those communities (i.e., those with a projected operating loss or other impairment indicators), respectively, with an aggregate carrying value of $98.0 million and $125.4 million, respectively. As impairment indicators are assessed on a quarterly basis, some of the communities evaluated during the years ended October 31, 2017 and 2016 were evaluated in more than one quarterly period. Of those communities tested for impairment during the years ended October 31, 2017 and 2016, two and nine communities with an aggregate carrying value of $45.0 million and $43.5 million, respectively, had undiscounted future cash flows that exceeded the carrying amount by less than 20%. As a result of our impairment analysis, we recorded aggregate impairment losses, which are included in the Consolidated Statement of Operations on the line entitled “Homebuilding: Inventory impairment loss and land option write-offs” and deducted from inventory, of $15.1 million, $24.5 million and $7.3 million for the years ended October 31, 2017, 2016 and 2015, respectively. Impairments decreased for the year ended October 31, 2017 compared to the prior year as the impairments recorded for the year ended October 31, 2016 were mainly for land held for sale in the Midwest and Northeast. The pre-impairment value represents the carrying value, net of prior period impairments, if any, at the time of recording the impairment.

The following table represents impairments by segment for fiscal 2017, 2016 and 2015:

(Dollars in millions)	**Year Ended October 31, 2017**		
	Number of Communities	**Dollar Amount of Impairment**	**Pre-Impairment Value (1)**
Northeast	2	$ 3.3	$ 22.2
Mid-Atlantic	1	1.5	8.5
Midwest	2	0.2	0.8
Southeast	3	8.1	18.3
Southwest	-	-	-
West	2	2.0	3.1
Total	10	$ 15.1	$ 52.9

(Dollars in millions)	Year Ended October 31, 2016				
	Number of Communities		Dollar Amount of Impairment		Pre-Impairment Value (1)
Northeast	5	$	9.5	$	33.8
Mid-Atlantic	-		-		-
Midwest	12		13.5		43.7
Southeast	3		1.5		10.9
Southwest	-		-		-
West	-		-		-
Total	20	$	24.5	$	88.4

(Dollars in millions)	Year Ended October 31, 2015				
	Number of Communities		Dollar Amount of Impairment		Pre-Impairment Value (1)
Northeast	2	$	0.8	$	0.9
Mid-Atlantic	1		0.9		2.5
Midwest	4		1.3		8.4
Southeast	4		2.5		10.1
Southwest	-		-		-
West	1		1.8		7.5
Total	12	$	7.3	$	29.4

(1) *Represents carrying value, net of prior period impairments, if any, at the time of recording the applicable period's impairments.*

The Consolidated Statements 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. The total aggregate write-offs related to these items were $2.7 million, $8.9 million and $4.7 million for the years ended October 31, 2017, 2016 and 2015, 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 following table represents write-offs of such costs by segment for fiscal 2017, 2016 and 2015:

	Year Ended October 31,					
(In millions)		2017		2016		2015
Northeast	$	0.5	$	1.6	$	0.9
Mid-Atlantic		0.6		0.8		0.2
Midwest		0.3		1.3		0.6
Southeast		0.8		1.8		1.3
Southwest		0.4		3.2		1.4
West		0.1		0.2		0.3
Total	$	2.7	$	8.9	$	4.7

13. Per Share Calculations

Basic earnings per share is computed by dividing net income (loss) (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, as well as common shares issuable upon exchange of our Senior Exchangeable Notes issued as part of our Units. 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.

Incremental shares attributed to nonvested stock and outstanding options to purchase common stock of 2.7 million and 0.2 million for the years ended October 31, 2017 and 2015 respectively, were excluded from the computation of diluted earnings per share because we had a net loss for the period, and any incremental shares would not be dilutive. Also, for the years ended October 31, 2017, 2016 and 2015, 10.0 million, 14.6 million and 15.2 million shares, respectively, of common stock issuable upon the exchange of our senior exchangeable notes (which were issued in fiscal 2012) were excluded from the computation of diluted earnings per share because we had a net loss for the period.

In addition, 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 4.6 million, 7.3 million and 3.0 million for the years ended October 31, 2017, 2016 and 2015, respectively, because to do so would have been anti-dilutive for the periods presented.

14. Capital Stock

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”) 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 adoption, 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 at any time, prior to the Rights being triggered. The Rights Plan will continue in effect until August 15, 2018, unless it expires earlier in accordance with its terms. The approval of the Board of Directors’ decision to adopt the Rights Plan was submitted to a stockholder vote and approved at a special meeting of stockholders held on December 5, 2008. Also at the Special Meeting on December 5, 2008, our stockholders 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 the amended 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. 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 4 million shares of Class A Common Stock. There were no shares purchased during the year ended October 31, 2017. As of October 31, 2017, the maximum number of shares of Class A Common Stock that may yet be purchased under this program is 0.5 million.

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 Global Market under the symbol “HOVNP.” In fiscal 2017, 2016 and 2015, we did not pay any dividends on the Series A Preferred Stock due to covenant restrictions in our debt instruments. We anticipate that we will continue to be restricted from paying dividends, which are not cumulative, for the foreseeable future.

Retirement Plan - We have established a tax-qualified, defined contribution savings and investment retirement plan (a 401(k) plan). All associates are eligible to participate in the retirement plan, and employer contributions are based on a percentage of associate contributions and our operating results. Plan costs charged to operations were $6.8 million, $6.6 million and $6.2 million for the years ended October 31, 2017, 2016 and 2015, respectively.

15. Stock Plans

The fair value of option awards is established at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the years ended October 31, 2017, 2016 and 2015: risk free interest rate of 2.05%, 1.38% and 2.03%, respectively; dividend yield of zero; historical volatility factor of the expected market price of our common stock of 0.53, 0.61 and 0.58, respectively; a weighted-average expected life of the option of 7.64 years, 7.36 years and 7.22 years, respectively; and an estimated forfeiture rate of 9.92%, 10.90% and 8.84%, respectively.

For the years ended October 31, 2017, 2016 and 2015, total stock-based compensation expense was $0.6 million, $2.9 million ($2.3 million post tax) and $8.8 million ($6.5 million post tax), respectively. Included in this total stock-based compensation expense was expense from stock options of $0.5 million for year ended October 31, 2017, income for stock options of $1.5 million for the year ended October 31, 2016, and expense of $2.2 million for the year ended October 31, 2015. The fiscal 2017 expense includes income of $2.0 million from previously recognized expense of certain performance based restricted stock grants for which the performance metrics are no longer expected to be satisfied. This income was offset by the vesting of restricted stock of $2.1 million during the year ended October 31, 2017. The fiscal 2016 expense includes income of $2.1 million from previously recognized expense of certain performance based stock option grants for which the performance metrics are no longer expected to be satisfied. This income was slightly offset by the vesting of stock options of $0.5 million~~,~~ during the year ended October 31, 2016.

We have a stock incentive plan for certain officers and key employees and directors. Options are granted by a committee appointed by the Board of Directors or its delegate in accordance with the stock incentive plan. The exercise price of all stock options must be at least equal to the fair market value of the underlying shares on the date of the grant. Stock options granted to officers and associates generally vest in four equal installments on the second, third, fourth and fifth anniversaries of the date of the grant. All options expire 10 years after the date of the grant. During the year ended October 31, 2017, each of the five non-employee directors of the Company were given the choice to receive stock options or a reduced number of shares of restricted stock units subject to a two-year post-vesting holding period, or a combination thereof, with restricted stock units based on the fair market value on the date of grant and stock options based on grant date Black-Scholes value. All such directors elected to receive restricted stock units. Non-employee directors' stock options and restricted stock units vest in three equal installments on the first, second and third anniversaries of the date of the grant. Stock option transactions are summarized as follows:

	October 31, 2017	Weighted-Average Exercise Price	October 31, 2016	Weighted-Average Exercise Price	October 31, 2015	Weighted-Average Exercise Price
Options outstanding at beginning of period	7,373,951	$ 4.03	6,393,876	$ 4.78	6,720,251	$ 5.23
Granted	236,250	$ 2.34	1,148,481	$ 1.95	173,750	$ 2.47
Exercised	48,250	$ 2.07	-	$ -	18,125	$ 2.48
Forfeited	452,375	$ 5.85	51,125	$ 2.73	203,436	$ 3.78
Expired	248,875	$ 16.68	117,281	$ 25.05	278,564	$ 15.04
Options outstanding at end of period	6,860,701	$ 3.40	7,373,951	$ 4.03	6,393,876	$ 4.78
Options exercisable at end of period	5,259,011		5,071,181		4,566,290	

The total intrinsic value of options exercised during fiscal 2017 and 2015 was $12 thousand and $15 thousand, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. At October 31, 2016, there were no options exercisable which had an intrinsic value. Exercise prices for options outstanding at October 31, 2017 ranged from $1.54 to $6.46.

The weighted-average fair value of grants made in fiscal 2017, 2016 and 2015 was $1.33, $1.00 and $1.47 per share, respectively. Based on the fair value at the time they were granted, the weighted-average fair value of options vested in fiscal 2017, 2016 and 2015 was $2.60, $2.55 and $2.78 per share, respectively.

The following table summarizes the exercise price range and related number of options outstanding at October 31, 2017:

Range of Exercise Prices	Number Outstanding		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
$1.54 – $2.41	2,320,409	$	2.01	6.71
$2.42 – $4.41	2,496,542	$	2.84	3.26
$4.42 – $6.46	2,043,750	$	5.70	2.57
	6,860,701	$	3.41	4.22

The following table summarizes the exercise price range and related number of exercisable options at October 31, 2017:

Range of Exercise Prices	Number Exercisable		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
$1.54 – $2.41	1,003,714	$	2.00	4.02
$2.42 – $4.41	2,322,797	$	2.77	2.96
$4.42 – $6.46	1,932,500	$	5.66	2.40
	5,259,011	$	3.69	2.96

Officers and key associates who are eligible to receive equity grants may elect to receive either a stated number of stock options, or a reduced number of shares of restricted stock units, or a combination thereof. Shares underlying restricted stock units granted to officers and associates generally vest in four equal installments on the second, third, fourth and fifth anniversaries of the grant date. Participants aged 60 years or older, or aged 58 with 15 years of service, are eligible to vest in their equity awards on an accelerated basis on their retirement (which in the case of the restricted stock units only applies to a retirement that is at least one year after the date of grant). During the years ended October 31, 2017, 2016 and 2015, we granted 366,513 (including 298,388 units to certain of our non-employee directors), 456,070 (including 356,382 units to certain of our non-employee directors) and 1,018,558 (including 155,433 units to certain of our non-employee directors) restricted stock units, respectively, and also issued 101,218, 176,944 and 97,854 units, relating to awards granted in prior fiscal years, respectively. During the years ended October 31, 2017, 2016 and 2015, 452,500, 33,125 and 5,811 restricted stock units were forfeited, respectively.

For the years ended October 31, 2017, 2016 and 2015 total compensation cost recognized in the Consolidated Statement of Operations for the annual restricted stock unit grants, market share unit grants (discussed below), and the stock portion of the long-term incentive plan (also discussed below) was $21 thousand, $4.3 million and $6.5 million, respectively. In addition to nonvested share awards summarized in the following table, there were 312,419, 224,326 and 538,892 vested share awards at October 31, 2017, 2016 and 2015, respectively, which were deferred at the participants' election.

A summary of the Company’s nonvested share awards as of and for the year ended October 31, 2017, is as follows:

	Shares		Weighted-Average Grant Date Fair Value
Nonvested at beginning of period	7,239,469	$	2.80
Granted	1,233,700	$	2.56
Vested	1,216,359	$	4.92
Forfeited	1,082,333	$	2.59
Nonvested at end of period	6,174,477	$	2.36

Included in the above table are awards for the share portion of long-term incentive plans (“LTIPs”) for certain officers and associates, which are performance based plans. This includes 2.4 million target 2016 LTIP shares which were granted during fiscal 2016 and were reduced from 2.8 million shares during fiscal 2017 due to a forfeiture. The awards included above for these plans remain at target, although based on our best estimate of the outcome for the performance criteria, the related expense of $2.0 million was reversed in the fourth quarter of fiscal 2017.

Also included in the table above are 2.7 million target Market Share Units ("MSUs") of which 850,000 and 780,000 were granted to certain officers in fiscal 2017 and fiscal 2016, respectively. In addition, 700,000 and 400,000 MSUs are included from the fiscal 2015 and fiscal 2014 MSU Grants, which were adjusted by 25,000 and 200,000, respectively, in fiscal 2017, as certain performance conditions at the first and second measurement periods were not met and only a portion of the shares were vested, resulting in the reversal of $1.2 million of expense during the period. Additionally, 34,355 and 48,032 net shares were issued during fiscal 2017. Fifty percent of the MSUs will vest in four equal annual installments, commencing on the second anniversary of the grant date subject to stock price performance conditions, pursuant to which the actual number of shares issuable with respect to vested MSUs may range from 0% to 175% of the target number of shares covered by the MSU awards, generally depending on the growth in the 60-day average trading price of the Company's shares during the period between the grant date and the relevant vesting dates. The remaining fifty percent of the MSUs are also subject to financial performance conditions in addition to the stock price performance conditions applicable to all MSUs. These additional performance-based MSUs vest in four equal installments with the first installment vesting on January 1st, three years after the MSU grant date (for example, January 1, 2020 for the 2017 MSU Grant) and the remaining annual installments commencing on the third anniversary of the Grant date, except that no portion of the award will vest unless the Committee determines that the Company achieved (1) for the 2017 and 2016 MSU grants, specified gross margin improvement (as to 25% of the MSU amount) and debt reduction (as to 25% of the MSU amount) goals comparing the fiscal year of the grant date and the second fiscal year following the grant date (fiscal 2019 compared to fiscal 2017) and (2) for the 2015 MSU grant, specified total revenue growth goals comparing the fiscal year of the grant date and the second fiscal year following the grant date (for example, fiscal 2017 compared to fiscal 2015 for the 2015 MSU Grant).

The fair value of the MSU grants is determined using the Monte-Carlo simulation model, which simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. This model uses the average closing trading price of the Company's Class A Common Stock on the New York Stock Exchange over the 60 calendar day period ending on the grant date. This model also incorporates the following ranges of assumptions:

- The expected volatility is based on our stock's historical volatility commensurate with the life 2 years, 2.5 years, 3 years, 4 years and 5 years.
- The risk-free interest rate is based on the U.S. Treasury rate assumption ranging from 2-5 years.
- The expected dividend yield is not applicable since we do not currently pay dividends.

The following assumptions were used for 2017 MSU Grants: historical volatility factor of the expected market price of our common stock of 57.93%, 54.61%, 52.66%, 48.85% and 50.78% for the 2 year, 2.6 year, 3 year, 4 year and 5 year vesting tranches, respectively; risk free interest rates of 1.35%, 1.43%, 1.49%, 1.63% and 1.76% for each vesting tranche, respectively; and dividend yield of zero for all time periods. The following assumptions were used for 2016 MSU Grants: historical volatility factor of the expected market price of our common stock of 56.50%, 52.77%, 50.34%, 52.36% and 61.08% for the 2 year, 2.5 year, 3 year, 4 year and 5 year vesting tranches, respectively; risk free interest rates of 0.73%, 0.81%, 0.87%, 1.02% and 1.17% for each vesting tranche, respectively; and dividend yield of zero for all time periods. The following assumptions were used for 2015 MSU Grants: historical volatility factor of the expected market price of our common stock of 38.28%, 42.01%, 45.73%, 59.08% and 57.77% for the 2 year, 2.5 year, 3 year, 4 year and 5 year vesting tranches, respectively; risk free interest rates of 0.74%, 0.95%, 1.12%, 1.44% and 1.75% for each vesting tranche, respectively; and dividend yield of zero for all time periods.

As of October 31, 2017, we had 7.2 million shares authorized for future issuance under our equity compensation plans. In addition, as of October 31, 2017, there were $3.5 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.44 years.

16. 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 fiscal years ended October 31, 2017 and 2016, we received $4.1 million and $4.2 million, respectively, from subcontractors related to the owner controlled insurance program, which we accounted for as a reduction to inventory.

We accrue for warranty costs that are covered under our existing general liability and construction defect policy as part of our general liability insurance deductible. This accrual is expensed as selling, general and administrative costs. For homes delivered in fiscal 2017 and 2016, our deductible under our general liability insurance is a $20 million aggregate for construction defect and warranty claims. For bodily injury claims, our deductible per occurrence in fiscal 2017 and 2016 is $0.25 million, up to a $5 million limit. Our aggregate retention in fiscal 2017 and 2016 is $21 million for construction defect, warranty and bodily injury claims. 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 fiscal years ended October 31, 2017 and 2016 were as follows:

	Year Ended October 31,	
(In thousands)	**2017**	**2016**
Balance, beginning of period	$ 121,144	$ 135,053
Additions – Selling, general and administrative	10,870	17,363
Additions – Cost of sales	15,835	17,397
Charges incurred during the period	(28,019)	(29,965)
Changes to pre-existing reserves	7,872	(9,199)
Changes to reserves where corresponding amounts are recorded as receivables from insurance carriers	-	(9,505)
Balance, end of period	$ 127,702	$ 121,144

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. During the fourth quarter of fiscal 2017, we recorded a $12.5 million adjustment to increase our construction defect reserves related to litigation. We also recorded a $4.6 million reduction in our warranty accruals during the fourth quarter of fiscal 2017 and we had minor reductions in our warranty accruals during the fourth quarter of 2016 based on recent warranty claims history. As a result of reductions in our construction defect claims in recent years and the impact of those reductions on the actuarial analysis of our total reserves, we recorded a $9.2 million reduction in our construction defect reserves during the fourth quarter of fiscal 2016. These reductions are reflected in the changes to pre-existing reserves in the table above.

Insurance claims paid by our insurance carriers, excluding insurance deductibles paid, were $0.9 million and $4.0 million for the fiscal years ended October 31, 2017 and 2016, respectively, for prior year deliveries. During fiscal 2016, we settled two construction defect claims relating to the Northeast segment which made up the majority of the payments.

17. Transactions with Related Parties

During the years ended October 31, 2017, 2016 and 2015, an engineering firm owned by Tavit Najarian, a relative of Ara K. Hovnanian, our Chairman of the Board and one of our executive officers, provided services to the Company totaling $0.8 million, $1.0 million and $1.2 million, respectively. Neither the Company nor Mr. Hovnanian has a financial interest in the relative’s company from whom the services were provided.

Mr. Carson Sorsby, the son of J. Larry Sorsby, one of our directors and executive officers, is employed by the Company’s mortgage subsidiary and his total commissions from the Company’s mortgage affiliate totaled approximately $191,000, $152,000 and $129,000 in fiscal 2017, 2016 and 2015, respectively.

Mr. Alexander Hovnanian, the son of Ara K. Hovnanian, our Chairman of the Board and one of our executive officers, is employed by the Company as an Area Vice President in the Company’s Hudson/North Jersey Area and his total compensation was approximately $336,000 and $166,000 in fiscal 2017 and 2016, respectively.

18. Commitments and Contingent Liabilities

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

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

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. For example, for a number of years, the EPA and U.S. Army Corps of Engineers have been engaged in rulemakings to clarify the scope of federally regulated wetlands, which included a June 2015 rule many affected businesses contend impermissibly expanded the scope of such wetlands that was challenged in court, stayed, and remains in litigation, and a proposal in June 2017 to formally rescind the June 2015 rule and reinstate the rule scheme previously in place while the agencies initiate a new substantive rulemaking on the issue. 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 recent tests on soil samples from properties within the development conducted by the EPA show elevated levels of lead. We also understand that the smelter ceased operations many years before the Company entity involved acquired the properties in the area and carried out the re-development project. We responded to the EPA's request. In August 2013, we were notified that the EPA considers us a potentially responsible party (or "PRP") with respect to the site, that the EPA will clean up the site, and that the EPA is proposing that we fund and/or contribute towards the cleanup of the contamination at the site. We began preliminary discussions with the EPA concerning a possible resolution but do not know the scope or extent of the Company's obligations, if any, that may arise from the site and therefore cannot provide any assurance that this matter will not have a material impact on the Company. The EPA requested additional information in April 2014 and again in March 2017 and the Company has responded to its information requests.

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

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

Once a final judgment is entered, the relevant Hovnanian-affiliated defendants intend to appeal all aspects of the verdict against them. With respect to this case, depending on the outcome of all appeals, the range of loss is between $0 and $10.8 million, inclusive of attorneys' fees and costs. Management believes that a loss is probable and reasonably estimable and that the Company has reserved for its estimated probable loss amount in its construction defect reserves. However, our assessment of the probable loss may differ from the ultimate resolution of this matter.

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

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

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

19. 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 October 31, 2017 and 2016, 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 October 31, 2017, we had total cash and letters of credit deposits amounting to $57.1 million to purchase land and lots with a total purchase price of $1.0 billion. The maximum exposure to loss with respect to our land and lot options is limited to the deposits plus any pre-development costs invested in the property, although some deposits are refundable at our request or refundable if certain conditions are not met.

20. 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.

In November 2015, the Company entered into a new joint venture to which the Company contributed a land parcel that had been mothballed by the Company, but on which construction by the joint venture has now begun. Upon formation of the joint venture, the Company received $25.7 million of cash proceeds for the contributed land. In addition, during the third quarter of fiscal 2016, we entered into a new joint venture by contributing eight communities we owned and our option to buy one community to the joint venture. As a result of the formation of the joint venture, the Company received $29.8 million of cash in return for the land and option contributions. During the first quarter of fiscal 2017, we expanded this joint venture by transferring one community we owned and our option to buy three communities to the joint venture, resulting in our receiving $11.2 million of net cash.

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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.

	October 31, 2017		
(Dollars in thousands)	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$ 60,580	$ 194	$ 60,774
Inventories	666,017	9,162	675,179
Other assets	36,026	-	36,026
Total assets	$ 762,623	$ 9,356	$ 771,979
Liabilities and equity:			
Accounts payable and accrued liabilities	$ 121,646	$ 429	$ 122,075
Notes payable	330,642	-	330,642
Total liabilities	452,288	429	452,717
Equity of:			
Hovnanian Enterprises, Inc.	88,884	3,746	92,630
Others	221,451	5,181	226,632
Total equity	310,335	8,927	319,262
Total liabilities and equity	$ 762,623	$ 9,356	$ 771,979
Debt to capitalization ratio	52%	0%	51%

	October 31, 2016		
(Dollars in thousands)	Homebuilding	Land Development	Total
Assets:			
Cash and cash equivalents	$ 48,542	$ 1,478	$ 50,020
Inventories	516,947	11,010	527,957
Other assets	25,865	-	25,865
Total assets	$ 591,354	$ 12,488	$ 603,842
Liabilities and equity:			
Accounts payable and accrued liabilities	$ 72,302	$ 1,812	$ 74,114
Notes payable	214,911	2,261	217,172
Total liabilities	287,213	4,073	291,286
Equity of:			
Hovnanian Enterprises, Inc.	88,379	3,220	91,599
Others	215,762	5,195	220,957
Total equity	304,141	8,415	312,556
Total liabilities and equity	$ 591,354	$ 12,488	$ 603,842
Debt to capitalization ratio	41%	21%	41%

As of October 31, 2017 and 2016, we had advances and a note receivable outstanding of $22.4 million and $8.9 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 Consolidated Balance Sheets, our “Investments in and advances to unconsolidated joint ventures” amounted to $115.1 million and $100.5 million at October 31, 2017 and 2016, respectively. In some cases our net investment in these 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 joint venture investments and any impairments recorded in the applicable joint venture. Impairments of joint venture investments are recorded at fair value while impairments recorded in the joint venture are recorded when undiscounted cash flows trigger the impairment. During fiscal 2017, we wrote-down certain joint venture investments by $2.8 million based on our determination that the investment in these joint ventures has sustained an other than temporary impairment.

	For The Year Ended October 31, 2017		
(Dollars in thousands)	Homebuilding	Land Development	Total
Revenues	$ 312,164	$ 5,685	$ 317,849
Cost of sales and expenses	(324,514)	(4,633)	(329,147)
Joint venture net (loss) income	$ (12,350)	$ 1,052	$ (11,298)
Our share of net (loss) income	$ (7,189)	$ 526	$ (6,663)

(Dollars in thousands)	For The Year Ended October 31, 2016 Homebuilding	Land Development	Total
Revenues	$ 141,418	$ 6,299	$ 147,717
Cost of sales and expenses	(159,431)	(6,103)	(165,534)
Joint venture net (loss) income	$ (18,013)	$ 196	$ (17,817)
Our share of net (loss) income	$ (4,424)	$ 98	$ (4,326)

(Dollars in thousands)	For The Year Ended October 31, 2015 Homebuilding	Land Development	Total
Revenues	$ 122,192	$ 6,782	$ 128,974
Cost of sales and expenses	(125,652)	(6,518)	(132,170)
Joint venture net (loss) income	$ (3,460)	$ 264	$ (3,196)
Our share of net income	$ 4,087	$ 132	$ 4,219

"(Loss) income from unconsolidated joint ventures" is reflected as a separate line in the accompanying Consolidated Statements of Operations and reflects our proportionate share of the income or loss of these unconsolidated homebuilding and land development joint ventures. The difference between our share of the income or loss from these unconsolidated joint ventures in the tables above compared to the Consolidated Statements of Operations is due primarily to the reclassification of the intercompany portion of management fee income from certain joint ventures and the deferral of income for lots purchased by us from certain joint ventures. To compensate us for the administrative services we provide as the manager of certain joint ventures we receive a management fee based on a percentage of the applicable joint venture's revenues. These management fees, which totaled $11.3 million, $5.8 million and $5.2 million for the years ended October 31, 2017, 2016 and 2015, respectively, are recorded in "Homebuilding: Selling, general and administrative" on the Consolidated Statement of Operations.

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

Typically, our unconsolidated joint ventures obtain separate project specific mortgage financing. The amount of financing is generally targeted to be no more than 50% of the joint venture's total assets. For some of our joint ventures, obtaining financing was challenging, therefore, some of our joint ventures are capitalized only with equity. The total debt to capitalization ratio of all our joint ventures is currently 51%. Any 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 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.

21. 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 October 31, 2017	Fair Value at October 31, 2016
Mortgage loans held for sale (1)	Level 2	$ 132,424	$ 165,077
Interest rate lock commitments	Level 2	(14)	(80)
Forward contracts	Level 2	15	86
Total		$ 132,425	$ 165,083

(1) The aggregate unpaid principal balance was $128.4 million and $149.4 million at October 31, 2017 and 2016, respectively.

We elected the fair value option for our loans held for sale for mortgage loans originated subsequent to October 31, 2008, 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 $486.5 million at October 31, 2017. Loans in process for which interest rates were committed to the borrowers totaled $31.2 million as of October 31, 2017. 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 October 31, 2017, the segment had open commitments amounting to $19.5 million to sell MBS with varying settlement dates through December 13, 2017.

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 Financial Services segment's income. The changes in fair values that are included in income are shown, by financial instrument and financial statement line item, below:

	Year Ended October 31, 2017		
(In thousands)	Mortgage Loans Held for Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net loss all reflected in financial services revenues	$ 4,256	$ (14)	$ 15

	Year Ended October 31, 2016		
(In thousands)	Mortgage Loans Held for Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net loss all reflected in financial services revenues	$ 4,711	$ (73)	$ (422)

	Year Ended October 31, 2015		
(In thousands)	Mortgage Loans Held for Sale	Interest Rate Lock Commitments	Forward Contracts
Fair value included in net loss all reflected in financial services revenues	$ (284)	$ (22)	$ 829

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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 fiscal years ended October 31, 2017 and 2016. The assets measured at fair value on a nonrecurring basis are all within the Company's Homebuilding operations and are summarized below:

Nonfinancial Assets

		Year Ended October 31, 2017		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	$ 30,022	$ (11,658)	$ 18,364
Land and land options held for future development or sale	Level 3	$ 22,850	$ (3,403)	$ 19,447

Nonfinancial Assets

		Year Ended October 31, 2016		
(In thousands)	Fair Value Hierarchy	Pre-Impairment Amount	Total Losses	Fair Value
Sold and unsold homes and lots under development	Level 3	$ 61,584	$ (19,006)	$ 42,578
Land and land options held for future development or sale	Level 3	$ 26,783	$ (5,466)	$ 21,317

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 Consolidated Statements of Operations as “Inventory impairment loss and land option write-offs” and deducted from inventory, of $15.1 million, $24.5 million and $7.3 million for the years ended October 31, 2017, 2016 and 2015, respectively. See Note 12 for further detail of the communities evaluated for impairment.

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

The fair value of our borrowings under the revolving credit and term loan facilities approximates their carrying amount based on level 2 inputs. The fair value of each series of the senior unsecured notes (other than the senior exchangeable notes and the senior amortizing notes) is 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, which are Level 2 measurements. The fair value of the senior unsecured notes (all series in the aggregate), other than the senior exchangeable notes and senior amortizing notes, was estimated at $383.7 million and $251.7 million as of October 31, 2017 and 2016, respectively.

The fair value of each of the senior secured notes (all series in the aggregate), the senior amortizing notes and the senior exchangeable notes is estimated based on third party broker quotes, a Level 3 measurement. The fair value of the senior secured notes (all series in the aggregate), the senior amortizing notes and the senior exchangeable notes were estimated at $1.2 billion, $2.1 million and $54.2 million, respectively, as of October 31, 2017. As of October 31, 2016, the fair value of the senior secured notes (all series in the aggregate), the senior amortizing notes and the senior exchangeable notes were estimated at $883.0 million, $6.3 million and $55.2 million, respectively.

22. Financial Information of Subsidiary Issuer and Subsidiary Guarantors

Hovnanian Enterprises, Inc., the parent company (the "Parent"), is the issuer of publicly traded common stock and preferred stock, which is represented by depository shares. One of its wholly owned subsidiaries, K. Hovnanian Enterprises, Inc. (the "Subsidiary Issuer"), acts as a finance entity that, as of October 31, 2017, had issued and outstanding $1,110.0 million of senior secured notes ($1,090.6 million, net of discount and debt issuance costs), $368.5 million senior notes ($366.3 million net of debt issuance costs) and $2.1 million senior amortizing notes ($2.0 million net of debt issuance costs) and $53.9 million senior exchangeable notes ($53.9 million net of debt issuance costs) (issued as components of our Units). The senior secured notes, senior notes, senior amortizing notes and senior exchangeable notes are fully and unconditionally guaranteed by the Parent.

In addition to the Parent, each of the wholly owned subsidiaries of the Parent other than the Subsidiary Issuer (collectively, "Notes Guarantors"), with the exception of our home mortgage subsidiaries, certain of our title insurance subsidiaries, joint ventures and subsidiaries holding interests in our joint ventures (collectively, the "Nonguarantor Subsidiaries"), have guaranteed fully and unconditionally, on a joint and several basis, the obligations of the Subsidiary Issuer to pay principal and interest under the senior secured notes (other than the 2021 Notes and the 9.50% 2020 Notes), senior notes, senior exchangeable notes and senior amortizing notes. The Notes Guarantors are directly or indirectly 100% owned subsidiaries of the Parent. The 2021 Notes and the 9.50% 2020 Notes are guaranteed by the Notes Guarantors and the members of the JV Holdings Secured Group (see Note 9).

The senior amortizing notes and senior exchangeable notes have been registered under the Securities Act of 1933, as amended (the "Securities Act"). The 7.0% Notes, the 8.0% Notes and our senior secured notes (see Note 9) are not, pursuant to the indentures under which such notes were issued, required to be registered under the Securities Act. The Consolidating Condensed Financial Statements presented below are in respect of our registered notes only and not the 7.0% Notes, the 8.0% Notes or the senior secured notes (however, the Notes Guarantors for the 7.0% Notes, the 8.0% Notes, the 10.0% 2022 Notes and the 10.5% 2024 Notes are the same as those represented by the accompanying Consolidating "Condensed" Financial Statements). In lieu of providing separate financial statements for the Notes Guarantors of our registered notes, we have included the accompanying Consolidating Financial Statements. Therefore, separate financial statements and other disclosures concerning such Notes Guarantors are not presented.

The following Consolidating Condensed Financial Statements present the results of operations, financial position and cash flows of (i) the Parent, (ii) the Subsidiary Issuer, (iii) the Notes Guarantors, (iv) the Nonguarantor Subsidiaries and (v) the eliminations to arrive at the information for Hovnanian Enterprises, Inc. on a consolidated basis.

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2017

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$ -	$ 389,456	$ 949,032	$ 400,297	$ -	$ 1,738,785
Financial services			19,001	143,112		162,113
Intercompany receivable		1,046,796		25,580	(1,072,376)	-
Investments in and amounts due from consolidated subsidiaries			376,964		(376,964)	-
Total assets	$ -	$ 1,436,252	$ 1,344,997	$ 568,989	$ (1,449,340)	$ 1,900,898
Liabilities and equity:						
Homebuilding, excluding Notes payable and term loan and Revolving credit facility	$ 740	$ 236	$ 467,613	$ 68,865	$ -	$ 537,454
Financial services			19,160	122,754		141,914
Income taxes (receivable) payable	(2)		2,229			2,227
Notes payable and term loan and Revolving credit facility		1,677,891	1,377	406		1,679,674
Intercompany payable	148,385		923,994		(1,072,379)	-
Amounts due to consolidated subsidiaries	311,248	37,175			(348,423)	-
Stockholders' (deficit) equity	(460,371)	(279,050)	(69,376)	376,964	(28,538)	(460,371)
Total liabilities and equity	$ -	$ 1,436,252	$ 1,344,997	$ 568,989	$ (1,449,340)	$ 1,900,898

CONSOLIDATING CONDENSED BALANCE SHEET
OCTOBER 31, 2016

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Assets:						
Homebuilding	$ -	$ 271,216	$ 1,194,267	$ 408,610	$ -	$ 1,874,093
Financial services			13,453	183,777		197,230
Income taxes receivable	115,940	(58,597)	226,258	32		283,633
Intercompany receivable		1,227,334		88,112	(1,315,446)	-
Investments in and amounts due from consolidated subsidiaries		4,914	437,628		(442,542)	-
Total assets	$ 115,940	$ 1,444,867	$ 1,871,606	$ 680,531	$ (1,757,988)	$ 2,354,956
Liabilities and equity:						
Homebuilding, excluding Notes payable and term loan and Revolving credit facility	$ 3,506	$ 1,118	$ 565,163	$ 83,476	$ -	$ 653,263
Financial services			13,338	159,107		172,445
Notes payable and term loan and Revolving credit facility		1,652,357	5,084	317		1,657,758
Intercompany payable	157,993		1,157,453		(1,315,446)	-
Amounts due to consolidated subsidiaries	82,951				(82,951)	-
Stockholders' (deficit) equity	(128,510)	(208,608)	130,568	437,631	(359,591)	(128,510)
Total liabilities and equity	$ 115,940	$ 1,444,867	$ 1,871,606	$ 680,531	$ (1,757,988)	$ 2,354,956

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2017

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$ -	$ -	$ 2,027,485	$ 365,437	$ -	$ 2,392,922
Financial services			10,910	47,833		58,743
Intercompany charges		88,601			(88,601)	-
Total revenues	-	88,601	2,038,395	413,270	(88,601)	2,451,665
Expenses:						
Homebuilding	(3,135)	140,696	1,946,395	338,706		2,422,662
Financial services	20		6,975	25,351		32,346
Intercompany charges			88,601		(88,601)	-
Total expenses	(3,115)	140,696	2,041,971	364,057	(88,601)	2,455,008
Loss on extinguishment of debt		(34,854)				(34,854)
Income (loss) from unconsolidated joint ventures			142	(7,189)		(7,047)
(Loss) income before income taxes	3,115	(86,949)	(3,434)	42,024	-	(45,244)
State and federal income tax (benefit) provision	107,011	(58,596)	238,502	32		286,949
Equity in (loss) income from subsidiaries	(228,297)	(42,089)	41,992		228,394	-
Net (loss) income	$ (332,193)	$ (70,442)	$ (199,944)	$ 41,992	$ 228,394	$ (332,193)

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2016

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$ -	$ -	$ 2,232,906	$ 446,724	$ -	$ 2,679,630
Financial services			11,038	61,579		72,617
Intercompany charges		112,207			(112,207)	-
Total revenues	-	112,207	2,243,944	508,303	(112,207)	2,752,247
Expenses:						
Homebuilding	1,688	136,796	2,147,123	419,514		2,705,121
Financial services	16		7,387	29,741		37,144
Intercompany charges			112,169	38	(112,207)	-
Total expenses	1,704	136,796	2,266,679	449,293	(112,207)	2,742,265
Loss on extinguishment of debt		(3,200)				(3,200)
Income (loss) from unconsolidated joint ventures			78	(4,424)		(4,346)
(Loss) income before income taxes	(1,704)	(27,789)	(22,657)	54,586	-	2,436
State and federal income tax (benefit) provision	(9,333)	(30,615)	45,213	(10)		5,255
Equity in (loss) income from subsidiaries	(10,448)	3,901	54,596		(48,049)	-
Net (loss) income	$ (2,819)	$ 6,727	$ (13,274)	$ 54,596	$ (48,049)	$ (2,819)

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 2015

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:						
Homebuilding	$ -	$ -	$ 1,778,700	$ 313,115	$ -	$ 2,091,815
Financial services			8,685	47,980		56,665
Intercompany charges		124,361			(124,361)	-
Total revenues	-	124,361	1,787,385	361,095	(124,361)	2,148,480
Expenses:						
Homebuilding	5,125	155,773	1,686,726	294,818		2,142,442
Financial services	105		6,490	25,377		31,972
Intercompany charges			124,360	1	(124,361)	-
Total expenses	5,230	155,773	1,817,576	320,196	(124,361)	2,174,414
Income from unconsolidated joint ventures			82	4,087		4,169
(Loss) income before income taxes	(5,230)	(31,412)	(30,109)	44,986	-	(21,765)
State and federal income tax (benefit) provision	(10,985)	(30,486)	35,808	(2)		(5,665)
Equity in (loss) income from subsidiaries	(21,855)	12,915	44,988		(36,048)	-
Net (loss) income	$ (16,100)	$ 11,989	$ (20,929)	$ 44,988	$ (36,048)	$ (16,100)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2017

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$ (332,193)	$ (70,442)	$ (199,944)	$ 41,992	$ 228,394	$ (332,193)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	113,504	1,339	796,416	(53,119)	(228,394)	629,746
Net cash (used in) provided by operating activities	(218,689)	(69,103)	596,472	(11,127)	-	297,553
Cash flows from investing activities:						
Proceeds from sale of property and assets			245	25		270
Purchase of property, equipment and other fixed assets and acquisitions			(6,478)			(6,478)
Increase in restricted cash related to mortgage company				2,555		2,555
Decrease in restricted cash related to letters of credit		(3)				(3)
Investments in and advances to unconsolidated joint ventures		(521)	(13,407)	(22,875)		(36,803)
Distributions of capital from unconsolidated joint ventures			45	13,259		13,304
Intercompany investing activities		222,627			(222,627)	-
Net cash provided by (used in) investing activities	-	222,103	(19,595)	(7,036)	(222,627)	(27,155)
Cash flows from financing activities:						
Net payments from mortgages and notes			(15,907)	(3,286)		(19,193)
Net payments from model sale leaseback financing programs			(12,973)	(5,555)		(18,528)
Net proceeds from land bank financing programs			(42,652)	85		(42,567)
Net proceeds from senior secured notes		840,000				840,000
Payments related to senior notes, senior exchangeable notes and senior amortizing notes		(861,976)				(861,976)
Net proceeds related to mortgage warehouse lines of credit				(31,023)		(31,023)
Deferred financing costs from land bank financing program and note issuance		(12,836)	(1,462)	(258)		(14,556)
Intercompany financing activities – net	218,689		(503,848)	62,532	222,627	-
Net cash provided by (used in) financing activities	218,689	(34,812)	(576,842)	22,495	222,627	(147,843)
Net increase in cash	-	118,188	35	4,332	-	122,555
Cash and cash equivalents balance, beginning of period	-	261,553	(395)	85,607	-	346,765
Cash and cash equivalents balance, end of period	$ -	$ 379,741	$ (360)	$ 89,939	$ -	$ 469,320

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2016

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$ (2,819)	$ 6,727	$ (13,274)	$ 54,596	$ (48,049)	$ (2,819)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	15,059	(26,032)	353,149	259	48,049	390,484
Net cash provided by (used in) operating activities	12,240	(19,305)	339,875	54,855	-	387,665
Cash flows from investing activities:						
Proceeds from sale of property and assets			685	79		764
Purchase of property, equipment and other fixed assets and acquisitions			(7,977)	(30)		(8,007)
Decrease in restricted cash related to mortgage company				2,034		2,034
Decrease in restricted cash related to letters of credit		872				872
Investments in and advances to unconsolidated joint ventures		(290)	(74)	(49,541)		(49,905)
Distributions of capital from unconsolidated joint ventures				5,264		5,264
Intercompany investing activities		344,479			(344,479)	-
Net cash (used in) provided by investing activities	-	345,061	(7,366)	(42,194)	(344,479)	(48,978)
Cash flows from financing activities:						
Net payments from mortgages and notes			(60,535)	(476)		(61,011)
Net payments from model sale leaseback financing programs			(14,004)	(3,134)		(17,138)
Net proceeds from land bank financing programs			53,654	11,980		65,634
Borrowings from revolving credit facility		5,000				5,000
Proceeds from senior secured term loan facility		75,000				75,000
Net proceeds from senior secured notes		71,250				71,250
Payments related to senior notes, senior exchangeable notes and senior amortizing notes		(409,646)				(409,646)
Net proceeds related to mortgage warehouse lines of credit				36,713		36,713
Deferred financing costs from land bank financing program and note issuance		(5,125)	(4,812)	(1,532)		(11,469)
Intercompany financing activities – net	(12,240)		(302,407)	(29,832)	344,479	-
Net cash (used in) provided by financing activities	(12,240)	(263,521)	(328,104)	13,719	344,479	(245,667)
Net increase in cash	-	62,235	4,405	26,380	-	93,020
Cash and cash equivalents balance, beginning of period	-	199,318	(4,800)	59,227	-	253,745
Cash and cash equivalents balance, end of period	$ -	$ 261,553	$ (395)	$ 85,607	$ -	$ 346,765

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2015

(In thousands)	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net (loss) income	$ (16,100)	$ 11,989	$ (20,929)	$ 44,988	$ (36,048)	$ (16,100)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities	122,264	110,820	(456,704)	(116,863)	36,048	(304,435)
Net cash (used in) provided by operating activities	106,164	122,809	(477,633)	(71,875)	-	(320,535)
Cash flows from investing activities:						
Proceeds from sale of property and assets			1,556	17		1,573
Purchase of property, equipment and other fixed assets and acquisitions			(2,054)			(2,054)
Decrease in restricted cash related to mortgage company				1,555		1,555
Decrease in restricted cash related to letters of credit		2,993				2,993
Investments in and advances to unconsolidated joint ventures		16	(114)	(18,609)		(18,707)
Distributions of capital from unconsolidated joint ventures		315	646	16,151		17,112
Intercompany investing activities		(313,174)			313,174	-
Net cash provided by (used in) investing activities	-	(309,850)	34	(886)	313,174	2,472
Cash flows from financing activities:						
Net proceeds from mortgages and notes			27,881	11,502		39,383
Net proceeds from model sale leaseback financing programs			17,117	5,867		22,984
Net payments from land bank financing programs			(6,198)	(1,147)		(7,345)
Proceeds from senior notes		250,000				250,000
Payments related to senior notes and senior amortizing notes		(65,053)				(65,053)
Borrowings from revolving credit facility		47,000				47,000
Net proceeds related to mortgage warehouse lines of credit				31,956		31,956
Deferred financing costs from land bank financing programs and note issuances		(5,096)	(2,732)	(1,187)		(9,015)
Intercompany financing activities	(106,164)		441,457	(22,119)	(313,174)	-
Net cash provided by (used in) financing activities	(106,164)	226,851	477,525	24,872	(313,174)	309,910
Net (decrease) increase in cash	-	39,810	(74)	(47,889)	-	(8,153)
Cash and cash equivalents balance, beginning of period	-	159,508	(4,726)	107,116	-	261,898
Cash and cash equivalents balance, end of period	$ -	$ 199,318	$ (4,800)	$ 59,227	$ -	$ 253,745

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23. Unaudited Summarized Consolidated Quarterly Information

Summarized quarterly financial information for the years ended October 31, 2017 and 2016 is as follows:

	Three Months Ended			
(In thousands, except per share data)	**October 31, 2017**	**July 31, 2017**	**April 30, 2017**	**January 31, 2017**
Revenues	$ 721,686	$ 592,035	$ 585,935	$ 552,009
Expenses	703,964	591,872	586,877	554,482
Inventory impairment loss and land option write-offs	8,479	4,197	1,953	3,184
(Loss) gain on extinguishment of debt	-	(42,258)	(242)	7,646
Income (loss) from unconsolidated joint ventures	3,062	(3,881)	(4,562)	(1,666)
Income (loss) before income taxes	12,305	(50,173)	(7,699)	323
State and federal income tax provision (benefit)	464	287,036	(1,017)	466
Net income (loss)	$ 11,841	$ (337,209)	$ (6,682)	$ (143)
Per share data:				
Basic:				
Income (loss) per common share	$ 0.08	$ (2.28)	$ (0.05)	$ (0.00)
Weighted-average number of common shares outstanding	147,905	147,748	147,558	147,535
Assuming dilution:				
Income (loss) per common share	$ 0.08	$ (2.28)	$ (0.05)	$ (0.00)
Weighted-average number of common shares outstanding	160,548	147,748	147,558	147,535

	Three Months Ended			
(In thousands, except per share data)	**October 31, 2016**	**July 31, 2016**	**April 30, 2016**	**January 31, 2016**
Revenues	$ 805,069	$ 716,850	$ 654,723	$ 575,605
Expenses	760,171	711,791	661,312	575,638
Inventory impairment loss and land option write-offs	10,438	1,565	9,669	11,681
Loss on extinguishment of debt	3,200	-	-	-
Income (loss) from unconsolidated joint ventures	881	(2,401)	(1,346)	(1,480)
Income (loss) before income taxes	32,141	1,093	(17,604)	(13,194)
State and federal income tax provision (benefit)	9,852	1,567	(9,143)	2,979
Net income (loss)	$ 22,289	$ (474)	$ (8,461)	$ (16,173)
Per share data:				
Basic:				
Income (loss) per common share	$ 0.14	$ (0.00)	$ (0.06)	$ (0.11)
Weighted-average number of common shares outstanding	147,521	147,412	147,334	147,139
Assuming dilution:				
Income (loss) per common share	$ 0.14	$ (0.00)	$ (0.06)	$ (0.11)
Weighted-average number of common shares outstanding	160,590	147,412	147,334	147,139

24. Subsequent events

On November 1, 2017, we sold our corporate headquarters building and land in Red Bank, New Jersey, which had a net book value of $34.7 million for $42.5 million. We used a portion of the proceeds to pay off our nonrecourse loans on the building of $13.0 million.

On December 1, 2017 we made our final installment payment of $56.1 million on our senior exchangeable note units, as described in Note 9.

On December 14, 2017, the Company settled a lawsuit with the condominium association of the Grandview II at Riverwalk Port Imperial condominium building, for which the company had fully reserved the settlement amount as of October 31, 2017. Also, on December 18, 2017, the parties finalized a settlement agreement to resolve the litigation of a class action lawsuit filed against the Company's Board. See Note 18 for further information on these settlements.

Exhibit 12

RATIO OF EARNINGS TO FIXED CHARGES

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

	Year Ended				
(Dollars in thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**	**October 31, 2014**	**October 31, 2013**
(Loss) income before income taxes	$ (45,244)	$ 2,436	$ (21,765)	$ 20,180	$ 21,935
Add:					
Interest expense, homebuilding (a)	185,840	183,358	151,448	141,344	143,574
Interest expense, financial services	1,871	2,912	2,143	1,835	3,008
Interest pertaining to rent expense (b)	5,248	5,936	5,548	5,538	5,199
Distribution of earnings from unconsolidated joint ventures, net of equity in income (loss)	8,527	5,348	4,269	(1,853)	(9,700)
Amortization	1,632	5,261	5,460	10,320	7,843
Total earnings	$ 157,874	$ 205,251	$ 147,103	$ 177,364	$ 171,859
Fixed Charges:					
Interest incurred, homebuilding	$ 160,203	$ 166,824	$ 166,188	$ 145,409	$ 132,611
Interest incurred, financial services	1,871	2,912	2,143	1,835	3,008
Interest pertaining to rent expense	5,248	5,936	5,548	5,538	5,199
Amortization	1,632	5,261	5,460	10,320	7,843
Total fixed charges	$ 168,954	$ 180,933	$ 179,339	$ 163,102	$ 148,661
Ratio of earnings to fixed charges	(c)	1.1	(c)	1.1	1.2

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Year Ended				
(Dollars in thousands)	**October 31, 2017**	**October 31, 2016**	**October 31, 2015**	**October 31, 2014**	**October 31, 2013**
Total earnings – above	$ 157,874	$ 205,251	$ 147,103	$ 177,364	$ 171,859
Total fixed charges – above	$ 168,954	$ 180,933	$ 179,339	$ 163,102	$ 148,661
Preferred stock dividends (adjusted to pretax dollars)	-	-	-	-	-
Total combined fixed charges and preferred stock dividends	$ 168,954	$ 180,933	$ 179,339	$ 163,102	$ 148,661
Ratio of earnings to combined fixed charges and preferred stock dividends	(d)	1.1	(d)	1.1	1.2

(a) *Includes the amortization and expensing of debt expenses that were not capitalized during the period.*
(b) *Management has determined the interest component of rent expense to be 33%.*
(c) *Earnings for the years ended October 31, 2017 and 2015 were insufficient to cover fixed charges for such period by $11.1 million and $32.2 million, respectively.*
(d) *Earnings for the years ended October 31, 2017 and 2015 were insufficient to cover fixed charges and preferred stock dividends for such period by $11.1 million and $32.2 million, respectively. Due to restrictions in our debt instruments, we are currently prohibited from paying dividends on our preferred stock and did not make any dividend payments in fiscal 2017, 2016, 2015, 2014 and 2013.*

Exhibit 21

Legal Entity Name	State of Formation
K. Hovnanian at 240 Missouri, LLC	AZ
K. Hovnanian at Aire on McDowell, LLC	AZ
K. Hovnanian at Catania, LLC	AZ
K. Hovnanian at Eagle Heights, LLC	AZ
K. Hovnanian at Gallery, LLC	AZ
K. Hovnanian at Montana Vista Dobbins, LLC	AZ
K. Hovnanian at Montana Vista, LLC	AZ
K. Hovnanian at Palm Valley, L.L.C.	AZ
K. Hovnanian at Park Paseo, LLC	AZ
K. Hovnanian at Pointe 16, LLC	AZ
K. Hovnanian at Quail Creek, L.L.C.	AZ
K. Hovnanian at Rancho Cabrillo, LLC	AZ
K. Hovnanian at Sienna Hills, LLC	AZ
K. Hovnanian at Silverstone G, LLC	AZ
K. Hovnanian at Silverstone, LLC	AZ
K. Hovnanian at Skye on McDowell, LLC	AZ
K. Hovnanian at Solare, LLC	AZ
K. Hovnanian at Sunrise Trail II, LLC	AZ
K. Hovnanian at Sunrise Trail III, LLC	AZ
K. Hovnanian at The Meadows 9, LLC	AZ
K. Hovnanian at The Meadows, LLC	AZ
K. Hovnanian at Ventana Lakes, LLC	AZ
K. Hovnanian at Verrado Cascina, LLC	AZ
K. Hovnanian at Verrado Marketside, LLC	AZ
K. Hovnanian Building Company, LLC	AZ
K. Hovnanian Companies of Arizona, LLC	AZ
K. HOVNANIAN DEVELOPMENTS OF ARIZONA, INC.	AZ
K. HOVNANIAN GREAT WESTERN BUILDING COMPANY, LLC	AZ
K. HOVNANIAN GREAT WESTERN HOMES, LLC	AZ
K. Hovnanian Legacy at Via Bella, LLC	AZ
K. Hovnanian's Four Seasons at The Manor II, LLC	AZ
K. Hovnanian's Four Seasons at The Manor, LLC	AZ
New Land Title Agency, L.L.C.	AZ
K. HOV IP, II, Inc.	CA
K. Hovnanian Aspire at Bellevue Ranch, LLC	CA
K. Hovnanian at 4S, LLC	CA
K. Hovnanian at Aliso, LLC	CA
K. Hovnanian at Andalusia, LLC	CA
K. HOVNANIAN AT AVENUE ONE, L.L.C.	CA
K. Hovnanian at Bakersfield 463, L.L.C.	CA
K. Hovnanian at Beacon Park Area 129 II, LLC	CA
K. Hovnanian at Beacon Park Area 129, LLC	CA
K. Hovnanian at Beacon Park Area 137, LLC	CA
K. Hovnanian at Bella Lago, LLC	CA
K. Hovnanian at Blackstone, LLC	CA
K. Hovnanian at Bridgeport, Inc.	CA
K. Hovnanian at Cadence Park, LLC	CA
K. HOVNANIAN AT CAPISTRANO, L.L.C.	CA
K. Hovnanian at Carlsbad, LLC	CA
K. Hovnanian at Cedar Lane, LLC	CA
K. Hovnanian at Charter Way, LLC	CA
K. Hovnanian at Cielo, L.L.C.	CA
K. Hovnanian at Coastline, L.L.C.	CA
K. Hovnanian at Cortez Hill, LLC	CA
K. Hovnanian at El Dorado Ranch II, L.L.C.	CA
K. Hovnanian at El Dorado Ranch, L.L.C.	CA
K. Hovnanian at Evergreen, L.L.C.	CA
K. Hovnanian at Fiddyment Ranch, LLC	CA
K. Hovnanian at Fresno, LLC	CA
K. HOVNANIAN AT GASLAMP SQUARE, L.L.C.	CA
K. Hovnanian at Gilroy 60, LLC	CA
K. Hovnanian at GIlroy, LLC	CA
K. Hovnanian at Jaeger Ranch, LLC	CA
K. Hovnanian at La Costa Greens, L.L.C.	CA
K. Hovnanian at La Laguna, L.L.C.	CA
K. Hovnanian at Lake Rancho Viejo, LLC	CA
K. Hovnanian at Malan Park, L.L.C.	CA
K. Hovnanian at Manteca, LLC	CA
K. Hovnanian at Melanie Meadows, LLC	CA
K. Hovnanian at Meridian Hills, LLC	CA
K. Hovnanian at Muirfield, LLC	CA
K. Hovnanian at Parkside, LLC	CA

K. Hovnanian at Pavilion Park, LLC	CA
K. Hovnanian at Piazza D'Oro, L.L.C.	CA
K. Hovnanian at Piazza Serena, L.L.C	CA
K. Hovnanian at Positano, LLC	CA
K. Hovnanian at Prado, L.L.C.	CA
K. HOVNANIAN AT ROSEMARY LANTANA, L.L.C.	CA
K. Hovnanian at Sage, L.L.C.	CA
K. Hovnanian at Santa Nella, LLC	CA
K. Hovnanian at Sheldon Grove, LLC	CA
K. Hovnanian at Skye Isle, LLC	CA
K. Hovnanian at Stanton, LLC	CA
K. Hovnanian at Sunridge Park, LLC	CA
K. Hovnanian at The Crosby, LLC	CA
K. Hovnanian at Thompson Ranch, LLC	CA
K. Hovnanian at Trail Ridge, LLC	CA
K. Hovnanian at Traverse, LLC	CA
K. Hovnanian at Valle Del Sol, LLC	CA
K. Hovnanian at Verona Estates, LLC	CA
K. Hovnanian at Victorville, L.L.C.	CA
K. Hovnanian at Vineyard Heights, LLC	CA
K. Hovnanian at Vista Del Sol, L.L.C.	CA
K. Hovnanian at Waterstone, LLC	CA
K. Hovnanian at West View Estates, L.L.C.	CA
K. Hovnanian at Westshore, LLC	CA
K. Hovnanian at Wheeler Ranch, LLC	CA
K. Hovnanian at Woodcreek West, LLC	CA
K. Hovnanian Communities, Inc.	CA
K. Hovnanian Companies of California, Inc.	CA
K. Hovnanian Companies of Southern California, Inc.	CA
K. Hovnanian Companies, LLC	CA
K. Hovnanian Developments of California, Inc.	CA
K. Hovnanian Developments of New Jersey II, Inc.	CA
K. Hovnanian Developments of New Jersey, Inc.	CA
K. Hovnanian Enterprises, Inc.	CA
K. Hovnanian GT Investment, L.L.C.	CA
K. Hovnanian Homes Northern California, Inc.	CA
K. Hovnanian JV Holdings, L.L.C.	CA
K. Hovnanian JV Services Company, L.L.C.	CA
K. Hovnanian Meadow View at Mountain House, LLC	CA
K. Hovnanian Terra Lago Investment, LLC	CA
K. HOVNANIAN'S FOUR SEASONS AT BAKERSFIELD, L.L.C.	CA
K. Hovnanian's Four Seasons at Beaumont, LLC	CA
K. Hovnanian's Four Seasons at Hemet, LLC	CA
K. Hovnanian's Four Seasons at Los Banos, LLC	CA
K. Hovnanian's Four Seasons at Moreno Valley, L.L.C.	CA
K. Hovnanian's Four Seasons at Palm Springs, LLC	CA
K. Hovnanian's Parkside at Towngate, L.L.C.	CA
K. Hovnanian's Sonata at The Preserve, LLC	CA
K. Hovnanian's Veranda at RiverPark II, LLC	CA
K. Hovnanian's Veranda at RiverPark, LLC	CA
SEABROOK ACCUMULATION CORPORATION	CA
STONEBROOK HOMES, INC.	CA
K. Hovnanian Parkview at Sterling Meadows, LLC	CA
K. HOVNANIAN Developments OF D.C., INC.	DC
K. Hovnanian Homes at Parkside, LLC	DC
K. Hovnanian Homes of D.C., L.L.C.	DC
K. Hovnanian Parkside Holdings, LLC	DC
Homebuyers Financial USA, LLC	DE
HovWest Land Acquisition, LLC	DE
K. Hovnanian at Ashby Place, LLC	DE
K. Hovnanian at Brenford Station, LLC	DE
K. Hovnanian at Cedar Lane Estates, LLC	DE
K. Hovnanian at Hidden Brook, LLC	DE
K. Hovnanian at Knollac Acres, LLC	DE
K. Hovnanian at Mansfield II, L.L.C.	DE
K. HOVNANIAN AT NORTH BRUNSWICK VI, L.L.C.	DE
K. Hovnanian at Nottingham Meadows, LLC	DE
K. Hovnanian at Ocean View Beach Club, LLC	DE
K. Hovnanian at Plantation Lakes, L.L.C.	DE
K. Hovnanian Central Acquisitions, L.L.C.	DE
K. HOVNANIAN DEVELOPMENTS OF DELAWARE, INC.	DE
K. Hovnanian GT V Investment, LLC	DE
K. Hovnanian GT VI Investment, LLC	DE
K. Hovnanian Hamptons at Oak Creek II, L.L.C.	DE

K. Hovnanian Homes of Delaware I, LLC	DE
K. HOVNANIAN HOMES OF DELAWARE, L.L.C.	DE
K. Hovnanian Homes of Longacre Village, L.L.C.	DE
K. Hovnanian HovSite II Investment, LLC	DE
K. Hovnanian HovSite III Investment, LLC	DE
K. Hovnanian HovWest Holdings, L.L.C.	DE
K. Hovnanian M.E. Investments, LLC	DE
K. Hovnanian Nassau Grove Holdings, L.L.C.	DE
K. Hovnanian North Central Acquisitions, L.L.C.	DE
K. Hovnanian North Jersey Acquisitions, L.L.C.	DE
K. Hovnanian Shore Acquisitions, L.L.C.	DE
K. Hovnanian South Jersey Acquisitions, L.L.C.	DE
K. Hovnanian's Four Season at Belle Terre, LLC	DE
K. Hovnanian's Four Seasons at Baymont Farms L.L.C.	DE
K. Hovnanian's Four Seasons at Silver Maple Farm, L.L.C.	DE
KHH Shell Hall Loan Acquisition, LLC	DE
Washington Homes, Inc.	DE
Woodmore Residential, L.L.C.	DE
WTC Ventures, L.L.C.	DE
Eastern National Title Agency, LLC	FL
HOVNANIAN DEVELOPMENTS OF FLORIDA, INC.	FL
Hovnanian Land Investment Group of Florida, L.L.C.	FL
K. Hovnanian Amber Glen, LLC	FL
K. Hovnanian at Boca Dunes, LLC	FL
K. Hovnanian at Coral Lago, LLC	FL
K. Hovnanian at Delray Beach, L.L.C.	FL
K. Hovnanian at Hampton Cove, LLC	FL
K. Hovnanian at Hilltop Reserve II, LLC	FL
K. Hovnanian at Hilltop Reserve, LLC	FL
K. Hovnanian at Lake Burden, LLC	FL
K. Hovnanian at Lake Florence, LLC	FL
K. Hovnanian at Lake LeClare, LLC	FL
K. Hovnanian at Mystic Dunes, LLC	FL
K. Hovnanian at Pickett Reserve, LLC	FL
K. Hovnanian at Redtail, LLC	FL
K. Hovnanian at Spring Isle, LLC	FL
K. Hovnanian at Summerlake, LLC	FL
K. Hovnanian at Terra Bella Two, LLC	FL
K. Hovnanian at The Highlands at Summerlake Grove, LLC	FL
K. Hovnanian at Valletta, LLC	FL
K. Hovnanian at Walkers Grove, LLC	FL
K. Hovnanian Belmont Reserve, LLC	FL
K. Hovnanian Cambridge Homes, L.L.C.	FL
K. Hovnanian Cypress Creek, LLC	FL
K. Hovnanian Cypress Key, LLC	FL
K. Hovnanian Estates at Wekiva, LLC	FL
K. HOVNANIAN FIRST HOMES, L.L.C.	FL
K. Hovnanian Florida Realty, L.L.C.	FL
K. Hovnanian Grand Cypress, LLC	FL
K. Hovnanian Grandefield, LLC	FL
K. Hovnanian Homes of Florida I, LLC	FL
K. Hovnanian Lake Parker, LLC	FL
K. Hovnanian Magnolia at Westside, LLC	FL
K. Hovnanian Montclaire Estates, LLC	FL
K. HOVNANIAN PRESERVE AT TURTLE CREEK LLC	FL
K. Hovnanian Reynolds Ranch, LLC	FL
K. Hovnanian Riverside, LLC	FL
K. Hovnanian Sereno, LLC	FL
K. Hovnanian South Fork, LLC	FL
K. Hovnanian Sterling Ranch, LLC	FL
K. Hovnanian T&C Homes at Florida, L.L.C.	FL
K. Hovnanian TerraLargo, LLC	FL
K. Hovnanian Union Park, LLC	FL
K. Hovnanian Winding Bay Preserve, LLC	FL
K. HOVNANIAN WINDWARD HOMES, LLC	FL
K. Hovnanian at The Commons at Richmond Hill, LLC	GA
K. Hovnanian at Westbrook, LLC	GA
K. Hovnanian Developments of Georgia, Inc.	GA
K. Hovnanian Homes at Creekside, LLC	GA
K. Hovnanian Homes of Georgia, L.L.C.	GA
Amber Ridge, LLC	IL
Arbor Trails, LLC	IL
Eastern Title Agency of Illinois, LLC	IL
Glenrise Grove, L.L.C.	IL
K. Hovnanian at Amberley Woods, LLC	IL

K. Hovnanian at Bradwell Estates, LLC	IL
K. Hovnanian at Christina Court, LLC	IL
K. Hovnanian at Estates of Fox Chase, LLC	IL
K. Hovnanian at Fairfield Ridge, LLC	IL
K. Hovnanian at Hanover Estates, LLC	IL
K. Hovnanian at Island Lake, LLC	IL
K. Hovnanian at Link Farm, LLC	IL
K. Hovnanian at Maple Hill LLC	IL
K. Hovnanian at Meadowridge Villas, LLC	IL
K. Hovnanian at Northridge Estates, LLC	IL
K. Hovnanian at Orchard Meadows, LLC	IL
K. Hovnanian at Prairie Pointe, LLC	IL
K. Hovnanian at Randall Highlands, LLC	IL
K. Hovnanian at River Hills, LLC	IL
K. Hovnanian at Sagebrook, LLC	IL
K. Hovnanian at Silverwood Glen, LLC	IL
K. Hovnanian at Somerset, LLC	IL
K. HOVNANIAN AT TAMARACK SOUTH LLC	IL
K. Hovnanian at Tanglewood Oaks, LLC	IL
K. Hovnanian at Trafford Place, LLC	IL
K. Hovnanian at Tramore LLC	IL
K. Hovnanian Developments of Illinois, Inc.	IL
K. Hovnanian Estates at Regency, L.L.C.	IL
K. Hovnanian T&C Homes at Illinois, L.L.C.	IL
K. Hovnanian's Four Seasons at Briargate, LLC	IL
K. Hovnanian at Norton Lake LLC	IL
K. Hovnanian Developments of Kentucky, Inc.	KY
K. Hovnanian Summit Homes of Kentucky, L.L.C.	KY
Founders Title Agency of Maryland, L.L.C.	MD
Homebuyers Financial Services, L.L.C.	MD
Hovnanian Land Investment Group of Maryland, L.L.C.	MD
Hovnanian Land Investment Group, L.L.C.	MD
K Hovnanian Homes at Maxwell Place, L.L.C.	MD
K. Hovnanian at Caton's Reserve, LLC	MD
K. Hovnanian at Eden Terrace, L.L.C.	MD
K. Hovnanian at Roderuck, L.L.C.	MD
K. HOVNANIAN COMPANIES OF MARYLAND, INC.	MD
K. HOVNANIAN DEVELOPMENTS OF MARYLAND, INC.	MD
K. Hovnanian Homes at Camp Springs, L.L.C.	MD
K. Hovnanian Homes at Greenway Farm Park Towns, L.L.C.	MD
K. Hovnanian Homes at Greenway Farm, L.L.C.	MD
K. Hovnanian Homes at Jones Station 1, L.L.C.	MD
K. Hovnanian Homes at Russett, L.L.C.	MD
K. Hovnanian Homes at the Highlands, LLC	MD
K. Hovnanian Homes of Maryland I, LLC	MD
K. Hovnanian Homes of Maryland II, LLC	MD
K. Hovnanian Homes of Maryland, L.L.C.	MD
K. Hovnanian's Four Seasons at Kent Island Condominiums, L.L.C.	MD
K. Hovnanian's Four Seasons at Kent Island, L.L.C.	MD
K. Hovnanian's Four Seasons at St. Margarets Landing, L.L.C.	MD
PADDOCKS, L.L.C.	MD
Pine Ayr, LLC	MD
Ridgemore Utility L.L.C.	MD
K. Hovnanian Developments of Minnesota, Inc.	MN
K. Hovnanian Homes of Minnesota at Arbor Creek, LLC	MN
K. Hovnanian Homes of Minnesota at Autumn Meadows, LLC	MN
K. Hovnanian Homes of Minnesota at Brynwood, LLC	MN
K. Hovnanian Homes of Minnesota at Cedar Hollow, LLC	MN
K. Hovnanian Homes of Minnesota at Founder's Ridge, LLC	MN
K. Hovnanian Homes of Minnesota at Harpers Street Woods, LLC	MN
K. Hovnanian Homes of Minnesota at Oaks of Oxbow, LLC	MN
K. Hovnanian Homes of Minnesota at Regent's Point, LLC	MN
K. Hovnanian Homes of Minnesota, L.L.C.	MN
K. Hovnanian Liberty on Bluff Creek, LLC	MN
K. Hovnanian Timbres at Elm Creek, LLC	MN
K. Hovnanian's Four Seasons at Rush Creek II, LLC	MN
K. Hovnanian's Four Seasons at Rush Creek, L.L.C.	MN
K. Hovnanian at Burch Kove, LLC	NC
K. Hovnanian at Indian Wells, LLC	NC
K. Hovnanian at Lily Orchard, LLC	NC
K. Hovnanian at Main Street Square, LLC	NC
K. Hovnanian at Oak Pointe, LLC	NC
K. Hovnanian at The Promenade at Beaver Creek, LLC	NC
K. Hovnanian at Wheeler Woods, LLC	NC

K. Hovnanian Developments of North Carolina, Inc.	NC
K. Hovnanian Homes at Brook Manor, LLC	NC
K. Hovnanian Homes at Reedy Creek, LLC	NC
K. HOVNANIAN HOMES OF NORTH CAROLINA, INC.	NC
K. Hovnanian Sherwood at Regency, LLC	NC
K. Hovnanian's Four Seasons at Renaissance, L.L.C.	NC
Builder Services NJ, L.L.C.	NJ
EASTERN TITLE AGENCY, INC.	NJ
F&W MECHANICAL SERVICES, L.L.C.	NJ
Hilltop at Cedar Grove Urban Renewal, LLC	NJ
K. HOVNANIAN 77 HUDSON STREET INVESTMENTS, L.L.C.	NJ
K. Hovnanian Acquisitions, Inc.	NJ
K. Hovnanian at Asbury Park Urban Renewal, LLC	NJ
K. Hovnanian at Barnegat I, L.L.C.	NJ
K. Hovnanian at Barnegat II, L.L.C.	NJ
K. Hovnanian at Branchburg II, LLC	NJ
K. Hovnanian at Branchburg, L.L.C.	NJ
K. Hovnanian at Branchburg-Vollers, LLC	NJ
K. Hovnanian at Bridgewater I, L.L.C.	NJ
K. Hovnanian at Cedar Grove III, L.L.C.	NJ
K. Hovnanian at Chesterfield, L.L.C.	NJ
K. Hovnanian at Denville, L.L.C.	NJ
K. Hovnanian at Deptford Township, L.L.C.	NJ
K. Hovnanian at Dunellen Urban Renewal, LLC	NJ
K. Hovnanian at East Brunswick III, LLC	NJ
K. Hovnanian at East Brunswick, LLC	NJ
K. Hovnanian at East Windsor, LLC	NJ
K. Hovnanian at Edgewater II, L.L.C.	NJ
K. Hovnanian at Edgewater, L.L.C.	NJ
K. Hovnanian at Egg Harbor Township II, L.L.C.	NJ
K. Hovnanian at Egg Harbor Township, L.L.C.	NJ
K. Hovnanian at Fifth Avenue, L.L.C.	NJ
K. Hovnanian at Florence I, L.L.C.	NJ
K. Hovnanian at Florence II, L.L.C.	NJ
K. Hovnanian at Forest Meadows, L.L.C.	NJ
K. Hovnanian at Franklin II, L.L.C.	NJ
K. Hovnanian at Franklin, L.L.C.	NJ
K. Hovnanian at Freehold Township III, LLC	NJ
K. Hovnanian at Great Notch, L.L.C.	NJ
K. Hovnanian at Hackettstown II, L.L.C.	NJ
K. Hovnanian at Hillsborough, LLC	NJ
K. Hovnanian at Howell Fort Plains, LLC	NJ
K. Hovnanian at Howell II, LLC	NJ
K. Hovnanian at Howell, LLC	NJ
K. HOVNANIAN AT HUDSON POINTE, L.L.C.	NJ
K. Hovnanian at Jackson I, L.L.C.	NJ
K. Hovnanian at Jackson, L.L.C.	NJ
K. Hovnanian at Jersey City IV, L.L.C.	NJ
K. Hovnanian at Keyport, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor Township II, L.L.C.	NJ
K. Hovnanian at Little Egg Harbor, L.L.C	NJ
K. Hovnanian at Mahwah VI, Inc.	NJ
K. Hovnanian at Manalapan Crossing, LLC	NJ
K. HOVNANIAN AT MANALAPAN II, L.L.C.	NJ
K. Hovnanian at Manalapan III, L.L.C.	NJ
K. Hovnanian at Manalapan IV, LLC	NJ
K. Hovnanian at Manalapan V, LLC	NJ
K. Hovnanian at Manalapan VI, LLC	NJ
K. Hovnanian at Maple Avenue, L.L.C.	NJ
K. Hovnanian at Marlboro Township IX, L.L.C.	NJ
K. Hovnanian at Marlboro Township V, L.L.C.	NJ
K. Hovnanian at Marlboro VI, L.L.C.	NJ
K. Hovnanian at Mendham Township, L.L.C.	NJ
K. Hovnanian at Middle Township II, L.L.C.	NJ
K. Hovnanian at Middle Township, L.L.C.	NJ
K. Hovnanian at Middletown II, L.L.C.	NJ
K. Hovnanian at Middletown III, LLC	NJ
K. Hovnanian at Millville I, L.L.C.	NJ
K. Hovnanian at Millville II, L.L.C.	NJ
K. Hovnanian at Monroe IV, L.L.C.	NJ
K. Hovnanian at Monroe NJ II, LLC	NJ
K. Hovnanian at Monroe NJ III, LLC	NJ
K. Hovnanian at Monroe NJ, L.L.C.	NJ
K. Hovnanian at Montgomery, LLC	NJ
K. Hovnanian at Montvale II, LLC	NJ

K. Hovnanian at Montvale, L.L.C.	NJ
K. Hovnanian at Morris Twp II, LLC	NJ
K. Hovnanian at Morris Twp, LLC	NJ
K. Hovnanian at North Bergen. L.L.C.	NJ
K. Hovnanian at North Caldwell II, L.L.C.	NJ
K. Hovnanian at North Caldwell III, L.L.C.	NJ
K. Hovnanian at North Caldwell IV, L.L.C.	NJ
K. Hovnanian at North Wildwood, L.L.C.	NJ
K. Hovnanian at Northfield, L.L.C.	NJ
K. Hovnanian at Oakland, LLC	NJ
K. Hovnanian at Ocean Township, Inc	NJ
K. Hovnanian at Oceanport, L.L.C.	NJ
K. Hovnanian at Old Bridge II, LLC	NJ
K. Hovnanian at Old Bridge, L.L.C.	NJ
K. Hovnanian at Parsippany, L.L.C.	NJ
K. Hovnanian at Pittsgrove, L.L.C.	NJ
K. Hovnanian at Port Imperial Investment, LLC	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL V, L.L.C.	NJ
K. HOVNANIAN AT PORT IMPERIAL URBAN RENEWAL VIII, L.L.C.	NJ
K. Hovnanian at Ridgemont, L.L.C.	NJ
K. Hovnanian at Rock Ledge, LLC	NJ
K. Hovnanian at Shrewsbury, LLC	NJ
K. Hovnanian at Smithville, Inc.	NJ
K. Hovnanian at South Brunswick II, LLC	NJ
K. Hovnanian at South Brunswick III, LLC	NJ
K. Hovnanian at South Brunswick IV, LLC	NJ
K. Hovnanian at South Brunswick, L.L.C.	NJ
K. Hovnanian at Station Square, L.L.C.	NJ
K. Hovnanian at The Monarch, L.L.C.	NJ
K. HOVNANIAN AT VERONA URBAN RENEWAL, L.L.C.	NJ
K. Hovnanian at Wall Donato, LLC	NJ
K. Hovnanian at Warren Township II, LLC	NJ
K. Hovnanian at Warren Township, L.L.C.	NJ
K. Hovnanian at Watchung Heights, LLC	NJ
K. Hovnanian at Wayne IX, L.L.C.	NJ
K. Hovnanian at Wildwood Bayside, L.L.C.	NJ
K. Hovnanian at Woolwich I, L.L.C.	NJ
K. Hovnanian Construction II, Inc	NJ
K. Hovnanian Construction III, Inc	NJ
K. Hovnanian Construction Management, Inc.	NJ
K. Hovnanian Holdings NJ, L.L.C.	NJ
K. Hovnanian Investments, L.L.C.	NJ
K. Hovnanian Manalapan Acquisition, LLC	NJ
K. Hovnanian Northeast Services, L.L.C.	NJ
K. Hovnanian Port Imperial Urban Renewal, Inc.	NJ
K. Hovnanian Properties of Red Bank, LLC	NJ
K. Hovnanian Southern New Jersey, L.L.C.	NJ
K. Hovnanian TBD, LLC	NJ
K. Hovnanian Venture I, L.L.C.	NJ
LANDARAMA, INC.	NJ
M & M at Monroe Woods, L.L.C.	NJ
M&M at Chesterfield, L.L.C.	NJ
M&M AT Crescent Court, L.L.C.	NJ
M&M at West Orange, L.L.C.	NJ
Matzel & Mumford at Egg Harbor, L.L.C.	NJ
MCNJ, Inc.	NJ
MM-Beachfront North I, LLC	NJ
Route 1 and Route 522, L.L.C.	NJ
Terrapin Realty, L.L.C.	NJ
The Matzel & Mumford Organization, Inc	NJ
K. Hovnanian at Waldwick, LLC	NJ
K. Hovnanian Classics, L.L.C.	NJ
K. Hovnanian at Northern Westchester Inc.	NY
K. HOVNANIAN COMPANIES OF NEW YORK, INC.	NY
K. Hovnanian Developments of New York, Inc.	NY
K. Hovnanian Aberdeen, LLC	OH
K. Hovnanian Belden Pointe, LLC	OH
K. Hovnanian Cornerstone Farms, LLC	OH
K. Hovnanian Developments of Ohio, Inc.	OH
K. Hovnanian Edgebrook, LLC	OH
K. Hovnanian Falls Pointe, LLC	OH
K. Hovnanian Forest Valley, LLC	OH

K. Hovnanian Hidden Hollow, LLC	OH
K. Hovnanian Highland Ridge, LLC	OH
K. Hovnanian Indian Trails, LLC	OH
K. Hovnanian LaDue Reserve, LLC	OH
K. Hovnanian Lakes of Green, LLC	OH
K. Hovnanian Landings 40s, LLC	OH
K. Hovnanian Monarch Grove, LLC	OH
K. Hovnanian Northpointe 40s, LLC	OH
K. Hovnanian Norton Place, LLC	OH
K. Hovnanian of Ohio, LLC	OH
K. Hovnanian Ohio Realty, L.L.C.	OH
K. Hovnanian Rivendale, LLC	OH
K. Hovnanian Schady Reserve, LLC	OH
K. Hovnanian Summit Homes, L.L.C.	OH
K. Hovnanian Village Glen, LLC	OH
K. Hovnanian Waterbury, LLC	OH
K. Hovnanian White Road, LLC	OH
K. Hovnanian Woodland Pointe, LLC	OH
MIDWEST BUILDING PRODUCTS & CONTRACTOR SERVICES, L.L.C.	OH
New Home Realty, LLC	OH
K. Hovnanian Contractors of Ohio, LLC	OH
K. Hovnanian Woodridge Place, LLC	OH
Builder Services PA, L.L.C.	PA
Governor's Abstract Co., Inc.	PA
K. Hovnanian at Allentown, L.L.C.	PA
K. HOVNANIAN AT CAMP HILL, L.L.C.	PA
K. Hovnanian at Doylestown, LLC	PA
K. Hovnanian at East Brandywine, L.L.C.	PA
K. Hovnanian at Hershey's Mill, Inc.	PA
K. Hovnanian at Lower Macungie Township I, L.L.C.	PA
K. Hovnanian at Lower Macungie Township II, L.L.C.	PA
K. Hovnanian at Lower Makefield Township I, L.L.C.	PA
K. Hovnanian at Lower Moreland II, L.L.C.	PA
K. Hovnanian at Marple, LLC	PA
K. Hovnanian at Middletown, LLC	PA
K. Hovnanian at Northampton, L.L.C.	PA
K. HOVNANIAN AT PHILADELPHIA I, L.L.C.	PA
K. HOVNANIAN AT RAPHO, L.L.C	PA
K. Hovnanian at Sawmill, Inc.	PA
K. Hovnanian at Silver Spring, L.L.C.	PA
K. Hovnanian at Upper Uwchlan II, L.L.C.	PA
K. Hovnanian at Upper Uwchlan, L.L.C.	PA
K. Hovnanian at Whitemarsh, LLC	PA
K. Hovnanian Companies of Pennsylvania, Inc.	PA
K. Hovnanian Developments of Pennsylvania, Inc.	PA
K. Hovnanian Eastern Pennsylvania, L.L.C.	PA
K. HOVNANIAN HOMES OF PENNSYLVANIA, L.L.C.	PA
K. Hovnanian PA Real Estate, Inc.	PA
K. Hovnanian Pennsylvania Acquisitions, L.L.C.	PA
K. Hovnanian Summit Homes of Pennsylvania, L.L.C.	PA
Midwest Building Products & Contractor Services of Pennsylvania, L.L.C.	PA
K. Hovnanian at Upper Providence, LLC	PA
K. Hovnanian at Coosaw Point, LLC	SC
K. Hovnanian at Fox Path at Hampton Lake, LLC	SC
K. Hovnanian at Hampton Lake, LLC	SC
K. Hovnanian at Magnolia Place, LLC	SC
K. Hovnanian at Pinckney Farm, LLC	SC
K. Hovnanian CraftBuilt Homes of South Carolina, L.L.C.	SC
K. Hovnanian Developments of South Carolina, Inc.	SC
K. Hovnanian Homes at Salt Creek Landing, LLC	SC
K. Hovnanian Homes at Shell Hall, LLC	SC
K. Hovnanian Homes at St. James Place, LLC	SC
K. Hovnanian Homes at The Abby, LLC	SC
K. Hovnanian Homes at The Paddocks, LLC	SC
K. Hovnanian Homes of South Carolina, LLC	SC
K. Hovnanian's Four Seasons at Malind Bluff, LLC	SC
Shell Hall Club Amenity Acquisition, LLC	SC
Shell Hall Land Acquisition, LLC	SC
K. Hovnanian Developments of Texas, Inc.	TX
K. Hovnanian DFW Auburn Farms, LLC	TX
K. Hovnanian DFW Bayside, LLC	TX
K. Hovnanian DFW Belmont, LLC	TX

K. Hovnanian DFW Berkshire II, LLC	TX
K. Hovnanian DFW Berkshire, LLC	TX
K. Hovnanian DFW Carillon, LLC	TX
K. Hovnanian DFW Commodore at Preston, LLC	TX
K. Hovnanian DFW Creekside Estates II, LLC	TX
K. Hovnanian DFW Encore of Las Colinas II, LLC	TX
K. Hovnanian DFW Encore of Las Colinas, LLC	TX
K. Hovnanian DFW Harmon Farms, LLC	TX
K. Hovnanian DFW Heritage Crossing, LLC	TX
K. Hovnanian DFW Heron Pond, LLC	TX
K. Hovnanian DFW High Pointe, LLC	TX
K. Hovnanian DFW Homestead, LLC	TX
K. Hovnanian DFW Inspiration, LLC	TX
K. Hovnanian DFW Lexington, LLC	TX
K. Hovnanian DFW Liberty Crossing II, LLC	TX
K. Hovnanian DFW Liberty Crossing, LLC	TX
K. Hovnanian DFW Liberty, LLC	TX
K. Hovnanian DFW Light Farms II, LLC	TX
K. Hovnanian DFW Light Farms, LLC	TX
K. Hovnanian DFW Maxwell Creek, LLC	TX
K. Hovnanian DFW Midtown Park, LLC	TX
K. Hovnanian DFW Mustang Lakes II, LLC	TX
K. Hovnanian DFW Mustang Lakes, LLC	TX
K. Hovnanian DFW Palisades, LLC	TX
K. Hovnanian DFW Parkside, LLC	TX
K. Hovnanian DFW Parkview, LLC	TX
K. Hovnanian DFW Richwoods, LLC	TX
K. Hovnanian DFW Ridgeview, LLC	TX
K. Hovnanian DFW Sanford Park, LLC	TX
K. Hovnanian DFW Seventeen Lakes, LLC	TX
K. Hovnanian DFW Trailwood II, LLC	TX
K. Hovnanian DFW Trailwood, LLC	TX
K. Hovnanian DFW Villas at Mustang Park, LLC	TX
K. Hovnanian DFW Watson Creek, LLC	TX
K. Hovnanian DFW Wellington, LLC	TX
K. Hovnanian DFW Wildridge, LLC	TX
K. Hovnanian Homes - DFW, L.L.C.	TX
K. Hovnanian Homes of Houston, L.L.C.	TX
K. Hovnanian Houston Bayou Oaks at West Orem, LLC	TX
K. Hovnanian Houston Cambridge Heights, LLC	TX
K. Hovnanian Houston City Heights, LLC	TX
K. Hovnanian Houston Creek Bend, LLC	TX
K. Hovnanian Houston Dry Creek Village, LLC	TX
K. Hovnanian Houston Katy Pointe, LLC	TX
K. Hovnanian Houston Lakes of Bella Terra West, LLC	TX
K. Hovnanian Houston Laurel Glen, LLC	TX
K. Hovnanian Houston Midtown Park I, LLC	TX
K. Hovnanian Houston Park Lakes East, LLC	TX
K. Hovnanian Houston Sunset Ranch, LLC	TX
K. Hovnanian Houston Terra Del Sol, LLC	TX
K. Hovnanian Houston Thunder Bay Subdivision, LLC	TX
K. Hovnanian Houston Tranquility Lake Estates, LLC	TX
K. Hovnanian Houston Woodshore, LLC	TX
K. Hovnanian of Houston II, L.L.C.	TX
PARK TITLE COMPANY, LLC	TX
K. Hovnanian DFW Creekside Estates, LLC	TX
FOUNDERS TITLE AGENCY, INC.	VA
K. Hovnanian at Canter V, LLC	VA
K. Hovnanian at Dominion Crossing, LLC	VA
K. Hovnanian at Embrey Mill Village, LLC	VA
K. Hovnanian at Embrey Mill, LLC	VA
K. Hovnanian at Estates at Wheatlands, LLC	VA
K. Hovnanian at Hunter's Pond, LLC	VA
K. Hovnanian at Lake Ridge Estates, LLC	VA
K. Hovnanian at Lake Terrapin, L.L.C.	VA
K. Hovnanian at Lee Square, L.L.C.	VA
K. Hovnanian at Lenah Woods, LLC	VA
K. Hovnanian at Pelham's Reach, LLC	VA
K. Hovnanian at Raymond Farm, LLC	VA
K. Hovnanian at Reserves at Wheatlands, LLC	VA
K. Hovnanian at Residence at Discovery Square, LLC	VA
K. Hovnanian at Seasons Landing, LLC	VA
K. Hovnanian at Signal Hill, LLC	VA
K. Hovnanian at Village of Round Hill, LLC	VA
K. Hovnanian at Waterford, LLC	VA

K. Hovnanian at Wellsprings, LLC	VA
K. Hovnanian at Willowsford Windmill, LLC	VA
K. Hovnanian Developments of Virginia, Inc.	VA
K. Hovnanian Homes at Bock Farm, LLC	VA
K. Hovnanian Homes at Burke Junction, LLC	VA
K. Hovnanian Homes at Leigh Mill, LLC	VA
K. Hovnanian Homes at Pender Oaks, LLC	VA
K. Hovnanian Homes at Thompson's Grant, LLC	VA
K. Hovnanian Homes at Willowsford Grange, LLC	VA
K. Hovnanian Homes at Willowsford Grant, LLC	VA
K. Hovnanian Homes at Willowsford Greens, LLC	VA
K. Hovnanian Homes at Willowsford New, LLC	VA
K. Hovnanian Homes of Virginia I, LLC	VA
K. Hovnanian Homes of Virginia, Inc.	VA
K. Hovnanian Summit Holdings, L.L.C.	VA
K. Hovnanian's Four Seasons at Charlottesville, L.L.C.	VA
K. Hovnanian's Four Seasons at New Kent Vineyards, L.L.C.	VA
LAUREL HIGHLANDS, LLC	VA
K. Hovnanian at Huntfield, LLC	WV
K. Hovnanian Developments of West Virginia, Inc.	WV
K. Hovnanian Homes at Shenandoah Springs, LLC	WV
K. HOVNANIAN HOMES OF WEST VIRGINIA, L.L.C.	WV
K. Hovnanian Summit Homes of West Virginia, L.L.C.	WV
Midwest Building Products & Contractor Services of West Virginia, L.L.C.	WV

CERTIFICATIONS
Exhibit 31(a)

I, Ara K. Hovnanian, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended October 31, 2017 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: December 28, 2017

/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 Annual Report on Form 10-K for the year ended October 31, 2017 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: December 28, 2017

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

Exhibit 32(a)

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

In connection with the Annual Report of Hovnanian Enterprises, Inc. (the “Company”) on Form 10-K for the year ended October 31, 2017 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: December 28, 2017

/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 Annual Report of Hovnanian Enterprises, Inc. (the “Company”) on Form 10-K for the year ended October 31, 2017 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: December 28, 2017

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

Exhibit
23(a)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated December 28, 2017, relating to the consolidated financial statements of Hovnanian Enterprises, Inc. and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K of Hovnanian Enterprises, Inc. for the year ended October 31, 2017:

1. Registration Statements Nos. 333-113758, 333-106756, and 333-92977 on Form S-8 pertaining to the Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (which superseded and replaced the Amended and Restated 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan), and Hovnanian Enterprises. Inc. Senior Executive Short-Term Incentive Plan, as amended and restated;

2. Registration Statements Nos. 333-56972, 033-36098, and 002-92773 on Form S-8 pertaining to the Hovnanian Enterprises, Inc.1983 Stock Option Plan as amended and restated;

3. Registration Statement No. 333-56640 on Form S-8 pertaining to the Washington Homes Employee Stock Option Plan;

4. Registration Statement No. 333-180668 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Stock Incentive Plan; and

5. Registration Statement Nos. 333-194542 and 333-210218 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan.

/s/ Deloitte & Touche LLP

New York, New York
December 28, 2017

Exhibit
23(b)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated December 28, 2017, relating to the consolidated financial statements of GTIS-HOV Holdings, LLC. and subsidiaries as of October 31, 2017, and 2016 and for the three years ended October 31, 2017, appearing in this Annual Report on Form 10-K of Hovnanian Enterprises, Inc. for the year ended October 31, 2017:

1. Registration Statements Nos. 333-113758, 333-106756, and 333-92977 on Form S-8 pertaining to the Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (which superseded and replaced the Amended and Restated 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan), and Hovnanian Enterprises. Inc. Senior Executive Short-Term Incentive Plan, as amended and restated;

2. Registration Statements Nos. 333-56972, 033-36098, and 002-92773 on Form S-8 pertaining to the Hovnanian Enterprises, Inc.1983 Stock Option Plan as amended and restated;

3. Registration Statement No. 333-56640 on Form S-8 pertaining to the Washington Homes Employee Stock Option Plan;

4. Registration Statement No. 333-180668 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Stock Incentive Plan; and

5. Registration Statement Nos. 333-194542 and 333-210218 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan.

/s/ Deloitte & Touche LLP

New York, New York
December 28, 2017

Exhibit
23(c)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our report dated December 28, 2017, relating to the consolidated financial statements of GTIS-HOV Holdings V, LLC. and subsidiaries as of October 31, 2017, and 2016 and for the year ended October 31, 2017 and the period from April 29, 2016 (inception) through October 31, 2016, appearing in this Annual Report on Form 10-K of Hovnanian Enterprises, Inc. for the year ended October 31, 2017:

1. Registration Statements Nos. 333-113758, 333-106756, and 333-92977 on Form S-8 pertaining to the Amended and Restated 2008 Hovnanian Enterprises, Inc. Stock Incentive Plan (which superseded and replaced the Amended and Restated 1999 Hovnanian Enterprises, Inc. Stock Incentive Plan), and Hovnanian Enterprises. Inc. Senior Executive Short-Term Incentive Plan, as amended and restated;

2. Registration Statements Nos. 333-56972, 033-36098, and 002-92773 on Form S-8 pertaining to the Hovnanian Enterprises, Inc.1983 Stock Option Plan as amended and restated;

3. Registration Statement No. 333-56640 on Form S-8 pertaining to the Washington Homes Employee Stock Option Plan;

4. Registration Statement No. 333-180668 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Stock Incentive Plan; and

5. Registration Statement Nos. 333-194542 and 333-210218 on Form S-8 pertaining to the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan.

/s/ Deloitte & Touche LLP

New York, New York
December 28, 2017

Exhibit 10(qqq)

July 24, 2015
Lucian Theon Smith III

Dear Lou:

Congratulations! This letter confirms our offer and your acceptance of the EVP, Homebuilding Operations position starting on the same date your Phoenix Group President successor commences employment. Details of our offer are outlined below.

POSITION:
EVP, Homebuilding Operations (effective on the same date as your Phoenix Group President successor commences employment). Upon Thomas Pellerito's retirement at some future date, you will be appointed Chief Operating Officer ("COO").

Note that your compensation outlined in this offer letter will not change upon your appointment to COO.

REPORTING TO:
Thomas Pellerito, COO, until such time as he retires which the Company does not anticipate occurring before November 1, 2016. Upon your appointment to COO, you will report to Ara Hovnanian, Chairman, President and Chief Executive Officer.

SALARY:

Effective December 19, 2015, annual salary of $550,000.00, paid bi-weekly.
Effective December 17, 2016, annual salary of $650,000.00, paid bi-weekly.
Effective December 16, 2017, annual salary of $700,000.00, paid bi-weekly.

AUTO ALLOWANCE:

Effective December 17, 2016, annual auto allowance of $24,000.00, paid bi-weekly.

INCENTIVE PROFIT SHARING PROGRAM:
For Fiscal Years 2017 and 2018, you are eligible for a guaranteed Incentive Profit Sharing Award equal to 10% more than the actual award calculation under your existing Group President Incentive Profit Sharing Program P57 (attached as Exhibit A) for each respective fiscal year (calculated using your then annual base salary and the Customer Satisfaction and Mortgage Capture Performance Levels in effect for each respective fiscal year) provided that you remain continuously employed with the Company through the payout date which will be no later than two and one-half months following the close of the fiscal year. Thereafter, you will be eligible for a Corporate-based program once the Corporate Executive Incentive Profit Sharing Program is reestablished.

Normally, your Incentive Profit Sharing Award would be paid seventy percent (70%) in cash on the scheduled payout date, and thirty percent (30%) of your Award would be deferred and converted into deferred shares of Hovnanian Enterprises, Inc. common stock in accordance with and subject to the vesting and other requirements described in the Hovnanian Deferred Share Policy which was previously provided to you. However, for Fiscal Years 2017 and 2018, your Incentive Profit Sharing Award will be paid in cash.

EQUITY:

You will receive a grant of 100,000 restricted share units on the effective date of your promotion to EVP, Homebuilding Operations. Twenty percent of the award will vest on the third anniversary of the grant, 40% of the award will vest on the fourth anniversary of the grant and the remaining 40% of the award will vest on the fifth anniversary of the grant. The sample restricted share unit form of agreement is attached as Exhibit B.

In June 2016, you will be eligible to receive a grant of 60,000 Market Share Units (MSUs) at target stock price performance/105,000 MSUs at maximum stock price performance. Generally, twenty-five percent of each award will vest on the second anniversary of the grant and an additional 25% will vest on each of the three succeeding anniversaries of the grant. You will be eligible for subsequent annual equity grants.

LONG-TERM INCENTIVE PROGRAM:
Effective November 1, 2015, you will be eligible to participate in the 2016 Long-Term Incentive Program at a target multiple of 2 times your base salary in effect on December 19, 2015. Beginning with the anticipated 2019 Long-Term Incentive Program, your target multiple of 2 times base salary will be based on your base salary in effect on December 16, 2017.

SEVERANCE:
If your employment is terminated by the Company, other than for Cause (as defined below), then subject to your execution and delivery of a general release of claims in favor of the Company and its affiliates in the form attached hereto as Exhibit C within 21 days following the date of your termination and your non-revocation of such release during the 7 day period following your execution thereof, you are eligible to participate in the Company's normal Severance Pay Program which currently provides 52 weeks of base salary in effect at the time of your termination, less lawful deductions; provided that, if Alexander Hovnanian is appointed to the COO position within two years of such termination, in lieu of any payments under the Company's normal Severance Pay Program, you will be entitled to receive the following payments, less any amounts already paid to you under the Company's normal Severance Pay Program:

a. the equivalent of 52 weeks of your base salary in effect as of the date of your termination, less lawful deductions; and
b. the average amount earned by you as an Incentive Profit Sharing Award with respect to the two most recent completed fiscal years preceding your termination date up to a maximum of $2 million, less lawful deductions.

"Cause" shall mean the occurrence of any of the following:

a. your willful and continued failure to perform substantially all your duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to you by the Company, which specifically identifies the manner in which the Company believes you have not substantially performed your duties;
b. dishonesty in the performance of your duties with the Company;
c. your conviction of, or plea of guilty or nob contendere to, a crime under the laws of the United States or any state thereof constituting (x) a felony or (y) a misdemeanor involving moral turpitude;
d. your willful malfeasance or willful misconduct in connection with your duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or
e. your breach of the provisions of Company Policy HR056 Confidentiality/Non-Disclosure/Trade Secrets which is attached as Exhibit D.

CHANGE IN CONTROL:

If not already provided for in the applicable award agreement and subject to your execution, delivery and non-revocation of a general release as discussed under "Severance" above, if your employment is terminated by the Company other than for Cause (as defined above) within two years following a Change in Control (as defined below), you shall be entitled to receive any unpaid, earned portions of your respective Long-Term Incentive Program awards on the scheduled payout dates as if there was no termination of employment provided that such termination occurs on or after the end of each respective Long-Term Incentive Program 'Performance Period" (as defined in the applicable award agreement).

"Change in Control" shall be determined by reference to the definition of "Change in Control" contained in the 2012 Hovnanian Enterprises, Inc. Amended and Restated Stock Incentive Plan.

in addition, you continue to be eligible for the Change in Control provisions outlined in your outstanding equity award agreements.

SECTION 409A:

This offer letter is intended to comply with Section 409A of the Internal Revenue Code ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A, Notwithstanding any other provision of this offer letter, payments provided under this offer letter may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this offer letter that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this offer letter shall be treated as a separate payment. Any payments to be made under this offer letter upon a termination of employment that are subject to Section 409A shall only be made upon a "separation from service" under Section 409A.

Notwithstanding any other provision of this offer letter, if any payment or benefit provided to you in connection with termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and you are determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of your termination date (the "Specified Employee Payment Date") or, if earlier, on the date of your death. The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to you in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

Ara K. Hovnanian

Chairman, President and Chief Executive Officer

ACCEPTED:

Name

Date

I am delighted you've decided to accept this opportunity and I look forward to working with you in this capacity.

/s/ Lucian Theon Smith

/s/ Ara K. Hovnanian

Sincerely,

7/24/15

Exhibit A

K. Hovnanian Incentive Profit Sharing Program - Fiscal Year 2015
Program Code P57 — Group President — Phoenix Group
Lucian Theon Smith III

This Program Design document provides key highlights of the K. Hovnanian Incentive Profit Sharing Program named above for the November 1, 2014— October 31, 2015 Program period. The Program is subject to Corporate Policies and Procedures including, but not limited to, HR055 Incentive and Cash Profit Sharing Programs, IIR056 Confidentiality/Non-Disclosure Policy, 1172057 Non-Solicitation Policy, and to the Hovnanian Deferred Share Policy. (You may contact your local HR Representative to review these documents or view them on HovShare.khov.com)

Performance Measures, Performance Levels and Performance Awards
The following is a summary of your annual opportunity for an incentive profit sharing Award. Awards will be granted for each separate Performance Measure provided the minimum or stated Performance Level is achieved in accordance with the following table and provided that Group ROI is greater than zero, If ROI is zero or lower, the Annual Performance Award potential for Customer Satisfaction and Mortgage Capture will be reduced to fifty percent (50%) of the Annual Performance Awards listed below.

If a Performance Measure falls between Performance Levels, the Performance Award will be interpolated, as appropriate.

Performance Measures	Performance Levels		Annual Performance Awards(1)
Group ROI		0.00-10.00%	1.25% of Group Pre-tax Profit
		15.00%	1.50% of Group Pre-tax Profit
		20.00%	1.75% of Group Pre-tax Profit
		25.00%+	2.00% of Group Pre-tax Profit
Customer Satisfaction	Threshold	80.00%	10.00% of base salary

	Target	85.00%	20.00% of base salary
	Outstanding	90.00%	30.00% of base salary
Mortgage Capture	Threshold	75.00%	5.00% of base salary
	Target	80.00%	10.00% of base salary
	Outstanding	85.00%	15.00% of base salary
Discretionary			Up to $115,000

(I) The Customer Satisfaction and Mortgage Capture Awards will be halved if ROI ≤ 0

Payout Method and Conditions For Earning Award
Normally, your incentive profit sharing Award would be paid seventy percent (70%) in cash on the scheduled payout date, and thirty percent (30%) of your Award would be deferred and converted into deferred shares of Hovnanian Enterprises, Inc. common stock in accordance with and subject to the vesting and other requirements described in the Hovnanian Deferred Share Policy. However, for Fiscal Year 2015, your incentive profit sharing Award will be paid entirely in cash on the scheduled payout date.

Incentive profit sharing Awards reward individual performance, Company performance and Associate retention. Accordingly, as a condition of earning each cash Award, subject to the exceptions noted in Policy 1114055, Associates must be employed as of the scheduled payout date. The payout date will be no later than two and one-half months following the October 31st close of the Program period. As a condition of receiving the Deferred Share Award, Associates must be employed as of the date the Award vests, as specified in the Deferred Share Policy.

Definitions and Program Details
All Awards are subject to the conditions of Policy HR055 including, but not limited to, the retention requirements. Awards are based on the Program results for the Phoenix Group as it existed on November 1, 2014, Any company acquisitions, significant land pool purchases, or existing operations which would come under your report would not be included and would be handled separately.

If there are significant changes regarding our method of financing (e.g., construction perms or third-party debt refinancings), then the incentive profit sharing formula will be revisited. If joint ventures are utilized, the ROI calculation will be adjusted to neutralize the effect.

Exhibit A

Annual Return on Inventory (ROI) — is Pre-tax Profit divided by the Average Inventory Balance. The ROI Award is evaluated and paid annually on the scheduled payout date.

Pre-tax Profit — is equal to the profit delivered to Corporate after profit sharing accrual and the allocation of all applicable business unit overhead(s), plus, if applicable, the allocable portion of Title profits for your business unit(s) after profit sharing accrual and all applicable overhead(s) of the Title Company and $1,500 per home closed through K. Hovnanian American Mortgage.

Average Inventory Balance — is the average balance in the inventory accounts utilizing the last day ending balances of these accounts for each of the five consecutive fiscal quarters ending with the last quarter of the fiscal year.

Customer Satisfaction — is based on the number of "Definitely Yes" responses to the question "Overall, would you recommend your builder to family and friends?" on the thirty day survey. The Award is evaluated quarterly and paid annually on the scheduled payout date. It is evaluated quarterly based on the higher of the previous quarter's results or the available cumulative results beginning August 1st of the previous fiscal year. The first quarter calculation will be based on results reported by the survey company on the January 2015 Compensation Report, the second quarter calculation will be based on results reported by the survey company on the April 2015 Compensation Report, the third quarter calculation will be based on results reported by the survey company on the July 2015 Compensation Report and the fourth quarter calculation will be based on results reported by the survey company on the October 2015 Compensation Report.

Mortgage Capture — is calculated based on all closings net of cash sales and Mt. Laurels. In addition, certain denied or specialty loans that K. Hovnanian American Mortgage ("KHAM") cannot offer may be excluded from the capture rate provided that KHAM's conditions for backing out denied/specialty loans are met. The Mortgage Capture Award is evaluated and paid annually on the scheduled payout date,

Discretionaty — At the end of the Program period, a Discretionary Award up to $115,000 may be granted at the discretion of the Chief Operating Officer and the Chairman/President/Chief Executive Officer. The Award will be reduced if any payments are realized from the ROI Measure.

Please sign acknowledgment of receipt below.

READ AND ACKNOWLEDGED ON THIS, THE 9 DAY OF APRIL, 2015

/s/ Lucian Theon Smith

Lucian Theon Smith III

Group President

/s/ Thomas Pellerito

Thomas J. Pellerito

Chief Operating Officer

Exhibit B

2012 HOVNANIAN ENTERPRISES, INC.
AMENDED AND RESTATED STOCK INCENTIVE PLAN

RESTRICTED SHARE UNIT AGREEMENT

Participant: *Date of Grant:*

Number of RSUs:

Dates of Vesting of Class A Shares:

Date ***Number of RSUs***

1.

Grant of RSUs . For valuable consideration, receipt of which is hereby acknowledged, Hovnanian Enterprises, Inc., a Delaware Corporation (the "Company"), hereby grants the number of restricted share units ("RSUs") listed above to the Participant, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms and conditions of the 2012 Company Amended and Restated Stock Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Agreement. Each RSU represents the unfunded, unsecured right of the Participant to receive a Share on the date(s) specified herein. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. Vesting and Timing of Transfer.

(a) The Participant will become vested in the RSUs in accordance with the schedule set forth above; provided, however, that upon the occurrence of a Change in Control that results in the Company's Shares ceasing to be publicly traded on a national securities exchange, the RSUs shall immediately become fully vested (subject to any delay in Share delivery required pursuant to Section 16 hereof).

(b) The Company shall transfer to the Participant, as soon as practicable but not later than 60 days after an applicable vesting date, a number of Class A Shares equal to the number of RSUs that became vested on that vesting date (rounded up to the next whole share), provided, however, that upon the final transfer of Shares to the Participant (i) such number of Shares shall be reduced to the extent necessary to reflect any previous rounding up pursuant to this sentence, and (ii) in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. If the Participant is eligible to participate in, and has elected to defer the transfer of Shares pursuant to the terms of a nonqualified deferred

compensation plan maintained by the Company, such Shares shall be so deferred, and any such deferral, when paid, shall be paid in Shares. Once the transfer of any Shares is deferred, the rights and privileges of the Participant with respect to such Shares shall be determined solely pursuant to the terms of the applicable plan, and not pursuant to the terms and conditions of this Agreement.

(c) Notwithstanding Sections 2(a) and 2(b) of this Agreement, if the Participant's employment with the Company and its Affiliates terminates due to (i) death, (ii) Disability or (iii) Retirement, but only if such Retirement occurs on or after the first anniversary of the Date of Grant indicated above, the Company shall cause there to be transferred to the Participant, as soon as practicable but not later than 60 days after such termination, but subject to Section 16 of this Agreement, a number of Shares equal to the aggregate number of then unvested RSUs granted to the Participant under this Agreement; provided, however, that upon the transfer of such Shares to the Participant, in lieu of a fractional Share, the Participant shall receive a cash payment equal to the Fair Market Value of such fractional Share. In the event of the death of the Participant, the transfer of Shares under this Section 2(c) shall be made in accordance with the beneficiary designation form on file with the Company; provided, however, that, in the absence of any such beneficiary designation form, the transfer of Shares under this Section 2(c) shall be made to the person or persons to whom the Participant's rights under the Agreement shall pass by will or by the applicable laws of descent and distribution. For purposes of this Agreement, "Disability" shall mean "Disability" as defined in the Plan, and "Retirement" shall mean termination of employment on or after age 60, or on or after age 58 with at least 15 years of "Service" to the Company and its Subsidiaries immediately preceding such termination of employment. For this purpose, "Service" means the period of employment immediately preceding Retirement, plus any prior periods of employment with the Company and its Subsidiaries of one or more years' duration, unless they were succeeded by a period of non-employment with the Company and its Subsidiaries of more than three years' duration.

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

(e) Notwithstanding Sections 2(a), 2(b) and 2(c) of this Agreement, upon the Participant's termination of employment for any reason other than (i) death, Disability or Retirement occurring on or after the first anniversary of the Date of Grant indicated above or (ii) under the circumstances described in clause (f) below, any unvested RSUs shall immediately terminate for no further consideration.

(f) Termination without Cause or for Good Reason within Two Years Following a Change in Control . In the event of the Participant's involuntary termination of employment with the Company or a subsidiary thereof without "Cause" or for "Good Reason" within two years following a Change in Control, the RSUs, to the extent not previously vested and settled, shall immediately become fully vested and settled in Shares on the same terms as applicable to a termination due to death or Disability as described under Section 2(c) above. For purposes of this Agreement, "Cause" shall mean the occurrence of any of the following: (a) the willful and continued failure of the Participant to perform substantially all of his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness) for a period of 10 days following a written demand for substantial performance that is delivered to such Participant by the Company, which specifically identifies the manner in which the Company believes the Participant has not substantially performed his or her duties; (b) dishonesty in the performance of the Participant's duties with the Company; (c) the Participant's conviction of, or plea of guilty or nolo contendere to, a crime under the laws of the United States or any state thereof constituting a

felony or a misdemeanor involving moral turpitude; (d) the Participant's willful malfeasance or willful misconduct in connection with the Participant's duties with the Company or any act or omission which is injurious to the financial condition or business reputation of the Company or its affiliates; or (e) the Participant's breach of the provisions of Section 11 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following, without the Participant's express written consent: (a) any material diminution in the Participant's duties, titles or responsibilities with the Company from those in effect immediately prior to a Change in Control; provided, however, that no such material diminution shall be deemed to exist solely because of changes in the Participant's duties, titles or responsibilities as a consequence of the Company ceasing to be a company with publicly traded securities or becoming a wholly owned subsidiary of another entity; or (b) any reduction in the Participant's annual base salary or any material reduction in the Participant's annual bonus opportunity from the Participant's annual base salary or annual bonus opportunity in effect immediately prior to a Change in Control. Notwithstanding the foregoing, no event shall constitute Good Reason unless the Participant provides the Company with written notice of such event within 60 days after the occurrence thereof and the Company fails to cure or resolve the behavior otherwise constituting Good Reason within 30 days of its receipt of such notice.

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

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

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

6. No Acquired Rights. In participating in the Plan, the Participant acknowledges and accepts that the Board has the power to amend or terminate the Plan, to the extent permitted thereunder, at any time and that the opportunity given to the Participant to participate in the Plan is entirely at the discretion of the Committee and does not obligate the Company or any of its Affiliates to offer such participation in the future (whether on the same or different terms). The

Participant further acknowledges and accepts that such Participant's participation in the Plan is not to be considered part of any normal or expected compensation and that the termination of the Participant's employment under any circumstances whatsoever will give the Participant no claim or right of action against the Company or its Affiliates in respect of any loss of rights under this Agreement or the Plan that may arise as a result of such termination of employment.

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

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

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

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

11. Non-Solicitation Covenants.

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

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

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

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

(b) It is expressly understood and agreed that although the Participant and the Company consider the restrictions contained in this Section 11 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or any other restriction contained in this Agreement is an unenforceable restriction against the Participant, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and 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.

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

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

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

<u>15. Signature in Counterparts</u>. 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.

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

Exhibit B

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

HOVNANIAN ENTERPRISES, INC.

By:

Ara K. Hovnanian

President, Chief Executive Officer and Chairman of the Board

By:

PARTICIPANT

Exhibit C

AGREEMENT AND GENERAL RELEASE[1]

Original Issue Date: [insert date]

K. Hovnanian Companies, LLC. (referred to throughout this Agreement as "Employer" or "Hovnanian"), and [insert Associate Name] (referred to throughout this Agreement as "Employee"), agree that:

<u>1. Last Day of Employment</u>. Employee's last day of employment with Employer is [insert termination date]. Employee understands, however, that Employer, in its sole discretion, may request Employee to immediately cease performing work duties if Employer deems it is in its best interest to do so. Employee will, nonetheless, be paid until this last day of employment.

<u>2. Consideration</u>. In consideration for Employee's execution of this Agreement and the fulfillment of the promises contained herein, Employer agrees to make the following payments, to which Employee is not otherwise entitled:

a. to pay to Employee the equivalent of [insert # of weeks] weeks of Employee's base pay in effect as of the date of Employee's termination from Hovnanian, less lawful deductions, within 15 business days after the passage of the revocation period set forth below. As used in this Agreement, the term "base pay" shall mean, for exempt employees, their base salary, not including commissions, bonuses or incentive payments, and for non-exempt employees, "base pay" shall be determined based on the Employee's regular hourly rate and regularly scheduled hours per workweek, without inclusion of overtime, commissions, bonuses or incentive payments.

3. Revocation. Employee may revoke this Agreement for a period of seven (7) calendar days following the day Employee executes this Agreement. Any revocation within this period must be submitted, in writing, to [insert name] and state, "I hereby revoke my acceptance of our Agreement and General Release." The revocation must be personally delivered or mailed to [insert name], [insert title] at [insert address], and delivered or postmarked within seven (7) calendar days of execution of this Agreement. This Agreement shall not become effective or enforceable until the revocation period has expired. If the last day of the revocation period is a Saturday, Sunday, or legal holiday, then the revocation period shall not expire until the next following day which is not a Saturday, Sunday, or legal holiday.

4. General Release of Claim. Employee, Employee's heirs, executors, administrators, fiduciaries, successors and/or assigns, knowingly and voluntarily release and forever give up, to the full extent permitted by law, Employer, Employer's past, present and future direct or indirect parent organizations, subsidiaries, divisions, affiliated entities, and their partners, officers, directors, trustees, administrators, fiduciaries, employment benefit plans and/or pension plans or funds, executors, attorneys, employees, insurers, reinsurers and/or agents and their successors and assigns individually and in their official capacities (collectively referred to herein as "Released Parties" or "Released Party"), jointly and severally, of and from all claims, known or unknown, that Employee has or may have against Released Parties as of the date of execution of this Agreement including, but not limited to, any alleged violation of:

- The National Labor Relations Act;
- Title VII of the Civil Rights Act;

[1] This Agreement and General Release shall be referred to herein as "Agreement".

- Civil Rights Act of 1991;
- Sections 1981 through 1988 of Title 42 of the United States Code;
- The Employee Retirement Income Security Act;
- The Fair Credit Reporting Act;
- The Immigration Reform Control Act;
- The Americans with Disabilities Act;
- The Rehabilitation Act;
- The Age Discrimination in Employment Act, as amended;
- The Occupational Safety and Health Act;
- The Family and Medical Leave Act;
- The Equal Pay Act;
- The Uniformed Services Employment and Reemployment Rights Act;
- Worker Adjustment and Retraining Notification Act;
- Employee Polygraph Protection Act;
- any other federal, state or local law or ordinance of similar effect, to the maximum extent permitted by law;
- any public policy, contract (oral, written or implied), tort, constitution or common law;
- any claims for vacation, sick or personal leave pay, short term or long term disability benefits, or payment pursuant to any practice, policy, handbook or manual; or
- any basis for costs, fees, or other expenses including attorneys' fees.

Employee hereby releases Released Parties from any and all claims, whether sounding in contract, tort, statute or constitution, and covenants not to sue Released Parties for any and all claims. Employee understands this Release includes all claims related in any manner to Employee's employment or the cessation of that employment. Employee further understands that Employee is hereby releasing any known or unknown claim for or alleged right to discovery of information or documents of Released Parties.

5. **Affirmations**.

a. Employee affirms that Employee is not a party to, and that Employee has not filed or caused to be filed, any claim, complaint, charge or action against Released Parties in any forum or form.

b. Employee acknowledges and agrees that Employee has been paid all compensation due, except the following: (i) final paycheck for the period from [insert last pay period start date] to [insert termination date], which will also include all vacation pay due.

c. Employee affirms that Employee has received all leave (paid or unpaid), to which Employee may be entitled and that no other leave (paid or unpaid), is due to Employee except as provided in this Agreement.

d. Employee furthermore affirms that Employee has no known workplace injuries or occupational diseases, other than those that are already the subject of an existing workers compensation claim.

6. **Confidentiality**. To the extent permitted by law, Employee agrees not to

disclose any information regarding the existence or substance of this Agreement, except to Employee's spouse, tax advisor, or an attorney with whom Employee chooses to consult regarding Employee's consideration of this Agreement, each of whom shall likewise agree to keep the information confidential. Employee acknowledges that, as an officer of the Company, Employee was privy to confidential, proprietary, and/or commercially sensitive information, the disclosure of which could substantially harm the Company's interests. Employee hereby agrees to maintain the confidentiality of such information and not to disclose same except as required to comply with court or regulatory action. In the event Employee or Employee's counsel believe either is compelled to provide or disclose information described in this paragraph, they will provide written notice of such belief, via facsimile and mail, to [insert name], [insert title], at [insert address], fax [insert FAX], no later than seven (7) business days prior to said production or disclosure.

7. Non-Disparagement. Employee agrees not to defame, disparage or demean Employer in any manner whatsoever.

8. Non-Solicitation of Other Employees. To the extent permitted by law, Employee agrees not to solicit, directly or indirectly, any other employee of Employer to terminate or otherwise modify or alter his or her employment with the Company for *two (2) years* following the Employee's Last Day of Employment (*see* paragraph 1 above).

9. Cooperation. Subject to Employee's other personal and professional obligations and on reasonable notice and at reasonable times, Employee will cooperate with Employer and its counsel in connection with any investigation, administrative or regulatory proceeding or litigation relating to any matter in which Employee was involved or of which Employee has knowledge as a result of Employee's employment with Employer and/or any Released Party or Released Parties.

10. Return of Property. Employee has returned any and all property belonging to Released Parties, including, but not limited to, cellular phones, beepers, computers, laptops, passwords for electronic access and/or to access protected documents regarding Company business, equipment, tools, materials, Company related manuals, training materials, written files, electronic files, keys, security cards, documents, supplies, customer lists, customer information, confidential documents, etc.

11. Governing Law and Interpretation. This Agreement shall be governed and conformed in accordance with the laws of the State of New Jersey without regard to its conflict of laws provision. In the event Employee or Employer breaches any provision of this Agreement, Employee and Employer affirm that either may institute an action against the other to specifically enforce any term or terms of this Agreement, in addition to any other legal or equitable relief permitted by law. In the event that any provision of this Agreement is declared illegal or unenforceable by a court of competent jurisdiction and cannot be modified to be enforceable, excluding the general release language, it shall be stricken, leaving the remainder of this Agreement in full force and effect.

12. Nonadmission of Wrongdoing. Employee agrees that neither this Agreement nor the furnishing of the consideration for this Agreement shall be deemed or construed at anytime for any purpose as an admission by Employer of any liability or unlawful conduct of any kind.

13. Amendment. This Agreement may not be modified, altered or changed except upon express written consent of both parties wherein specific reference is made to this Agreement.

14. Entire Agreement. This Agreement sets forth the entire agreement between the Employee and Released Parties hereto, and fully supersedes any prior or contemporaneous agreements or understandings between Employee and Released Parties; provided, however, that this Agreement does not supersede or affect any confidentiality, non-disclosure, non-compete, invention, assignment of proprietary rights, or non-solicitation agreement(s) signed by Employee. The obligations of such agreements remain in full force and effect and Employee expressly acknowledges Employee's intent to adhere to the promises contained in those agreements. Employee also acknowledges that Employee has not relied on any representation, promises, or agreements of any kind made in connection with the decision to sign this Agreement, except for those set forth in this Agreement.

EMPLOYEE IS ADVISED THAT EMPLOYEE HAS UP TO TWENTY-ONE (21) CALENDAR DAYS TO CONSIDER THIS AGREEMENT AND GENERAL RELEASE AND IS HEREBY ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTION OF THIS AGREEMENT AND GENERAL RELEASE.

EMPLOYEE IS ADVISED THAT ANY MODIFICATIONS, MATERIAL OR OTHERWISE, MADE TO THIS AGREEMENT AND GENERAL RELEASE DO NOT RESTART OR AFFECT IN ANY MANNER THE ORIGINAL TWENTY-ONE (21) CALENDAR DAY CONSIDERATION PERIOD.

HAVING ELECTED TO EXECUTE THIS AGREEMENT AND GENERAL RELEASE, TO FULFILL THE PROMISES SET FORTH HEREIN, AND TO RECEIVE THEREBY THE SUMS AND BENEFITS SET FORTH IN PARAGRAPH "2" ABOVE, EMPLOYEE FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTERS INTO THIS AGREEMENT AND GENERAL RELEASE INTENDING TO WAIVE, SETTLE AND RELEASE ALL CLAIMS EMPLOYEE HAS OR MIGHT HAVE AGAINST RELEASED PARTIES AS OF THE DATE OF THE EXECUTION OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto knowingly and voluntarily executed this Agreement and General Release as of the date set forth below:

ON BEHALF OF EMPLOYER

[insert Associate Name] [insert Name]

[insert Job Title]

Employee's Signature Signature

Date Date

HR056 Confidentiality/Non-Disclosure/Trade Secrets (February 2011)

Purpose

To ensure associates are aware of the confidential nature of information they may learn or be entrusted with during their employment with the Company, and of the Company's expectation they will keep such confidential information private and privileged during their employment with the Company and at all times thereafter. This Confidentiality/Non-Disclosure Policy is in addition to any separate agreement with any individual associate regarding the issue.

Scope
This policy applies to all associates.
Procedures

As part of your responsibilities with the Company, you may learn of or be entrusted with sensitive Company information of a confidential nature, including Trade Secrets.

The term "Trade Secrets" means any scientific or technical information, design, process, procedure, formula, pattern, device or compilation of information or improvement which is used in the Company's business which is valuable and not generally known to Third Parties. Trade Secrets shall include, without limitation, information and documentation pertaining to the design, specifications, capacity, testing, installation, implementation and customizing techniques and procedures concerning the Company's present and future products and services; manufacturing, distribution, assembly, building, design, or production process(es); treating or preserving materials; and customer, contractor, or vendor list(s).

The term "Confidential Information" means any proprietary or business-sensitive information which is not generally known to the public and which, if released to unauthorized persons, would be detrimental to the reputation or business interests of the Company, its affiliates or parties with which it does business, or would permit such unauthorized persons to improperly benefit. Confidential Information includes but is not limited to: (i) financial information; (ii) customer information, including but not limited to customer/client names, telephone numbers, addresses, any compilations of past, existing or prospective customers, customer proposals or agreements, status of customer accounts or credit, customer needs or related information about actual or prospective customers; (iii) supply and service information; (iv) marketing information; (v) personnel information; (vi) business operations information; (vii) any formula, pattern, device or compilation of information which is used in the company's business and which gives the Company an advantage over its competitors; and (viii) Trade Secrets as described above.

As it relates to the Company's national, regional or local Contracting Agreements, there shall be complete confidentiality between the Associate and all external companies with which the Company conducts business. Sharing of information by any electronic means (e.g. e-mail, fax transmission or other) and/or mail where terms and/or conditions of a contract are included, is not permitted.

While there is an understanding that terms need to be discussed between Company representatives and the external companies with which we do business, these discussions must take place verbally (in person) whenever possible. In addition, terms and conditions of our vendor, supplier, distributor and/or trade partner agreements will be specific to K. Hovnanian Companies and cannot be shared with any other outside party. Outside parties include, but are not limited to, all other homebuilders, suppliers, distributors, and competitors of all K. Hovnanian Companies.

During your employment, any and all Confidential Information shall be considered and kept as the private and privileged records of the Company, and must not be divulged to any firm, individual or institution (including, but not limited to, any future employer(s)) except on the direct written authorization of the Chairman/President/CEO of the Company. Your failure to honor this confidentiality requirement may result in disciplinary action, including possible discharge.

Any ideas, inventions and processes that are developed during or in connection with your employment shall be the property of the Company alone.

If you leave employment for any reason, we require you continue to treat as private and privileged any such Confidential Information at all times. You should not release any such Confidential Information to any person, firm, or institution (including, but not limited to, any future employer(s)) without the express written approval of the Chairman/President/CEO of the Company. The Company may pursue legal remedies for unauthorized disclosure of such Confidential Information including, but not limited to, injunctive relief.

Consolidated Financial Statements
GTIS-HOV Holdings, L.L.C.
Years Ended October 31, 2017, 2016 and 2015
With Independent Auditors' Report

GTIS-HOV Holdings, L.L.C.

Consolidated Financial Statements

Years Ended October 31, 2017, 2016 and 2015

Contents

INDEPENDENT AUDITORS' REPORT

To the Members of
GTIS-HOV Holdings, L.L.C.
Red Bank, New Jersey

We have audited the accompanying consolidated financial statements of GTIS-HOV Holdings, L.L.C. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of October 31, 2017 and 2016, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years ended October 31, 2017, 2016 and 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 31, 2017 and 2016, and the results of their operations and their cash flows for the years ended October 31, 2017, 2016 and 2015, in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

December 28, 2017

GTIS-HOV Holdings, L.L.C.

Consolidated Balance Sheets
(Dollars in Thousands)

	October 31, 2017	October 31, 2016
Assets		
Cash	$ 3,279	$ 4,986
Restricted cash and cash equivalents	4,880	4,814
Receivables and deposits	95	93
Inventories:		
Land and land development	9,688	8,156
Construction in process	2,089	2,461
Consolidated inventory not owned	934	892
Total inventories	12,711	11,509
Prepaid expenses	585	441
Total assets	$ 21,550	$ 21,843
Liabilities and Members' equity		
Liabilities from inventory not owned	$ 746	$ 746
Accounts payable and other liabilities	5,331	5,179
Customers' deposits	205	111
Total liabilities	6,282	6,036
Commitments and contingencies (Note 4)		
Members' equity	15,268	15,807
Total liabilities and members' equity	$ 21,550	$ 21,843

See notes to consolidated financial statements.

GTIS-HOV Holdings, L.L.C.

Consolidated Statements of Operations
(Dollars in Thousands)

	Years Ended October 31, 2017	2016	2015
Revenue:			
Sale of homes	$ 17,250	$ 21,627	$ 50,473
Other revenue	26	31	211
Total revenue	17,276	21,658	50,684
Expenses:			
Direct costs:			
Land and land development	4,979	6,391	16,000
Construction	7,077	8,904	20,531
Other	823	994	2,029
Direct cost of sales	12,879	16,289	38,560
Cost of sales interest	146	377	1,471
Indirect cost of sales:			
Construction and service overhead	422	857	2,049
Other	371	808	601
Total indirect cost of sales	793	1,665	2,650
Gross margin	3,458	3,327	8,003
Selling, general and administrative expense	1,407	1,658	3,325
Interest expense	90	112	300
Net income	$ 1,961	$ 1,557	$ 4,378

See notes to consolidated financial statements.

GTIS-HOV Holdings, L.L.C.

Consolidated Statements of Changes in Members' Equity
(Dollars in Thousands)

Years Ended October 31, 2017, 2016 and 2015

	K. Hovnanian GT Investment, LLC	GTIS HovSite, LP	Total
Balance at October 31, 2014	$ 33,279	$ 3,993	$ 37,272
Net income	3,853	525	4,378
Distributions	(18,216)	(2,484)	(20,700)
Balance at October 31, 2015	18,916	2,034	20,950
Net income	1,370	187	1,557
Distributions	(5,896)	(804)	(6,700)
Balance at October 31, 2016	14,390	1,417	15,807
Net income	1,726	235	1,961
Distributions	(2,200)	(300)	(2,500)
Balance at October 31, 2017	$ 13,916	$ 1,352	$ 15,268

See notes to consolidated financial statements.

GTIS-HOV Holdings, L.L.C.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Years Ended October 31, 2017	2016	2015
Operating activities			
Net income	$ 1,961	$ 1,557	$ 4,378
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in operating assets and liabilities:			
Restricted cash	83	(444)	907
Receivables, deposits and prepaid expenses	(146)	87	1,978
Inventories	(1,202)	6,696	20,372
Accounts payable and other liabilities	152	(1,139)	(4,184)
Customers' deposits	94	(94)	(270)
Net cash provided by operating activities	942	6,663	23,181
Investing activities			
Restricted cash to warranty service dollars	(149)	(84)	(248)
Net cash used in investing activities	(149)	(84)	(248)
Financing activities			
Capital distributions	(2,500)	(6,700)	(20,700)
Net cash used in financing activities	(2,500)	(6,700)	(20,700)
Net (decrease) increase in cash	(1,707)	(121)	2,233
Cash balance, beginning of year	4,986	5,107	2,874
Cash balance, end of year	$ 3,279	$ 4,986	$ 5,107
Supplemental disclosures of cash flows:			
Cash paid for interest, net of amounts capitalized	$ 89	$ 117	$ 266

See notes to consolidated financial statements.

1. Description of Business

GTIS-HOV Holdings, L.L.C. (with its subsidiaries, the "Company") is a residential home developer that markets its products in California, Maryland, Pennsylvania, and Virginia. All construction activity is performed by subcontractors supervised by the Company.

On December 22, 2010, K. Hovnanian GT Investment, LLC ("K-Hov") (a subsidiary of K. Hovnanian Enterprises, Inc.) entered into a joint venture agreement with GTIS HovSite II LP (GTIS) (an affiliate of GoldenTree InSite Partners) to develop, construct, and sell residential communities. The Company purchased two properties in California from other subsidiaries of K. Hovnanian Enterprises, Inc. and one property from a third party. All properties were purchased at fair value.

On April 29, 2011, the Company purchased four properties from other subsidiaries of K. Hovnanian Enterprises, Inc. and one property from a third party. All properties were purchased at fair value.

The Company is a limited-life entity, where no additional properties are to be optioned, purchased, or developed, other than under specific circumstances as provided for under the joint venture agreement. As the existing lots are developed, built on, and sold, operations will decline and cease when all the homes have been delivered. In accordance with the joint venture agreement, dissolution must ultimately occur no later than December 31, 2060. K-Hov's initial capital contribution included $4.0 million of Tier Two Capital. Tier Two Capital is additional capital contributed at the formation of the Company that will be returned after the return of all Tier One Capital to the investors. No profits or losses are allocated to Tier Two Capital. Tier One Capital was contributed by K-Hov and GTIS in the following proportion: 88% by K-Hov; and 12% by GTIS. The joint venture agreement specifies how profits and losses and cash distributions are allocated to the investors. Until cumulative profits allocated to the investors generate an 18% internal rate of return on Tier One Capital, allocations will generally be based on the investor's proportionate amount of Tier One Capital. As of October 31, 2017, this threshold has not been achieved. Also in accordance with the joint venture agreement, K-Hov is the managing member, with all significant decisions shared equally by both members.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company's accounts and those of its wholly owned subsidiaries after elimination of all intercompany balances and transactions.

Revenue Recognition

Income from home sales is recorded when title is conveyed to the buyer, adequate cash payment has been received, and there is no continued involvement. Nonrefundable deposits received from customers upon the signing of a sales contract are recognized as other revenue if the contract is terminated by the customer.

Cash

Cash includes deposits in checking accounts. Cash balances are held at a financial institution and may, at times, exceed insurable amounts. The Company believes that it mitigates the risk by depositing the cash in a major financial institution.

Restricted cash and cash equivalents

Restricted cash and cash equivalents include cash collateralizing surety bonds and the per home warranty service dollars discussed below.

Inventories

Inventories are stated at cost unless the inventory is determined to be impaired, in which case the inventory is written down to its fair value. Inventories of houses include all direct costs of construction, plus capitalized costs, including construction administration, property taxes, interest, and legal fees that relate to development projects. Land, land development, and common facility costs are accumulated by development and are allocated to homes within each development based on buildable acres to product types within each community, which, along with direct construction costs, are allocated to each unit and relieved through cost of sales using the specific identification method.

2. Summary of Significant Accounting Policies (continued)

Start-up costs incurred in connection with planned developments are expected to be recovered from the sale of homes and are capitalized. Management periodically reviews the feasibility of planned developments and expenses the costs of developments that are abandoned or which cannot be recovered through the realization of future sales revenue.

The Company records impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and that the Company will not be able to recover its recorded investment. The Company has not recorded any inventory impairments since inception.

"Consolidated inventory not owned" consists of certain model sale leasebacks that are included on the balance sheet in accordance with accounting principles generally accepted in the United States of America. During fiscal 2013, the Company sold and leased back certain 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 this continued involvement, for accounting purposes in accordance with Accounting Standards Codification 360-20-40-38, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of the balance sheet, at both October 2017 and 2016, inventory of $0.9 million was recorded to "Consolidated inventory not owned," with a corresponding amount of $0.7 million recorded to "Liabilities from inventories not owned."

Interest

Interest attributable to properties under development during the land development and home construction period is capitalized and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized is expensed immediately.

Warranty Allowances

The Company warrants a home for most ordinary defects generally for the first year of ownership and for major structural defects for the first 10 years of ownership. All warranty services will be provided by and are the responsibility of an affiliate of K-Hov. The Company pays a fixed fee per house (varies for each community) at closing. These fees are deposited into restricted cash accounts maintained by the Company until approvals are granted which allow for reimbursement to be paid to such affiliate, K Hovnanian JV Services Company, LLC, to cover the cost of the warranty services after they have been incurred. Additions and charges to the warranty reserve for the year ended October 31, 2017 and 2016 were as follows:

2. Summary of Significant Accounting Policies (continued)

(In thousands)	Years ended October 31, 2017	2016
Balance, beginning of period	$ 3,687	$ 3,658
Additions	191	211
Charges	(47)	(182)
Balance, end of period	$ 3,831	$ 3,687

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs expensed totaled $0.2 million, $0.2 million and $0.5 million in the years ended October 31, 2017, 2016 and 2015, respectively, and are included in Selling, general and administrative expense on the accompanying consolidated statements of operations.

Income Taxes

A limited liability company is not subject to the payment of federal or state income taxes, as the components of its income and expenses flow through directly to the members. Accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the United States 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 consolidated 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 consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue that represents the transfer of promised goods or services to customers in an amount equivalent to the consideration to which the entity expects to be entitled to in exchange for those goods or services. The following steps should be applied to determine this amount: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition,” and most industry-specific guidance in the Accounting Standards Codification. In August 2015, the FASB issued ASU 2015-14 on this same topic, which defers for one year the effective date of ASU 2014-09, therefore making the guidance effective for the Company beginning November 1, 2018. Additionally, the FASB also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this guidance on our Consolidated Financial Statements, and have been involved in industry-specific discussions with the FASB on the treatment of certain items. However, due to the nature of our operations, we expect to identify similar performance obligations in our contracts under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our recognition of revenues to remain generally the same. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change upon its adoption.

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties About an Entity ’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU 2014-15 was effective for the Company as of our fiscal year ending October 31, 2017 and the adoption did not have a material impact on the Company’s Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for the Company’s fiscal year

2. Summary of Significant Accounting Policies (continued)

beginning November 1, 2019. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). ASU 2016-18 amends the classification and presentation of changes in restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for the Company's fiscal year beginning November 1, 2019. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

3. Related-Party Transactions

As the administrative member of the Company, K-Hov provides certain services to the Company. In connection with providing these services, K-Hov receives fees, which are summarized as follows:

Administrative charge	4% of home sales revenue
Insurance charge	$3,391 per home sold – Northern California $20,236 per home sold – Southern California $2,188 per home sold – Maryland $14,942 per home sold – Pennsylvania $2,188 per home sold – Virginia
Warranty services charge	$4,200 per home sold – Northern California $3,700 per home sold – Southern California $4,500 per home sold – Maryland $5,150 per home sold – Pennsylvania $4,900 per home sold – Virginia

The administrative charge is included in Selling, general and administrative expense, the insurance charge is included in Selling, general and administrative expense and the warranty services charge is included in Indirect cost of sales – Other on the consolidated statements of operations.

3. Related-Party Transactions (continued)

The following table summarizes the related party fees incurred:

	Years Ended October 31,		
(In thousands)	2017	2016	2015
Administrative charge	$ 690	$ 865	$ 2,018
Insurance charge	$ 85	$ 96	$ 200
Warranty services charge	$ 191	$ 211	$ 450

4. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements.

The Company has performance letters of credit approximating $0.7 and $0.8 million for October 31, 2017 and 2016, respectively that have been issued by various financial institutions on behalf of the Company to certain municipalities to guarantee the completion of certain improvements associated with various communities. No amounts have been drawn against these letters of credit as of October 31, 2017 and 2016.

5. Subsequent Events

The Company evaluated subsequent events that took place after October 31, 2017, through December 28, 2017, the date the financial statements were available to be issued. The Company is not aware of any subsequent events that require disclosure in or adjustments to the consolidated financial statements as of October 31, 2017.

Exhibit 99(b)

Consolidated Financial Statements
GTIS-HOV Holdings V, L.L.C.
Year Ended October 31, 2017 And The Period From April 29, 2016 (Inception) Through October 31, 2016
With Independent Auditors' Report

GTIS-HOV Holdings V, L.L.C.

Consolidated Financial Statements

Year Ended October 31, 2017 and the
Period from April 29, 2016 (Inception)
Through October 31, 2016

Contents

INDEPENDENT AUDITORS' REPORT

To the Members of
GTIS-HOV Holdings V, L.L.C.
Red Bank, New Jersey

We have audited the accompanying consolidated financial statements of GTIS-HOV Holdings V, L.L.C. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of October 31, 2017 and 2016, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year ended October 31, 2017 and for the period from April 29, 2016 (date of inception) to October 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of October 31, 2017 and 2016, and the results of their operations and their cash flows for the year ended October 31, 2017 and for the period from April 29, 2016 (date of inception) to October 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

December 28, 2017

GTIS-HOV Holdings V, L.L.C.

Consolidated Balance Sheets
(Dollars in Thousands)

	October 31, 2017	October 31, 2016
Assets		
Cash	$ 23,266	$ 14,981
Restricted cash and cash equivalents	886	33
Receivables and deposits	2,761	1,303
Inventories:		
Land and land development	134,485	83,863
Construction in process	47,142	19,132
Consolidated inventory not owned	790	791
Total inventories	182,417	103,786
Prepaid expenses	6,677	5,066
Total assets	$ 216,007	$ 125,169
Liabilities and Members' equity		
Notes payable, net of debt issuance costs	$ 138,215	$ 86,997
Liabilities from inventory not owned	593	593
Accounts payable and other liabilities	16,606	8,858
Customers' deposits	5,797	2,299
Accrued interest	20,651	4,453
Total liabilities	181,862	103,200
Commitments and contingencies (Note 5)		
Members' equity	34,145	21,969
Total liabilities and members' equity	$ 216,007	$ 125,169

See notes to consolidated financial statements.

GTIS-HOV Holdings V, L.L.C.

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended October 31, 2017	Period From April 29, 2016 (Inception) Through October 31, 2016
Revenue:		
Sale of homes	$ 148,858	$ 5,601
Other revenue	180	8
Total revenue	149,038	5,609
Expenses:		
Direct costs:		
Land and land development	53,419	2,377
Construction	59,494	1,966
Other	7,216	301
Direct cost of sales	120,129	4,644
Cost of sales interest	6,120	449
Indirect cost of sales:		
Construction and service overhead	3,070	258
Other	2,067	128
Total indirect cost of sales	5,137	386
Gross margin	17,652	130
Selling, general and administrative expense	13,992	2,766
Interest expense	6,184	1,538
Net loss	$ (2,524)	$ (4,174)

See notes to consolidated financial statements.

GTIS-HOV Holdings V, L.L.C.

Consolidated Statement of Changes in Members' Equity
(Dollars in Thousands)

Year Ended October 31, 2017 and the Period From April 29, 2016 (Inception) Through October 31, 2016

	K. Hovnanian GT V Investment, LLC	**Hov V Parallel Blocker, LLC**	**GTIS Hov V Co-Invest, LLC**	**Total**
Initial Capital Contributions	$ 21,786	$ 526	$ 3,831	$ 26,143
Net loss	(3,478)	(84)	(612)	(4,174)
Balance at October 31, 2016	18,308	442	3,219	21,969
Capital Contributions	12,250	296	2,154	14,700
Net loss	(2,103)	(51)	(370)	(2,524)
Balance at October 31, 2017	$ 28,455	$ 687	$ 5,003	$ 34,145

See notes to consolidated financial statements.

GTIS-HOV Holdings V, L.L.C.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended October 31, 2017	Period From April 29, 2016 (Inception) Through October 31, 2016
Operating activities		
Net loss	$ (2,524)	$ (4,174)
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of Deferred Financing Costs	1,064	150
Changes in operating assets and liabilities:		
Receivables, deposits and prepaid expenses	(3,070)	(6,369)
Inventories	(78,631)	(103,786)
Accounts payable and other liabilities	23,946	13,311
Customers' deposits	3,498	2,299
Net cash used in operating activities	(55,717)	(98,569)
Investing activities		
Restricted cash (to) from warranty service dollars	(853)	(33)
Net cash used in investing activities	(853)	(33)
Financing activities		
Member contributions	14,700	26,143
Proceeds from notes payable	88,792	88,770
Payments related to notes payable	(37,266)	(934)
Proceeds from model sale leaseback financing program	–	593
Deferred Financing Costs from model financing program and notes payable	(1,371)	(989)
Net cash provided by financing activities	64,855	113,583
Net increase in cash	8,285	14,981
Cash balance, beginning of year	14,981	–
Cash balance, end of year	$ 23,266	$ 14,981
Supplemental disclosures of cash flows:		
Cash paid for interest, net of amounts capitalized	$ 53	$ 43

See notes to consolidated financial statements.

1. Description of Business

GTIS-HOV Holdings V, L.L.C. (with its subsidiaries, the "Company") is a residential home developer that markets its products in Arizona, California, Illinois, Maryland, New Jersey, South Carolina and Virginia. All construction activity is performed by subcontractors supervised by the Company.

On April 29, 2016, K. Hovnanian GT V Investment, LLC ("K-Hov") (a subsidiary of K. Hovnanian Enterprises, Inc.) entered into a joint venture agreement with Hov V Parallel Blocker, LLC and GTIS Hov V Co-Invest, LP (collectively, "GTIS") (both affiliates of GTIS Partners) to develop, construct, and sell residential communities. The Company purchased eight properties from other subsidiaries of K. Hovnanian Enterprises, Inc. and one property from a third party. All properties were purchased at fair value. During Fiscal 2017, the Company purchased one property from a subsidiary of K. Hovnanian Enterprises, Inc. and two properties from a third party.

The Company is a limited-life entity. As the existing lots are developed, built on, and sold, operations will decline and cease when all the homes have been delivered. In accordance with the joint venture agreement, dissolution must ultimately occur no later than December 31, 2065. Capital was contributed by K-Hov and GTIS in the following proportion: 83.3333% by K-Hov; and 14.6551% and 2.0116% by GTIS. The joint venture agreement specifies how profits and losses and cash distributions are allocated to the investors. Also in accordance with the joint venture agreement, K-Hov is the managing member, with all significant decisions shared equally by both members.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the Company's accounts and those of its wholly owned subsidiaries after elimination of all intercompany balances and transactions.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

In November 2016, we adopted Accounting Standards Update ("ASU") 2015-03, "Interest - Imputation of Interest," which changes the presentation of debt issuance costs in the balance sheet from an asset to a direct reduction of the carrying amount of the related debt. The adoption of this guidance resulted in the reclassification of applicable unamortized debt issuance costs from "Prepaid expenses" of $0.8 million to "Notes payable, net of debt issuance costs" on our Consolidated Balance Sheets. We applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the fiscal 2017 presentation.

Cash

Cash includes deposits in checking accounts. Cash balances are held at a financial institution and may, at times, exceed insurable amounts. The Company believes that it mitigates the risk by depositing the cash in a major financial institution.

Restricted cash and cash equivalents

Restricted cash and cash equivalents include cash collateralizing surety bonds and the per home warranty service dollars discussed below.

Inventories

Inventories are stated at cost unless the inventory is determined to be impaired, in which case the inventory is written down to its fair value. Inventories of houses include all direct costs of construction, plus capitalized costs, including construction administration, property taxes, interest, and legal fees that relate to development projects. Land, land development, and common facility costs are accumulated by development and are allocated to homes within each development based on buildable acres to product types within each community, which, along with direct construction costs, are allocated to each unit and relieved through cost of sales using the specific identification method.

Start-up costs incurred in connection with planned developments are expected to be recovered from the sale of homes and are capitalized. Management periodically reviews the feasibility of planned developments and expenses the costs of developments that are abandoned or which cannot be recovered through the realization of future sales revenue.

The Company records impairment losses on inventories related to communities under development when events and circumstances indicate that they may be impaired and that the

2. Summary of Significant Accounting Policies (continued)

Company will not be able to recover its recorded investment. The Company has not recorded any inventory impairments since inception.

"Consolidated inventory not owned" consists of certain model sale leasebacks that are included on the balance sheet in accordance with accounting principles generally accepted in the United States of America. Some of the assets acquired by the Company included certain model homes sold and leased back 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 this continued involvement, for accounting purposes in accordance with Accounting Standards Codification 360-20-40-38, these sale and leaseback transactions are considered a financing rather than a sale. Therefore, for purposes of the balance sheet, at October 2017 and 2016, inventory of $0.8 million, was recorded to "Consolidated inventory not owned," with a corresponding amount of $0.6 million, recorded to "Liabilities from inventories not owned."

Interest

Interest attributable to properties under development during the land development and home construction period is capitalized and expensed along with the associated cost of sales as the related inventories are sold. Interest incurred in excess of interest capitalized is expensed immediately.

Warranty Allowances

The Company warrants a home for most ordinary defects generally for the first year of ownership and for major structural defects for the first 10 years of ownership. All warranty services will be provided by and are the responsibility of an affiliate of K-Hov. The Company pays a fixed fee per house (varies for each community) at closing. These fees are deposited into restricted cash accounts maintained by the Company until approvals are granted which allow for reimbursement to be paid to such affiliate, K Hovnanian JV Services Company, LLC, to cover the cost of the warranty services after they have been incurred. Additions and charges to the warranty reserve were as follows:

(In thousands)	Year Ended October 31, 2017	The Period April 29, 2016 Through October 31, 2016
Balance, beginning of period	$ 32	$ –
Additions	870	33
Charges	(19)	(1)
Balance, end of period	$ 883	$ 32

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs expensed totaled $2.2 million and $0.5 million, in the year ended October 31, 2017 and in the period from April 29, 2016 through October 31, 2016 and are included in Selling, general and administrative expense on the accompanying consolidated statements of operations.

Income Taxes

A limited liability company is not subject to the payment of federal or state income taxes, as the components of its income and expenses flow through directly to the members. Accordingly, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the United States 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 consolidated 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 consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue that represents the transfer of promised goods or services to customers in an amount equivalent to the consideration to which the entity expects to be entitled to in exchange for those goods or services. The following steps should be applied to determine this amount: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition,” and most industry-specific guidance in the Accounting Standards Codification. In August 2015, the FASB issued ASU 2015-14 on this same topic, which defers for one year the effective date of ASU 2014-09, therefore making the guidance effective for the Company beginning November 1, 2018.

2. Summary of Significant Accounting Policies (continued)

Additionally, the FASB also decided to permit entities to early adopt the standard, which allows for either full retrospective or modified retrospective methods of adoption, for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this guidance on our Consolidated Financial Statements, and have been involved in industry-specific discussions with the FASB on the treatment of certain items. However, due to the nature of our operations, we expect to identify similar performance obligations in our contracts under ASU 2014-09 compared with the deliverables and separate units of account we have identified under existing accounting standards. As a result, we expect the timing of our recognition of revenues to remain generally the same. Nonetheless, we are still evaluating the impact of specific parts of this ASU, and expect our revenue-related disclosures to change upon its adoption.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties About an Entity 's Ability to Continue as a Going Concern" ("ASU 2014-15"), which requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. ASU 2014-15 was effective for the Company as of our fiscal year ending October 31, 2017 and the adoption did not have a material impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 is effective for the Company's fiscal year beginning November 1, 2019. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). ASU 2016-18 amends the classification and presentation of changes in restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for the Company's fiscal year beginning November 1, 2019. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our Consolidated Financial Statements.

3. Related-Party Transactions

As the administrative member of the Company, K-Hov provides certain services to the Company. In connection with providing these services, K-Hov receives fees, which are summarized as follows:

3. Related-Party Transactions (continued)

Administrative charge	4% of home sales revenue
Insurance charge	$6,679 per home sold – Illinois $6,605 per home sold – California $6,348 per home sold – Maryland $8,099 per home sold – New Jersey $6,605 per home sold – South Carolina $6,155 per home sold – Virginia
Warranty services charge	$2,038 per home sold – Arizona $5,276 per home sold – California $1,559 per home sold – Illinois $5,564 per home sold – Maryland $3,597 per home sold – New Jersey $2,871 per home sold – South Carolina $5,036 per home sold – Virginia

The administrative charge is included in Selling, general and administrative expense, the insurance charge is included in Selling, general and administrative expense and the warranty services charge is included in Indirect cost of sales – Other on the consolidated statements of operations.

The following table summarizes the related party fees incurred:

(In thousands)	Year Ended October 31, 2017	The Period from April 29, 2016 Through October 31, 2016
Administrative charge	$ 5,803	$ 217
Insurance charge	$ 1,789	$ 59
Warranty services charge	$ 870	$ 33

4. Notes Payable

The Company has a secured promissory note with a lender that is an affiliate of GTIS that matures on April 30, 2023. As of October 31, 2017 and 2016, the note had a principal balance of $95.3 million and $61.0 million, plus $20.6 million and $4.4 million of accrued, unpaid interest, respectively. Interest is payable monthly at a rate of 16% per annum, which can be deferred and added to the unpaid principal balance, and thereafter, can be subject to interest at the note rate. The note is secured by all of the Company’s property and improvements, except for properties

4. Notes Payable (continued)

with separate secured loans described herein. The Company also had community-specific project financing in five communities, secured by the related property and improvements. The total commitment for these loans as of October 31, 2017 and 2016 was \$90.3 million and \$67.0 million, respectively. Interest on amounts drawn is payable monthly at a rate ranging from 4.49% to 8.25% per annum. As of October 31, 2017 and 2016, the total amount drawn on all loans was \$44.1 million and \$26.8 million, respectively.

5. Commitments and Contingencies

The Company may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements.

6. Subsequent Events

The Company evaluated subsequent events that took place after October 31, 2017, through December 28, 2017, the date the financial statements were available to be issued. The Company is not aware of any subsequent events that require disclosure in or adjustments to the consolidated financial statements as of October 31, 2017.

