K HOVNANIAN ENTERPRISES INC
Form 424B3
May 28, 2009

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-158356

PROSPECTUS

$29,299,000
K. Hovnanian Enterprises, Inc.
Fully and Unconditionally Guaranteed by
Hovnanian Enterprises, Inc.
And the Subsidiary Guarantors described herein

Offer to Exchange All Outstanding
18.0% Senior Secured Notes due 2017
($29,299,000 aggregate principal amount outstanding)
for 18.0% Senior Secured Notes due 2017, which have been registered
under the Securities Act of 1933

The Exchange Offer Will Expire at 5:00 p.m., New York City Time, on June 30, 2009, Unless Extended

The Exchange Offer:

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradeable.

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

The exchange offer expires at 5:00 p.m., New York City time, on June 30, 2009, unless extended. We do not currently intend to extend the expiration date.

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

We will not receive any proceeds from the exchange offer.

The Exchange Notes:

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

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

The Exchange Guarantees:

Hovnanian Enterprises, Inc., the parent company of the issuer of the exchange notes, K. Hovnanian Enterprises, Inc., and each of its wholly-owned subsidiaries, other than the issuer and certain of Hovnanian Enterprises, Inc. s financial service subsidiaries and joint ventures, will fully and unconditionally guarantee our obligations under the exchange notes.

Resales of Exchange Notes:

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

You should consider carefully the Risk Factors beginning on page 14 of this prospectus before participating in the exchange offer.

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

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

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

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

This prospectus is dated May 27, 2009.

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

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

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

Hovnanian, us, we, our or Company means Hovnanian Enterprises, Inc., a Delaware corporation, togethe its consolidated subsidiaries, including K. Hovnanian;

Revolving Credit Agreement means our Seventh Amended and Restated Credit Agreement dated as of March 7, 2008, as amended by Amendment No. 1 thereto dated as of May 16, 2008;

Second Lien Notes means our 111/2% Senior Secured Notes due 2013;

outstanding notes means the $29,299,000 aggregate principal amount of 18.0% Senior Secured Notes due 2017, which were issued on December 3, 2008;

exchange notes means the $29,299,000 aggregate principal amount of 18.0% Senior Secured Notes due 2017, which we are offering in this exchange offer; and

notes means both the outstanding notes and the exchange notes offered hereby.

This prospectus incorporates important business and financial information about the company that is not included in or delivered with the document. Hovnanian will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any or all of the information incorporated by reference in this prospectus, other than exhibits to such information (unless such exhibits are specifically incorporated by reference into the information that this prospectus incorporates). Requests for such copies should be directed to Paul W. Buchanan, Senior Vice

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President and Chief Accounting Officer, Hovnanian Enterprises, Inc., 110 West Front Street, P.O. Box 500, Red Bank, New Jersey 07701, (telephone: (732) 747-7800). To obtain timely delivery, security holders must request the information no later than five business days before June 30, 2009, the expiration date of the exchange offer.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements including, in particular, the statements about our plans, strategies and prospects. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although we believe that our plans, intentions and expectations reflected in, or suggested by such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. Such risks, uncertainties and other factors include, but are not limited to, (1) changes in general and local economic and industry and business conditions, (2) adverse weather conditions and natural disasters, (3) changes in market conditions and seasonality of the Company s business, (4) changes in home prices and sales activity in the markets where the Company builds homes, (5) government regulation, including regulations concerning development of land, the home building, sales and customer financing processes, and the environment, (6) fluctuations in interest rates and the availability of mortgage financing, (7) shortages in, and price fluctuations of, raw materials and labor, (8) the availability and cost of suitable land and improved lots, (9) levels of competition, (10) availability of financing to the Company, (11) utility shortages and outages or rate fluctuations, (12) levels of indebtedness and restrictions on the Company s operations and activities imposed by the agreements governing the Company s outstanding indebtedness; (13) operations through joint ventures with third parties; (14) product liability litigation and warranty claims; (15) successful identification and integration of acquisitions; (16) significant influence of the Company s controlling stockholders; (17) geopolitical risks, terrorist acts and other acts of war; and (18) other factors described in detail in our Form 10-K for the year ended October 31, 2008, our Form 10-Q for the quarter ended January 31, 2009 and in this prospectus under Risk Factors . All forward-looking statements attributable to the Company or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus. 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.

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PROSPECTUS SUMMARY

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

The Company

We design, construct, market and sell single-family detached homes, attached townhomes and condominiums, mid-rise and high-rise condominiums, urban infill and active adult homes in planned residential developments and are one of the nation s largest builders of residential homes. Founded in 1959 by Kevork Hovnanian, Hovnanian Enterprises, Inc. was incorporated in New Jersey in 1967 and reincorporated in Delaware in 1983. Since the incorporation of our predecessor company and including unconsolidated joint ventures, we have delivered in excess of 282,000 homes, including 1,283 homes in the three months ended January 31, 2009. The Company consists of 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 245 communities in 44 markets in 18 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 adult buyers and empty nesters. We offer a variety of home styles at base prices ranging from $36,000 (low income housing) to $2,455,000 with an average sales price, including options, of $300,000 nationwide in fiscal 2008.

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.

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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 s existing residential communities. We also entered the Fort Myers market through the acquisition of First Home Builders of Florida, and 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.

Hovnanian markets and builds homes that are constructed in 23 of the nation s top 50 housing markets. We segregate our homebuilding operations geographically into the following six segments:

Northeast: New Jersey, New York, Pennsylvania

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

Midwest: Illinois, Kentucky, Minnesota, Ohio

Southeast: Florida, Georgia, North Carolina, South Carolina

Southwest: Arizona, Texas

West: California

We employed approximately 2,816 full-time employees (which we refer to as associates) as of October 31, 2008.

Our corporate offices are located at 110 West Front Street, P. O. Box 500, Red Bank, New Jersey 07701, our telephone number is (732) 747-7800, and our Internet website address is *www.khov.com*. Information on our website is not a part of, or incorporated by reference in, this prospectus.

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Summary of the Terms of the Exchange Offer

On December 3, 2008, K. Hovnanian completed a private offering of the outstanding notes.

General	In connection with the private offering of the outstanding notes, we entered into a registration rights agreement in which the Issuer and the guarantors agreed, among other things, to deliver this prospectus to you and to complete an exchange offer for the outstanding notes within the time period specified in the registration rights agreement. See Exchange Offer; Registration Rights. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes, which are identical in all material respects to the outstanding notes except: the exchange notes have been registered under the Securities Act of 1933, as amended, which we refer to as the Securities Act ; the exchange notes are not entitled to certain registration rights which are applicable to the outstanding notes under the registration rights agreement; and certain additional interest rate provisions are no longer applicable.
Outstanding Notes	$29,299,000 aggregate principal amount of 18.0% Senior Secured Notes due 2017, which were issued on December 3, 2008.
Exchange Notes	$29,299,000 aggregate principal amount of 18.0% Senior Secured Notes due 2017, which we are offering in this exchange offer.
The Exchange Offer	We are offering to exchange up to $29,299,000 aggregate principal amount of our exchange notes, which have been registered under the Securities Act, for a like aggregate principal amount of the outstanding notes. You may only exchange outstanding notes in denominations of $2,000 and higher integral multiples of $1,000. Subject to the satisfaction or waiver of specified conditions, we will exchange the exchange notes for all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer. We will cause the exchange to be effected promptly after the expiration of the exchange offer. Upon completion of the exchange offer, there may be no market for the outstanding notes and you may have difficulty selling them.
Resales	Based on interpretations by the staff of the Securities and Exchange Commission, or the SEC, set forth in no-action letters issued to third parties referred to below, we believe that you may resell or otherwise transfer exchange notes issued in the exchange offer without complying

with the registration and prospectus delivery requirements of the Securities Act, if:

(1) you are not an affiliate of K. Hovnanian or any guarantor of the notes within the meaning of Rule 405 under the Securities Act;

(2) you are not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes; and

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	(3) you are acquiring the exchange notes in the ordinary course of your business. If you are an affiliate of K. Hovnanian or the guarantors of the notes, or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business: (1) you cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co., Inc.* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC s letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters; and (2) in the absence of an exception from the position of the SEC stated in (1) above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes. If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, you must acknowledge that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of the exchange notes that you receive in the exchange offer. See Plan of Distribution.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on June 30, 2009 unless extended by us. We do not currently intend to extend the expiration date.
Withdrawal	You may withdraw the tender of your outstanding notes at any time prior to the expiration date. We will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.
Interest on the Exchange Notes and the Outstanding Notes	Each exchange note will bear interest at the rate per annum set forth on the cover page of this prospectus from the most recent date to which interest has been paid on the outstanding notes or, if no interest has been paid on the outstanding notes, from December 3, 2008. The interest will be payable semi-annually on each May 1 and November 1, beginning May 1, 2009. No interest will be paid on outstanding notes following their acceptance for exchange.
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which we may assert or waive. See The Exchange Offer Conditions to the Exchange Offer.

Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must

	then mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal. If you hold outstanding notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things: (1) you are not an affiliate of K. Hovnanian or the guarantors of the notes within the meaning of Rule 405 under the Securities Act; (2) you are not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes; (3) you are acquiring the exchange notes in the ordinary course of your business; and (4) if you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making or other trading activities, that you will deliver a prospectus, as required by law, in connection with any resale or other transfer of such exchange notes. If you are an affiliate of K. Hovnanian or the guarantors of the notes or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business, you cannot rely on the applicable positions and interpretations of the staff of the SEC and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale or other transfer of the exchange notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are held in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender those outstanding notes in the exchange offer, you should contact such person promptly and instruct such person to tender those outstanding notes on your behalf.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal and any other documents required by the letter of transmittal or you cannot comply with the DTC procedures for book-entry transfer prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed Delivery Procedures.

Effect on Holders of Outstanding Notes	In connection with the sale of the outstanding notes, we entered into a registration rights agreement, which grants the holders of

	outstanding notes registration rights. By making this exchange offer, we will have fulfilled most of our obligations under the registration rights agreement. Accordingly, we will not be obligated to pay additional interest as described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture, except we will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement and we will not be obligated to pay additional interest as described in the registration rights agreement, except in certain limited circumstances. See Exchange Offer; Registration Rights.
	To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes could be adversely affected.
Consequences of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will register the outstanding notes under the Securities Act.
Certain Income Tax Considerations	The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See United States Federal Income Tax Consequences of the Exchange Offer.
Use of Proceeds	We will not receive any cash proceeds from the issuance of exchange notes in the exchange offer.
Exchange Agent	Wilmington Trust Company, whose address and telephone number is set forth in the section captioned The Exchange Offer Exchange Agent of this prospectus, is the exchange agent for the exchange offer.

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Summary of the Terms of the Exchange Notes

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

Issuer	K. Hovnanian Enterprises, Inc.
Notes Offered	We are offering $29,299,000 aggregate principal amount of 18.0% Senior Secured Notes due 2017.
Maturity Date	May 1, 2017.
Interest Payment Dates	Each May 1 and November 1, beginning May 1, 2009.
Optional Redemption	We may redeem some or all of the notes at any time on or after May 1, 2011, at the redemption prices specified under the section Description of Notes Redemption plus accrued and unpaid interest, if any. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before May 1, 2011 with the net cash proceeds from certain equity offerings at a price equal to 118.0% of the principal amount thereof plus accrued and unpaid interest, if any.
Change of Control	Upon a Change of Control as described in the section Description of Notes, you may require us to repurchase all or part of your notes at 101% of the principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. We can give no assurance that, upon such an event, we will have sufficient funds to repurchase any of the notes.
Guarantees	The guarantors are Hovnanian Enterprises, Inc., the parent corporation of the Issuer, and substantially all of the parent s existing and future restricted subsidiaries. If the Issuer cannot make payments on the notes when they are due, the guarantors must make the payments instead. As of the date of this prospectus, our home mortgage subsidiaries, our joint ventures and certain of our title insurance subsidiaries are not guarantors or restricted subsidiaries.
Ranking	The exchange notes and the guarantees thereof will be the Issuer s and the guarantors general senior secured obligations and will: rank senior in right of payment to the Issuer s and the guarantors existing and future debt and other obligations that expressly provide for their subordination to the notes and the guarantees; rank equally in right of payment to all of the Issuer s and the guarantors existing and future unsubordinated debt and, together with indebtedness

under our Revolving Credit Agreement, the Second Lien Notes and any other secured obligations, effectively senior in right of payment to all the Issuer s and the guarantors existing and future unsecured debt to the extent of the value of the collateral;

be effectively subordinated to the Issuer s and the guarantors debt that is secured by priority liens on the collateral, including indebtedness under our Revolving Credit Agreement and the Second Lien Notes to the extent of the value of the collateral; and

be structurally subordinated to all of the existing and future liabilities, including trade payables, of our subsidiaries that do not guarantee the notes.

At January 31, 2009, the Issuer and the guarantors had:

approximately $629.3 million of secured indebtedness outstanding ($624.3 million, net of discount), including the outstanding notes;

approximately $1,414.2 million of senior unsecured notes ($1,410.8 million, net of discount);

approximately $376.1 million of senior subordinated notes; and

no amounts drawn under the Revolving Credit Agreement, excluding letters of credit totaling approximately $168.2 million.

Under the covenants of our indentures governing our senior secured, senior and senior subordinated notes, our ability to incur additional debt is currently limited (because our consolidated fixed charge coverage ratio would be below 2.0 to 1.0) to certain permitted debt. Under the most restrictive of the covenants, the amount of additional long-term debt we could incur is $182.0 million. We may also incur certain other types of indebtedness such as non-recourse indebtedness and purchase money indebtedness as described under Description of Notes Certain covenants Limitations on indebtedness .

In addition, as of January 31, 2009, our non-guarantor subsidiaries had approximately $79.1 million of liabilities, including trade payables, but excluding intercompany obligations.

See the section Description of Notes Ranking.

Collateral

The exchange notes and the guarantees thereof will be secured by a third-priority lien on substantially all the assets owned by the Issuer and the guarantors on December 3, 2008 or thereafter acquired to the extent such assets secure obligations under the Revolving Credit Agreement and the Second Lien Notes. The obligations under our Revolving Credit Agreement are secured by a first-priority lien and the obligations under the Second Lien Notes are secured by a second-priority lien on the same assets that secure the outstanding notes.

As of January 31, 2009, the aggregate book value of the real property collateral securing the outstanding notes was approximately $1.339 billion, which does not include the impact of inventory investments, home deliveries or impairments thereafter and which may differ from the appraised value. In addition, cash collateral securing the outstanding notes was $856.1 million as of January 31, 2009. The incremental value of the stock of subsidiary guarantors that is pledged as collateral to secure the outstanding notes is not meaningful because the underlying assets of such guarantors have been separately pledged as collateral.

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The collateral will not include:

- the pledge of stock of guarantors to the extent such pledge would result in separate financial statements of such guarantor being required in SEC filings (which stock will be pledged to secure the Revolving Credit Agreement but not the Second Lien Notes);
- personal property where the cost of obtaining a security interest or perfection thereof exceeds its benefits;
- real property subject to a lien securing indebtedness incurred for the purpose of financing the acquisition thereof;
- real property located outside of the United States;
- unentitled land;
- real property which is leased or held for the purpose of leasing to unaffiliated third parties;
- equity interests in subsidiaries other than restricted subsidiaries, subject to future grants under certain circumstances as required under the indenture;
- any real property in a community under development with a dollar amount of investment as of the most recent month-end (determined in accordance with GAAP) of less than $2.0 million or with less than 10 lots remaining;
- up to $50.0 million of assets received in certain asset dispositions or asset swaps or exchanges made in accordance with the indenture;
- assets with respect to which any applicable law or contract prohibits the creation or perfection of security interests therein; and
- any other assets excluded from the collateral securing (i) the Revolving Credit Agreement (and any other indebtedness or obligations secured by first-priority liens on the collateral) and (ii) the Second Lien Notes.

In addition, the Issuer and the guarantors will not be required to provide control agreements with respect to certain deposit, checking or securities accounts with average balances below a certain dollar amount.

For more details, see the section Description of Notes Security.

Intercreditor Agreement

Pursuant to an intercreditor agreement, the liens securing the notes will be third-priority liens that will be expressly junior in priority to the liens that secure (1) obligations under our Revolving Credit Agreement, (2) obligations under our Second Lien Notes, (3) certain other future indebtedness permitted to be incurred under the indenture governing the notes and (4) certain obligations under our hedging arrangements. Pursuant to the intercreditor agreement, the liens securing the notes may not be enforced at any time when obligations secured by priority liens are outstanding, except for certain limited exceptions. Any release (except in connection with repayment in full of the priority lien obligations) of priority liens upon

	any collateral approved by holders of such priority liens will also release the liens securing the notes on the same collateral. The holders of the priority liens will receive all proceeds from any realization on the collateral or from the collateral or proceeds thereof in any insolvency or liquidation proceeding until the obligations secured by the priority liens are paid in full.
Sharing of Liens	In certain circumstances, we may secure specified indebtedness permitted to be incurred under the indenture governing the notes by granting liens upon any or all of the collateral securing the notes, including on an equal basis with the first-priority liens securing the Revolving Credit Agreement or on a *pari passu* or junior basis with respect to the notes.
Certain Covenants	The exchange notes will be issued under the same indenture as the outstanding notes were issued. The indenture contains covenants that, among other things, restrict the Issuer s ability and the ability of the guarantors to: borrow money; pay dividends and distributions on our common and preferred stock; repurchase senior and senior subordinated notes and common and preferred stock; make investments in subsidiaries and joint ventures that are not restricted; sell certain assets; incur certain liens; merge with or into other companies; and enter into certain transactions with our affiliates. These covenants will be subject to a number of important exceptions and qualifications. For more details, see the section Description of Notes Certain covenants.
Absence of a Public Market	The exchange notes will generally be freely transferable (subject to certain restrictions discussed in Exchange Offer; Registration Rights) but will be a new issue of securities for which there will not initially be a market. Accordingly, there can be no assurance as to the development or liquidity of any market for the exchange notes. We do not intend to apply for a listing of the exchange notes on any securities exchange or automated dealer quotation system.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. For a description of the use of proceeds from

the private offering of the outstanding notes, see Use of Proceeds.

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Summary Financial Information

The following table presents summary historical consolidated financial and other data of Hovnanian Enterprises, Inc. and subsidiaries as of and for the years ended October 31, 2008, 2007 and 2006 and the three months ended January 31, 2009 and 2008. The consolidated financial and other data for the years ended October 31, 2008, 2007 and 2006 have been derived from Hovnanian Enterprises, Inc. s audited consolidated financial statements and the consolidated financial and other data for the three months ended January 31, 2009 and 2008 have been derived from Hovnanian Enterprises, Inc. s unaudited consolidated financial statements. Operating results for the three months ended January 31, 2009 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2009. You should read this data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein and our consolidated financial statements and related notes incorporated by reference herein.

	Year Ended			Three Months Ended	
	October 31, 2008	October 31, 2007	October 31, 2006	January 31, 2009	January 31, 2008
	(Dollars in thousands, except per share data)				
Income Statement and Other Data					
Revenues	$ 3,308,111	$ 4,798,921	$ 6,148,235	$ 373,784	$ 1,093,701
Inventory impairment loss and land option write-offs	$ 710,120	$ 457,773	$ 336,204	$ 110,181	$ 90,168
Gain on extinguishment of debt				79,520	
(Loss) income from unconsolidated joint ventures	$ (36,600)	$ (28,223)	$ 15,385	$ (22,589)	$ (5,039)
Pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt(l)	$ (391,323)	$ (20,887)	$ 581,360	$ (125,341)	$ (74,619)
(Loss) income before income taxes	$ (1,168,048)	$ (646,966)	$ 233,106	$ (177,826)	$ (168,794)
State and Federal income tax (benefit) provision	(43,458)	(19,847)	83,573	584	(37,851)
Net (loss) income	(1,124,590)	(627,119)	149,533	(178,410)	(130,943)
Less: preferred stock dividends		10,674	10,675		
Net (loss) income attributable to common stockholders	$ (1,124,590)	$ (637,793)	$ 138,858	$ (178,410)	$ (130,943)
Per share data:					
Basic:					
(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.21	$ (2.29)	$ (2.07)
Weighted average number of common shares outstanding	70,131	63,079	62,822	78,043	63,358
Assuming dilution:					

(Loss) income per common share	$ (16.04)	$ (10.11)	$ 2.14	$ (2.29)	$ (2.07)
Weighted average number of common shares outstanding	70,131	63,079	64,838	78,043	63,358

(1) Pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt is not a financial measure calculated in accordance with U.S. generally accepted accounting principles (GAAP). The most directly comparable GAAP financial measure is (loss) income before income taxes. The reconciliation of pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt to (loss) income before income taxes is presented below. Pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt should be considered in addition to, but not as a substitute for, (loss) income before income taxes, net (loss)

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income and other measures of financial performance prepared in accordance with GAAP that are presented on the financial statements and notes incorporated by reference herein. Additionally, our calculation of pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt may be different than the calculation used by other companies, and, therefore, comparability may be affected. Management believes pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt to be relevant and useful information because it provides a better metric for our operating performance.

Reconciliation of pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt to (loss) income before income taxes:

	Year Ended			Three Months Ended	
	October 31, 2008	October 31, 2007	October 31, 2006	January 31, 2009	January 31, 2008
	(Dollars in thousands)				
(Loss) income before income taxes	$ (1,168,048)	$ (646,966)	$ 233,106	$ (177,826)	$ (168,794)
Inventory impairment loss and land option write-offs	$ 710,120	$ 457,773	$ 336,204	$ 110,181	$ 90,168
Goodwill and definite life intangible impairments	$ 35,363	$ 135,206	$ 4,241	$	$
Unconsolidated joint venture investment, intangible and land related charges	$ 31,242	$ 33,100	$ 7,809	$ 21,824	$ 4,007
Gain on extinguishment of debt	$	$	$	$ (79,520)	$
Pre-tax (loss) income excluding land related charges, intangible impairments and gain on extinguishment of debt	$ (391,323)	$ (20,887)	$ 581,360	$ (125,341)	$ (74,619)

	October 31, 2008	October 31, 2007	October 31, 2006	January 31, 2009	January 31, 2008
	(Dollars in thousands)				
Summary Consolidated Balance Sheet Data					
Total assets	$ 3,637,322	$ 4,540,548	$ 5,480,035	$ 3,211,480	$ 4,325,066
Mortgages, term loans, revolving credit agreements, and notes payable	$ 107,913	$ 410,298	$ 319,943	$ 98,374	$ 454,764
Senior secured notes, senior notes and senior subordinated notes	$ 2,505,805	$ 1,910,600	$ 2,049,778	$ 2,411,144	$ 1,910,714
Stockholders equity	$ 330,264	$ 1,321,803	$ 1,942,163	$ 167,950	$ 1,184,746

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Important indicators of our future results are recently signed contracts and home contract backlog for future deliveries. Our sales contracts and homes in contract backlog, which primarily use base sales prices by segment, are set forth below:

	Net Contracts(1) for the Three Months Ended January 31,		Contract Backlog as of January 31,	
	2009	2008	2009	2008
	(Dollars in thousands)			
Northeast:				
Dollars	$ 65,345	$ 83,416	$ 193,533	$ 431,517
Homes	139	198	442	859
Mid-Atlantic:				
Dollars	$ 42,259	$ 73,424	$ 139,210	$ 308,344
Homes	136	201	338	657
Midwest:				
Dollars	$ 18,836	$ 18,737	$ 54,552	$ 126,937
Homes	104	102	282	650
Southeast:				
Dollars	$ 20,063	$ 42,423	$ 31,896	$ 195,367
Homes	117	155	123	677
Southwest:				
Dollars	$ 60,497	$ 124,385	$ 75,797	$ 136,931
Homes	282	545	332	605
West:				
Dollars	$ 30,519	$ 115,405	$ 36,043	$ 149,539
Homes	183	310	143	397
Consolidated total:				
Dollars	$ 237,519	$ 457,790	$ 531,031	$ 1,348,635
Homes	961	1,511	1,660	3,845
Unconsolidated joint ventures:				
Dollars	$ 14,122	$ 52,747	$ 146,330	$ 187,417
Homes	43	108	231	380
Totals:				
Dollars	$ 251,641	$ 510,537	$ 677,361	$ 1,536,052
Homes	1,004	1,619	1,891	4,225

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

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RISK FACTORS

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

Risks Related to the Exchange Offer

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

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

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

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

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

- your outstanding notes and either:
  - a properly completed and executed letter of transmittal and all other required documents; or
  - a book-entry delivery by electronic transmittal of an agent s message through the Automated Tender Offer Program of DTC.

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

Risks Related to Our Business

The homebuilding industry is significantly affected by changes in general and local economic conditions, real estate markets and weather conditions, which could affect our ability to build homes at prices our customers are willing or able to pay, could reduce profits that may not be recaptured, 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;
- foreclosure rates;

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- inflation;
- adverse changes in tax laws;
- consumer confidence;
- housing demand; and
- population growth.

Turmoil in the financial markets could affect our liquidity. In addition, our cash balances are held at numerous 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 and diversifying our investments. We also depend upon the lenders under our Revolving Credit Agreement to be able to perform under their commitments. If one or more of our lenders default on their funding obligations, the other lenders are not obligated to make up the shortfall, which would reduce our available liquidity. In addition, it may be difficult to find a bank willing to issue a letter of credit under our Revolving Credit Agreement in such a circumstance.

Weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires can harm the local homebuilding business. Our business in Florida was adversely affected in late 2005 and into 2006 due to the impact of Hurricane Wilma on materials and labor availability and pricing. Conversely, Hurricane Ike, which hit Houston in September 2008, did not have an impact on materials and labor availability or pricing, but did impact the volume of home sales in subsequent weeks.

The difficulties described above could cause us to take longer and incur more costs to build our homes. We may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to twelve months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

The homebuilding industry is undergoing a significant and sustained downturn which has, and could continue to, materially and adversely affect our business, liquidity and results of operations.

The homebuilding industry is now experiencing a significant and sustained downturn. An industry-wide softening of demand for new homes has resulted from a lack of consumer confidence, decreased housing affordability, decreased availability of mortgage financing, and large supplies of resale and new home inventories. In addition, an oversupply of alternatives to new homes, such as rental properties, resale homes and foreclosures, has 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 during fiscal years 2007 and 2008 and are continuing to materially adversely affect our business and results of operations in fiscal 2009. For example, we are continuing to experience significant declines in sales, significant reductions in our margins and higher cancellations. Further, we substantially increased our inventory through fiscal 2006, which required significant cash outlays and which has increased our price and margin exposure as we continue to work through this inventory. In addition, general economic conditions in the U.S. continue to weaken. Market volatility has been unprecedented and extraordinary in recent months, and the resulting economic turmoil may continue to exacerbate industry conditions or have other unforeseen consequences, leading to uncertainty about future conditions in the homebuilding industry. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity and the availability of credit. Continuation or worsening of this downturn or general economic conditions would continue to have a material adverse effect on our business, liquidity and results of operations.

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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, as of January 31, 2009, including the debt of the subsidiaries that guarantee our debt, was approximately $2,419.6 million ($2,411.1 million net of discount);

- as of January 31, 2009, the aggregate outstanding face amount of letters of credit under our Revolving Credit Agreement was approximately $168.2 million and we had no outstanding revolving loans; and

- on a pro forma basis to give effect to the issuance of the outstanding notes in exchange for certain of our unsecured senior notes, our debt service payments for the 12-month period ended January 31, 2009, which include interest incurred and mandatory principal payments on our corporate debt under the terms of our indentures (but which do not include principal and interest on non-recourse secured debt and debt of our financial subsidiaries), were approximately $145.8 million.

In addition, we had substantial contractual commitments and contingent obligations, including approximately $580.9 million of performance bonds as of January 31, 2009. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations in our Annual Report on Form 10-K for the year ended October 31, 2008 incorporated by reference herein.

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;

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

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

- make us more vulnerable 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, because borrowings under our Revolving Credit Agreement bear interest at floating rates. A higher interest rate on our debt service obligations could result in lower earnings.

Our business may not generate sufficient cash flow from operations and borrowings may not be available to us under our Revolving Credit Agreement in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Under the $300 million Revolving Credit Agreement, the amount available for revolving loans is limited to $100 million, with the remaining amounts available (subject to the borrowing base) for the issuance of letters of credit. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

Restrictive covenants in our debt instruments may restrict our ability to operate and if our financial performance worsens, we may not be able to maintain compliance with the financial covenants of our debt instruments.

The indentures governing our outstanding debt securities and our Revolving Credit Agreement impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, sales of assets, cash distributions, including paying dividends on common and preferred stock, capital stock and debt repurchases, and investments by us and certain of our subsidiaries. The covenants in our Revolving Credit Agreement also include a borrowing base covenant and a covenant requiring either a minimum operating cash flow coverage ratio or minimum liquidity as of the last day of each fiscal quarter but do not contain any other financial covenants. Our level of home deliveries, amount of impairments and other financial performance factors negatively impacted the borrowing base and financial covenants under the Revolving Credit Agreement prior to its amendment in May 2008, and there can be no assurance that we will not violate the financial or other covenants under our debt instruments in the future or that the amount available under our Revolving Credit Agreement would not be reduced.

In addition, as a result of covenant restrictions in our indentures, we are currently unable to pay dividends, which are not cumulative, on our 7.625% Series A Preferred Stock. If current market trends continue or worsen, we will continue to be restricted from paying dividends throughout fiscal 2009 and possibly beyond.

If we fail to comply with any of the restrictions or covenants of our debt instruments, and are unable to amend the instrument or obtain a waiver, or make timely payments on this debt and other material indebtedness, we could be precluded from incurring additional borrowings under our Revolving Credit Agreement and the trustees or the banks, as appropriate, could cause our debt to become due and payable prior to maturity. In such a situation, there can be no assurance that we would be able to obtain alternative financing. In addition, if we are in default of these agreements, we may be prohibited from drawing additional funds under the Revolving Credit Agreement, which could impair our ability to maintain sufficient working capital. Either 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 under the Revolving Credit Agreement, 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 are not considered indebtedness under our indentures (and may be secured) and therefore are not subject to limits in our debt covenants.

The price of our common stock may fall below the minimum allowed by New York Stock Exchange (NYSE) listing requirements.

Our common stock is listed on the NYSE. The NYSE requires that listed stocks trade at or above $1.00 per share. While our common stock currently trades above $1.00 per share, during February and March, the closing price of our common stock fell below $1.00 per share for a number of days. If the average closing price is below $1.00 per share for 30 consecutive trading days, the NYSE may send us a de-listing notification. Within ten days after receiving such notification, we can submit a proposal to the NYSE to bring our stock price above $1.00 within six months. However, there can be no assurance we will be successful in implementing such a proposal. If our common stock were to be de-listed from the NYSE, it would be traded over the counter, unless we were able to list it on another exchange. A de-listing by the NYSE would likely cause trading in our stock to be less liquid.

The NYSE has temporarily suspensed the stock-price continued listing standard through June 30, 2009. Following the temporary rule suspension, any new events of noncompliance with the NYSE s stock price continued listing standard would be determined based on a consecutive 30 trading-day period commencing on June 30, 2009. Factors out of our control or unrelated to our operating results could also cause our stock price to decrease.

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 continuing to grow our business and operations in a profitable manner. On March 16, 2009, Fitch lowered the Company s issuer default rating to

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CCC from B-. On March 6, 2009, Moody s lowered our corporate family rating to Caa1 from B3, with a negative outlook. On March 4, 2009, S&P put our B- corporate credit rating on CreditWatch with negative implications. These downgrades may make it more difficult and costly for us to access capital. A further downgrade by any of the principal credit agencies may exacerbate these difficulties.

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

Our quarterly operating results generally fluctuate by season. Historically, a large percentage of our agreements of sale have been entered into in the winter and spring. The construction of a customer s home typically begins after signing the agreement of sale and can take 12 months or more to complete. Weather-related problems, typically in the late 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 impact on our sales and revenues. Due to these factors, our quarterly operating results may continue to fluctuate.

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

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and improved lots at acceptable prices. The availability of undeveloped land and improved lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce revenue and profits.

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

The homebuilding industry has from time to time experienced raw material and labor shortages. In particular, shortages and fluctuations in the price of lumber or in other important raw materials could result in delays in the start or completion of, or increase the cost of, developing one or more of our residential communities. In addition, we contract with subcontractors to construct our homes. Therefore, the timing and quality of our construction depends on the availability, skill and cost of our subcontractors. Delays or cost increases caused by shortages and price fluctuations could harm our operating results, the impact of which may be further affected depending on our ability to raise sales prices.

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

Land inventory risk can be substantial for homebuilders. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. In the case of land options, we could choose not to exercise them, in which case we would write off the value of these options. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. 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 Critical Accounting Policies in our annual and quarterly reports incorporated by reference herein. For example, during 2008 and 2007 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 $114.1 million and $126.0 million, respectively. Also, in 2008 and 2007, as a result of the slowing market, we recorded inventory impairment losses on owned property of $596.0 million and $331.8 million, respectively. For the three months ended January 31, 2009, we recorded inventory impairment losses on owned property of

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$95.7 million and we further recorded $14.5 million of land option write-offs. If market conditions continue to worsen, additional inventory impairment losses and land option write-offs will likely be necessary.

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

We presently conduct a significant portion of our business in the California, New Jersey, Texas, Virginia, Maryland, Florida and Arizona 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. In particular, Arizona, California, Florida, New Jersey, Virginia and Maryland have declined significantly since the end of 2006. Furthermore, precarious economic and budget situations at the state government level may adversely affect the market for our homes in those affected areas. If home prices and sales activity decline in one or more of the markets in which we operate, our costs may not decline at all or at the same rate and profits may be reduced.

Because almost all of our customers require mortgage financing, increases in interest rates or the 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 decreases in availability of mortgage financing could lower demand for new homes because of the increased monthly mortgage costs to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. This could prevent or limit our ability to attract new customers as well as our ability to fully realize our backlog because our sales contracts generally include a financing contingency. Financing contingencies permit the customer to cancel his obligation in the event mortgage financing at prevailing interest rates, including financing arranged or provided by us, is unobtainable within the period specified in the contract. This contingency period is typically four to eight weeks following the date of execution of the sales contract.

Over the last several quarters, many lenders have significantly tightened their underwriting standards, and many 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 FNMA, FHLMC and FHA/VA financing, is an important factor in marketing many of our homes. Any limitations or restrictions on the availability of those types of financing could reduce our sales.

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 January 31, 2009, we had invested an aggregate of $14.6 million in these joint ventures, which had borrowings outstanding of approximately $342.8 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 as market conditions become more challenging, it may be difficult or impossible to obtain financing for our joint ventures on commercially reasonable terms. 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

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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 home building, sales and customer financing processes and protection of the environment, which can cause us to incur delays and costs associated with compliance and which can prohibit or restrict our activity in some regions or areas.

We are subject to extensive and complex regulations that affect the development and home building, sales and customer financing processes, including zoning, density, building standards and mortgage financing. These regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding. 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. The particular environmental laws which apply to any given community vary greatly according to the community site, the site s environmental conditions and the present and former uses of the site. These environmental laws may result in delays, may cause us to incur substantial compliance, remediation, and/or other costs, and can prohibit or severely restrict development and homebuilding activity.

For example, during 2005, we received two requests for information pursuant to Section 308 of the Clean Water Act from Region 3 of the Environmental Protection Agency (the EPA). These requests sought information concerning storm water discharge practices in connection with completed, ongoing and planned homebuilding projects by subsidiaries in the states and district that comprise EPA Region 3. We also received a notice of violations for one project in Pennsylvania and requests for sampling plan implementation in two projects in Pennsylvania. We have subsequently received notification from the EPA alleging violations of storm water discharge practices at other locations and requesting related information. We provided the EPA with information in response to its requests. The Department of Justice (DOJ) is also involved in the review of these practices and enforcement with respect to them. We are engaged in discussions with the DOJ and EPA regarding a resolution of these matters. We cannot predict whether those discussions will result in a resolution, or what any resolution of these matters ultimately will require of us.

We anticipate that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict the effect of these requirements, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. In addition, the continued effectiveness of permits already granted or approvals already obtained is dependent upon many factors, some of which are beyond our control, such as changes in policies, rules and regulations and their interpretation and application.

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

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of business. Such claims are common in the homebuilding industry and can be costly. 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, 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.

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

We compete not only for home buyers but also for desirable properties, financing, raw materials and skilled labor often within larger subdivisions designed, planned and developed by other homebuilders. Our competitors include other local, regional and national homebuilders, some of which have greater sales and financial resources.

The competitive conditions in the homebuilding industry 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; or
- delays in construction.

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

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

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from sales of equity or borrowing additional money, for the future growth and development of our business. The terms or availability of additional capital is uncertain. Moreover, the indentures for our outstanding debt securities and our Revolving Credit Agreement contain provisions that restrict the debt we may incur and the equity we may issue in the future. If we are not successful in obtaining sufficient capital, it could reduce our sales and may hinder our future growth and results of operations. In addition, pledging substantially all of our assets to support the Revolving Credit Agreement, the Second Lien Notes and the notes may make it more difficult to raise additional financing in the future.

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 April 2006, we acquired Craftbuilt Homes. In the future, we may acquire other 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.

Kevork S. Hovnanian, the Chairman of our Board of Directors, and Ara K. Hovnanian, our President and Chief Executive Officer, have voting control, through personal holdings and family-owned entities, of Class A and Class B common stock that enables them to cast approximately 70% of the votes that may be cast by the holders of our outstanding Class A and Class B common stock combined. Their combined stock ownership enables them to exert significant control over us, including power to control the election of our 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.

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

Based on recent impairments and our current financial performance, we generated a net operating loss carryforward of $404.8 million for the year ending October 31, 2008, and we may generate net operating loss carryforwards in future years.

Section 382 of the Internal Revenue 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 changes 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 common 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. Our inability 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 our Board of Directors adopted a shareholder rights plan designed to preserve shareholder value and the value of certain tax assets primarily associated with net loss carryforwards and built in losses under Section 382 of the Internal Revenue Code and on December 5, 2008, our stockholders approved the Board of Directors decision to adopt the shareholder rights plan. In addition, 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 net operating loss carryforwards and built-in losses under Section 382 of the Internal Revenue Code.

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

In prior years, the areas in which we operate in California have experienced power shortages, including periods without electrical power, as well as significant fluctuations in utility costs. We may incur additional costs and may not be able to complete construction on a timely basis if such power shortages/outages and utility rate fluctuations continue. Furthermore, power shortages and outages, such as the blackout that occurred in 2003 in the Northeast, and rate fluctuations may adversely affect the regional economies in which we operate, which may reduce demand for our homes. Our operations may be adversely affected if further rate fluctuations and/or power shortages and outages occur in California, the Northeast or in our other markets.

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

Geopolitical events, such as the aftermath of the war with Iraq and the continuing involvement in Iraq, may have a substantial impact on the economy and the housing market. The terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 had an impact on our business and the occurrence of similar events in the future cannot be ruled out. The war and the continuing involvement in Iraq and Afghanistan, terrorism and related geopolitical risks have created many economic and political uncertainties, some of which may have additional material adverse effects on the U.S. economy, and our customers and, in turn, our results of operations and financial condition.

Risks Related to the Notes

We have a significant amount of indebtedness and we may incur additional indebtedness.

At January 31, 2009, the Issuer and the guarantors had approximately $2,419.6 million ($2,411.1 million, net of discount) of debt (including the outstanding notes) outstanding. We and our subsidiaries may incur additional indebtedness in the future. Subject to certain conditions, the terms of the indenture under which the

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outstanding notes were, and the exchange notes will be, issued and our other existing debt instruments do not prohibit us or our subsidiaries from incurring additional indebtedness. Under the covenants of our indentures governing our senior secured, senior and senior subordinated notes, our ability to incur additional debt is currently limited (because our consolidated fixed charge coverage ratio would be below 2.0 to 1.0) to certain permitted debt. Under the most restrictive of the covenants, the amount of additional long-term debt we could incur is $182.0 million. We may also incur certain other types of indebtedness such as non-recourse indebtedness and purchase money indebtedness as described under Description of Notes Certain covenants Limitations on indebtedness . If indebtedness is added to our current debt levels, the risks related to the notes and our indebtedness generally that we and our subsidiaries now face could intensify.

The notes and the guarantees thereof will be structurally subordinated to indebtedness of our non-guarantor subsidiaries and joint ventures.

The notes and the guarantees will be structurally subordinated to the indebtedness (including trade payables) of any non-guarantor subsidiary and joint venture, and holders of the notes will not have any claim as a creditor against any non-guarantor subsidiary or joint venture. In addition, the indenture under which the outstanding notes were, and the exchange notes will be, issued permits, subject to certain limitations, non-guarantor subsidiaries and joint ventures to incur additional indebtedness and will not contain any limitation on the amount of liabilities (such as trade payables) that may be incurred by them. At January 31, 2009, non-guarantor subsidiaries and joint ventures had approximately $79.1 million and $389.7 million, respectively, of outstanding liabilities, including trade payables.

Our non-guarantor subsidiaries and joint ventures are not subject to the restrictive covenants in the indenture under which the outstanding notes were, and the exchange notes will be, issued.

Certain of our subsidiaries and all of our joint venture operations are not subject to the restrictive covenants in the indenture under which the outstanding notes were, and the exchange notes will be, issued. This means that these entities will be able to engage in many of the activities that we and our restricted subsidiaries are prohibited or limited from doing under the terms of such indenture, such as incurring additional debt, securing assets in priority to the claims of the holders of the notes, paying dividends, making certain investments, selling assets and entering into mergers or other business combinations. If non-guarantors and joint ventures engage in any of these activities, their actions could reduce the amount of cash the we will have available to us to fund payments of principal and interest on the notes when due and to comply with our other obligations under the notes, and could reduce the amount of our assets that would be available to satisfy your claims should we default on the notes.

All obligations under our Revolving Credit Agreement will be secured by first-priority liens and all obligations under the Second Lien Notes will be secured by second-priority liens on collateral that also secures the notes and the guarantees thereof. As a result, the notes and the guarantees thereof will be effectively subordinated to all such obligations, to the extent of the value of such collateral.

The notes and the guarantees are secured by a third-priority lien on substantially all of our assets to the extent such assets secure obligations under the Revolving Credit Agreement and the Second Lien Notes. The obligations under the Revolving Credit Agreement are secured by a first-priority lien and the obligations under the Second Lien Notes are secured by a second-priority lien on the same assets that also secure the notes and the guarantees. Consequently, the notes and the guarantees will be effectively subordinated to the indebtedness under the Revolving Credit Agreement and the Second Lien Notes to the extent of the value of the collateral securing such obligations. In addition, the collateral securing the notes and the guarantees may secure obligations under interest rate and currency agreements with lenders or their affiliates as permitted by the terms of the Revolving Credit Agreement. In the event of a bankruptcy, liquidation, insolvency, dissolution, reorganization or similar proceeding of us, the proceeds from any collateral sales will be applied first to satisfy the indebtedness under the Revolving Credit Agreement and Second

Lien Notes and certain other obligations, and it is possible that there would be little or no assets remaining from which the claims of the holders of notes could be satisfied.

In addition, to the extent that the claims of the holders of notes exceed the value of the assets securing those notes and other liabilities, those claims will rank equally with the claims of the holders of our outstanding unsecured senior notes and any other indebtedness ranking *pari passu* with those unsecured notes. As a result, if the value of the assets pledged as security for the notes is less than the value of the claims of the holders of notes, those claims may not be satisfied in full before the claims of our unsecured creditors are paid.

The notes will be secured only to the extent of the value of the assets that have been granted as security for the notes and in the event that the security is enforced against the collateral, the holders of the notes will receive proceeds from the collateral only after the lenders under our Revolving Credit Agreement, the holders of the Second Lien Notes and certain holders of additional secured debt.

Substantially all the assets owned by the Issuer and the guarantors on the date of the indenture or thereafter acquired, and all proceeds therefrom, will be subject to first-priority liens in favor of the lenders under our Revolving Credit Agreement and will be subject to second-priority liens in favor of the holders of the Second Lien Notes. The holders of the notes will have third-priority liens on such assets, excluding pledges of stock of subsidiaries to the extent they would result in the filing of separate financial statements being required in SEC filings. Our failure to comply with the terms of the Revolving Credit Agreement or the indenture under which the Second Lien Notes were issued could entitle those lenders and/or holders to declare all indebtedness thereunder to be immediately due and payable. If we were unable to service the indebtedness under the Revolving Credit Agreement or the Second Lien Notes, the lenders/holders could foreclose on our assets that serve as collateral. As a result, upon any distribution to our creditors, liquidation, reorganization or similar proceedings, or following acceleration of any of our indebtedness or an event of default under our indebtedness and enforcement of the collateral, the lenders under our Revolving Credit Agreement and the holders of the Second Lien Notes will be entitled to be repaid in full from the proceeds of all the pledged assets owned by the Issuer and guarantors on the date of the indenture or thereafter acquired securing the indebtedness to them before any payment is made to you from the proceeds of that collateral.

In addition, the collateral securing the notes and the guarantees thereof will be subject to liens permitted under the terms of the indenture governing the notes and the intercreditor agreement, whether arising on or after the date the notes are issued. The existence of any permitted liens could adversely affect the value of the collateral securing the notes and the guarantees thereof as well as the ability of the collateral agent to realize or foreclose on such collateral.

Furthermore, the fair market value of the collateral securing the notes is subject to fluctuations based on factors that include, among others, the condition of the homebuilding industry, our ability to implement our business strategy, the ability to sell the collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. In addition, courts could limit recoverability if they apply non-New York law to a proceeding and deem a portion of the interest claim usurious in violation of public policy. The amount to be received upon a sale of any collateral would be dependent on numerous factors, including but not limited to the actual fair market value of the collateral at such time and the timing and the manner of the sale. By its nature, some or all of the collateral may be illiquid and may have no readily ascertainable market value. In the event that a bankruptcy case is commenced by or against us, if the value of the collateral is less than the amount of principal and accrued and unpaid interest on the notes and all other senior secured obligations, interest may cease to accrue on the notes from and after the date the bankruptcy petition is filed. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the collateral will be sufficient to pay our obligations due under the notes.

In addition, not all of our assets secure the notes. See Description of Notes Security. For example, the collateral will not include:

pledges of stock of guarantors to the extent they would result in the filing of separate financial statements of such guarantor being required in SEC filings (which stock will be pledged to secure the Revolving Credit Agreement but not the Second Lien Notes);

personal property where the cost of obtaining a security interest or perfection thereof exceeds its benefits;

real property subject to a lien securing indebtedness incurred for the purpose of financing the acquisition thereof;

real property located outside of the United States;

unentitled land;

real property which is leased or held for the purpose of leasing to unaffiliated third parties;

equity interests in subsidiaries other than restricted subsidiaries, subject to future grants under certain circumstances as required under the indenture;

any real property in a community under development with a dollar amount of investment as of the most recent month-end (determined in accordance with GAAP) of less than $2.0 million or with less than 10 lots remaining;

up to $50.0 million of assets received in certain asset dispositions or asset swaps or exchanges made in accordance with the indenture;

assets with respect to which any applicable law or contract prohibits the creation or perfection of security interests therein; and

any other assets excluded from the collateral securing (i) the Revolving Credit Agreement (and any other indebtedness or obligations secured by first-priority liens on the collateral) and (ii) the Second Lien Notes.

In addition, the Issuer and the guarantors will not be required to provide control agreements with respect to certain deposit, checking or securities accounts with average balances below a certain dollar amount.

In the future, the obligation to grant additional security over assets, or a particular type or class of assets, whether as a result of the acquisition or creation of future assets or subsidiaries, the designation of a previously unrestricted subsidiary as a restricted subsidiary or otherwise, is subject to the provisions of the intercreditor agreement. The intercreditor agreement sets out a number of limitations on the rights of the holders of the notes to require security in certain circumstances, which may result in, among other things, the amount recoverable under any security provided by any subsidiary being limited and/or security not being granted over a particular type or class of assets. Accordingly, this may affect the value of the security provided by us and our subsidiaries.

To the extent that the claims of the holders of the notes exceed the value of the assets securing those notes and other liabilities, those claims will rank equally with the claims of the holders of our outstanding unsecured senior notes and any other indebtedness ranking pari passu with those unsecured notes. As a result, if the value of the assets pledged as security for the notes is less than the value of the claims of the holders of the notes, those claims may not be satisfied in full before the claims of our unsecured creditors are paid. Furthermore, upon enforcement against any collateral or in insolvency, under the terms of the intercreditor agreement the claims of the holders of the notes to the proceeds of such enforcement will rank behind the claims of the holders of obligations under our Revolving Credit Agreement, which are first-priority obligations, claims of holders of the Second Lien Notes, which are second-priority obligations, and claims of holders of additional secured indebtedness (to the extent permitted to have priority by the indenture).

The rights of holders of notes to the collateral will be governed, and materially limited, by the intercreditor agreement.

The rights of holders of notes to the collateral will be governed, and materially limited, by the intercreditor agreement. Pursuant to the terms of the intercreditor agreement, the holders of indebtedness under our Revolving Credit Agreement, which is secured on a first-priority basis, and the holders of the Second Lien Notes, which are secured on a second-priority basis, will control substantially all matters related to the collateral securing such indebtedness, the notes and the guarantees. Under the intercreditor agreement, at any time that the indebtedness secured on a first-priority basis or second-priority basis remains outstanding, any actions that may be taken in respect of the collateral (including the ability to commence enforcement proceedings against the collateral and to control the conduct of such proceedings, and to approve amendments to, releases of collateral from the lien of, and waivers of past defaults under, the collateral documents) will be at the direction of the holders of such indebtedness. Under such circumstances, the trustee on behalf of the holders of the notes, with limited exceptions, will not have the ability to control or direct such actions, even if the rights of the holders of the notes are adversely affected. Except in certain limited circumstances, any release of all first-priority liens and second-priority liens upon any collateral approved by the holders of first-priority liens and second-priority liens will also release the third-priority liens securing the notes on the same collateral and holders of the notes will have no control over such release. See *The holders of the notes will not control the release of collateral except in certain limited circumstances*.

Furthermore, because the lenders under the Revolving Credit Agreement and the holders of the Second Lien Notes will control the disposition of the collateral securing the Revolving Credit Agreement, the Second Lien Notes and the notes, if there were an event of default under the notes, the lenders under the Revolving Credit Agreement and/or holders of the Second Lien Notes could decide not to proceed against the collateral, regardless of whether or not there is a default under the Revolving Credit Agreement or the Second Lien Notes. In such event, the only remedy available to the holders of the notes would be to sue for payment on the notes and the guarantees. By virtue of the direction of the administration of the pledges and security interests and the release of collateral, actions may be taken under the collateral documents that may be adverse to you.

The holders of the notes will not control the release of collateral except in certain limited circumstances.

The intercreditor agreement provides that, to the extent that the holders of the first-priority liens release their first-priority liens and the holders of the second liens notes release their second-priority liens (including with respect to the disposition of collateral) on all or any portion of the collateral, the third-priority liens securing the notes on such collateral will also be released. The intercreditor agreement and the indenture governing the notes also provide that the third-priority liens securing the guarantee of any guarantor will be automatically released when such guarantor s guarantee is released in accordance with the terms of the indenture. However, in certain limited circumstances, such as if the first-priority and second-priority liens on the collateral are released in connection with the repayment of those secured obligations, the liens on the collateral securing the notes will not be released. See Description of Notes Security Release of Liens.

Your rights to the collateral securing the notes and the guarantees thereof may be adversely affected by the failure to perfect security interests in the collateral and other issues generally associated with the realization of security interests in collateral.

Applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, can only be perfected at the time such property and rights are acquired and identified. We and the guarantors have limited obligations to perfect the security interest of the holders of the notes in specified collateral. The indenture governing the notes and the security documents provide that at any time the Issuer or the guarantors of the notes acquires property that is required to be pledged as collateral that is not automatically subject to a perfected security interest under the security documents or a subsidiary becomes a guarantor, then the Issuer or Guarantor will, as soon as practical after such property s acquisition, provide security over such property (or, in the case of a new guarantor, all of its assets that are required to be pledged as collateral) in favor of the collateral agent and cause the lien granted to be duly perfected. See Description of Notes Security General.

There can be no assurance that the trustee or the collateral agent for the notes will monitor the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection

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of any security interest. Such failure may result in the loss of the security interest in the collateral or the priority of the security interest in favor of the notes and the guarantees against third parties.

In addition, the security interest of the collateral agent will be subject to practical challenges generally associated with the realization of security interests in collateral. For example, the collateral agent may need to obtain the consent of a third party to obtain or enforce a security interest in a contract. We cannot assure you that the collateral agent will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the collateral agent may not have the ability to foreclose upon those assets and the value of the collateral may significantly decrease.

In the event of our bankruptcy, the ability of the holders of the notes to realize upon the collateral will be subject to certain bankruptcy law limitations and limitations under the intercreditor agreement.

The ability of holders of the notes to realize upon the collateral will be subject to certain bankruptcy law limitations in the event of our bankruptcy. Under federal bankruptcy law, secured creditors are prohibited from repossessing their security from a debtor in a bankruptcy case, or from disposing of security repossessed from such a debtor, without bankruptcy court approval, which may not be given. Moreover, applicable federal bankruptcy laws generally permit the debtor to continue to use and expend collateral, including cash collateral, and to provide liens senior to the collateral agent for the notes liens to secure indebtedness incurred after the commencement of a bankruptcy case, provided that the secured creditor either consents or is given adequate protection. Adequate protection could include cash payments or the granting of additional security, if and at such times as the presiding court in its discretion determines, for any diminution in the value of the collateral as a result of the stay of repossession or disposition of the collateral during the pendency of the bankruptcy case, the use of collateral (including cash collateral) and the incurrence of such senior indebtedness. However, pursuant to the terms of the intercreditor agreement, the holders of the notes will agree not to seek or accept adequate protection consisting of cash payments and will not object to the incurrence of additional indebtedness secured by liens senior to the collateral agent for the notes liens in an aggregate principal amount agreed to by the holders of first-priority lien obligations and second-priority lien obligations. In view of the lack of a precise definition of the term adequate protection and the broad discretionary powers of a U.S. bankruptcy court, we cannot predict whether or when the collateral agent under the indenture for the notes could foreclose upon or sell the collateral, and as a result of the limitations under the intercreditor agreement, the holders of the notes will not be compensated for any delay in payment or loss of value of the collateral through the provision of adequate protection, except to the extent of any grant of additional liens that are junior to the first-priority obligations and the second-priority obligations.

In addition to the waiver with respect to adequate protection set forth above, under the terms of the intercreditor agreement, the holders of the notes will also waive certain other important rights that secured creditors may be entitled to in a bankruptcy proceeding, as described in Description of Notes Security Intercreditor Agreement. These waivers could adversely impact the ability of the holders to recover amounts owed to them in a bankruptcy proceeding.

The collateral securing the notes may be diluted under certain circumstances.

The collateral that secures the notes also secures obligations under the $300.0 million Revolving Credit Agreement and the $600.0 million principal amount of Second Lien Notes. This collateral may secure additional senior indebtedness that the Company or certain of its subsidiaries incurs in the future, subject to restrictions on their ability to incur debt and liens under the Revolving Credit Agreement, the Second Lien Notes and the indenture governing the notes. Your rights to the collateral would be diluted by any increase in the indebtedness secured by this collateral.

Any future grant of collateral might be avoidable by a trustee in bankruptcy.

Any future grant of collateral in favor of the collateral agent for the benefit of the trustee might be avoidable by the grantor (as debtor in possession) or by its trustee in bankruptcy if certain events or

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circumstances exist or occur, including, among others, if the grantor is insolvent at the time of the grant, the grant permits the holders of the notes to receive a greater recovery than if the grant had not been given and a bankruptcy proceeding in respect of the grantor is commenced within 90 days following the grant or, in certain circumstances, a longer period. A substantial portion of the collateral will constitute inventory of real estate. As the inventory is sold and new inventory is acquired, the granting of liens on the new inventory will trigger a new 90 day preference period. It is possible, particularly during a time when our inventory is turning over quickly, that liens on a substantial portion of the collateral at any time may have been granted during the preceding 90 day period.

Corporate benefit laws and other limitations on guarantees and security interests may adversely affect the validity and enforceability of the guarantees of the notes and the security granted by the guarantors.

The guarantees of the notes by the guarantors and security granted by such guarantors provide the holders of the notes with a direct claim against the assets of the guarantors. Each of the guarantees and the amount recoverable under the security documents, however, will be limited to the maximum amount that can be guaranteed or secured by a particular guarantor without rendering the guarantee or security interest, as it relates to that guarantor, voidable or otherwise ineffective under applicable law. In addition, enforcement of any of these guarantees or security interest against any guarantor will be subject to certain defenses available to guarantors and security providers generally. These laws and defenses include those that relate to fraudulent conveyance or transfer, voidable preference, corporate purpose or benefit, preservation of share capital, thin capitalization and regulations or defenses affecting the rights of creditors generally. If one or more of these laws and defenses are applicable, a guarantor may have no liability or decreased liability under its guarantee or the security documents to which it is a party.

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

Under U.S. federal bankruptcy law or comparable provisions of state fraudulent transfer laws, future creditors of any guarantor could void the issuance of the related guarantees and the grant of security by the guarantors or subordinate such obligations or liens to all other debts and liabilities of such guarantor, if such creditors were successful in establishing that:

- the guarantee or grant of security was incurred with fraudulent intent; or
- the guarantor did not receive fair consideration or reasonably equivalent value for issuing its guarantee or grant of security and
  - was insolvent at the time of the guarantee or grant;
  - was rendered insolvent by reason of the guarantee or grant;
  - was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business; or
  - intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

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

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

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

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

Federal and state environmental laws may decrease the value of the collateral securing the notes and may result in you being liable for environmental cleanup costs at our facilities.

The notes and guarantees are secured by liens on real property that may be subject to both known and unforeseen environmental risks, and these risks may reduce or eliminate the value of the real property pledged as collateral for the notes and the guarantees adversely affect the ability of the debtor to repay the notes. See -Risks Related to our Business-Homebuilders are subject to a number of federal, local, state and foreign laws and regulations concerning the development of land, the home building, sales and customer financing processes and protection of the environment, which can cause us to incur delays and costs associated with compliance and which can prohibit or restrict our activity in some regions or areas and Business Regulation and Environmental Matters in our Annual Report on Form 10-K for the year ended October 31, 2008, which is incorporated by reference herein.

Moreover, under some federal and state environmental laws, a secured lender may in some situations become subject to its debtor s environmental liabilities, including liabilities arising out of contamination at or from the debtor s properties. Such liability can arise before foreclosure, if the secured lender becomes sufficiently involved in the management of the affected facility. Similarly, when a secured lender forecloses and takes title to a contaminated facility or property, the lender could become subject to such liabilities, depending on the circumstances. Before taking some actions, the collateral agent for the notes may request that you provide for its reimbursement for any of its costs, expenses and liabilities. Cleanup costs could become a liability of the collateral agent for the notes, and, if you agreed to provide for the collateral agent s costs, expenses and liabilities, you could be required to help repay those costs. You may agree to indemnify the collateral agent for the notes for its costs, expenses and liabilities before you or the collateral agent knows what those amounts ultimately will be. If you agreed to this indemnification without sufficient limitations, you could be required to pay the collateral agent an amount that is greater than the amount you paid for the outstanding notes. In addition, rather than acting through the collateral agent, you may in some circumstances act directly to pursue a remedy under the indenture. If you exercise that right, you could be considered to be a lender and be subject to the risks discussed above.

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

If a change of control occurs as described under Description of Notes Certain covenants Repurchase of Notes upon Change of Control, the Issuer would be required to offer to purchase your notes at 101% of their principal amount together with all accrued and unpaid interest, if any, to the date of purchase. If a purchase offer obligation were to arise under the indenture governing your notes, a change of control would have also occurred under the indentures governing the Issuer s other outstanding indebtedness. Furthermore, the Revolving Credit Agreement provides that certain change of control events constitute a default and could result in the acceleration of the indebtedness outstanding thereunder. Any of the Issuer s future debt agreements may contain similar restrictions and provisions. If a purchase offer were required, the Issuer may not have sufficient funds to pay the purchase price for all indebtedness required to be repurchased. We do not currently have sufficient funds available to purchase all of such outstanding debt.

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

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

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RATIO OF EARNINGS TO FIXED CHARGES

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

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

	Three Months Ended January 31,	Year Ended October 31,				
	2009	2008	2007	2006	2005	2004
Ratio of earnings to fixed charges	(a)	(a)	(a)	2.0	7.8	6.3

(a) Earnings for the three months ended January 31, 2009 and the years ended October 31, 2008 and 2007 were insufficient to cover fixed charges for such period by $160.2 million, $1,138.5 million and $667.5 million, respectively.

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USE OF PROCEEDS

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

The Issuer issued the outstanding notes on December 3, 2008, in exchange for approximately $71.4 million of the Issuer s unsecured senior notes as follows: approximately $0.6 million aggregate principal of 8% Senior Notes due 2012, approximately $12.0 million aggregate principal amount of 61/2% Senior Notes due 2014, approximately $1.1 million aggregate principal amount of 63/8% Senior Notes due 2014, approximately $3.3 million aggregate principal amount of 61/4% Senior Notes due 2015, approximately $24.8 million aggregate principal amount of 71/2% Senior Notes due 2016, approximately $28.7 million aggregate principal amount of 61/4% Senior Notes due 2016 and approximately $1.0 million aggregate principal amount of 85/8% Senior Notes due 2017. This exchange resulted in a recognized gain on extinguishment of debt of $41.3 million, net of the write-off of unamortized discounts and fees.

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CAPITALIZATION

The following table sets forth our capitalization as of January 31, 2009. This table should be read in conjunction with our consolidated financial statements and the related notes thereto and the other financial information included and incorporated by reference in this prospectus.

		As of January 31, 2009 Actual (Unaudited) (In thousands)
Homebuilding Cash and Cash Equivalents, Excluding Restricted Cash	$	842,586
Debt(1):		
Revolving Credit Agreement	$	
Nonrecourse Land Mortgages		820
Nonrecourse Mortgages Secured by Operating Property		22,108
111/2% Senior Secured Notes due 2013		594,952
18.0% Senior Secured Notes due 2017		29,299
8% Senior Notes due 2012		93,371
61/2% Senior Notes due 2014		199,685
63/8% Senior Notes due 2014		148,868
61/4% Senior Notes due 2015		196,703
71/2% Senior Notes due 2016		254,947
61/4% Senior Notes due 2016		268,196
85/8% Senior Notes due 2017		248,988
6% Senior Subordinated Notes due 2010		100,000
87/8% Senior Subordinated Notes due 2012		145,900
73/4% Senior Subordinated Notes due 2013		130,235
Total Debt	$	2,434,072
Stockholders Equity:		
Preferred Stock, $.01 par value; 100,000 Shares Authorized; issued 5,600 Shares of 7.625% Series A Preferred Stock issued at January 31, 2009 with a liquidation preference of $140,000	$	135,299
Common Stock, Class A, $.01 par value; authorized 200,000,000 shares; issued 74,220,991 shares at January 31, 2009 (including 11,694,720 shares held in Treasury at January 31, 2009)		742
Common Stock, Class B, $.01 par value (convertible to Class A at time of sale); authorized 30,000,000 shares; issued 15,331,494 shares at January 31, 2009 (including 691,748 shares held in Treasury at January 31, 2009)		153
Paid in Capital Common Stock		434,718
Accumulated deficit		(287,705)
Treasury Stock at Cost		(115,257)

Total Stockholders Equity	$	167,950
Total Capitalization	$	2,602,022

(1) References to our consolidated debt in this prospectus exclude debt of $75.4 million under our secured master repurchase agreement as of January 31, 2009, a short-term borrowing facility used by our mortgage banking subsidiary. In addition, debt amounts reflected in this table are net of discount.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial data for each of the fiscal years ended October 31, 2008, 2007, 2006, 2005 and 2004 have been derived from the audited consolidated financial statements of Hovnanian Enterprises, Inc.

The following selected historical consolidated financial data for the three month periods ended January 31, 2009 and 2008 have been derived from the unaudited condensed consolidated financial statements of Hovnanian Enterprises, Inc. The unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals and deferrals, which management considers necessary for a fair presentation of the consolidated financial position and the results of operations for these periods. Operating results for the three month period ended January 31, 2009 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2009. Per common share data and weighted average number of common shares outstanding reflect all stock splits.

You should read the following data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008, and in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2009, which are incorporated by reference herein, and with the consolidated financial statements, related notes, and other financial information included and incorporated by reference herein.

	Three Months Ended January 31,		Year Ended October 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)		(Dollars in thousands, except per share data)				
Income Statement Data							
Revenues	$ 373,784	$ 1,093,701	$ 3,308,111	$ 4,798,921	$ 6,148,235	$ 5,348,417	$ 4,153,890
Gain on extinguishment of debt	79,520						
Expenses	608,541	1,257,456	4,439,559	5,417,664	5,930,514	4,602,871	3,608,909
(Loss) income from unconsolidated joint ventures	(22,589)	(5,039)	(36,600)	(28,223)	15,385	35,039	4,791
(Loss) income before income taxes	(177,826)	(168,794)	(1,168,048)	(646,966)	233,106	780,585	549,772
State and federal income taxes provision (benefit):	584	(37,851)	(43,458)	(19,847)	83,573	308,738	201,091
Net (loss) income	(178,410)	(130,943)	(1,124,590)	(627,119)	149,533	471,847	348,681
Less: preferred stock dividends				10,674	10,675	2,758	

Net (loss) income attributable to common stockholders	$ (178,410)	$ (130,943)	$ (1,124,590)	$ (637,793)	$ 138,858	$ 469,089	$ 348,681
Per Share Data							
Basic:							
(Loss) income per common share	$ (2.29)	$ (2.07)	$ (16.04)	$ (10.11)	$ 2.21	$ 7.51	$ 5.63
Weighted average number of common shares outstanding	78,043	63,358	70,131	63,079	62,822	62,490	61,892
Assuming Dilution:							
(Loss) income per common share	$ (2.29)	$ (2.07)	$ (16.04)	$ (10.11)	$ 2.14	$ 7.16	$ 5.35
Weighted average number of common shares outstanding	78,043	63,358	70,131	63,079	64,838	65,549	65,133
Balance sheet data							
Total assets	$ 3,211,480	$ 4,325,066	$ 3,637,322	$ 4,540,548	$ 5,480,035	$ 4,726,138	$ 3,156,267
Mortgages, term loans, revolving credit agreements and notes payable	$ 98,374	$ 454,764	$ 107,913	$ 410,298	$ 319,943	$ 271,868	$ 354,055
Senior secured notes, senior notes and senior subordinated notes	$ 2,411,144	$ 1,910,714	$ 2,505,805	$ 1,910,600	$ 2,049,778	$ 1,498,739	$ 902,737
Stockholders equity	$ 167,950	$ 1,184,746	$ 330,264	$ 1,321,803	$ 1,942,163	$ 1,791,357	$ 1,192,394

THE EXCHANGE OFFER

General

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

As of the date of this prospectus, $29,299,000 aggregate principal amount of the outstanding notes is outstanding. This prospectus, together with the letter of transmittal, is first being sent to all holders of outstanding notes known to us on or about, June 2, 2009. K. Hovnanian s obligation to accept outstanding notes for exchange pursuant to the exchange offer is subject to certain conditions set forth under Conditions to the Exchange Offer below. K. Hovnanian currently expects that each of the conditions will be satisfied and that no waivers will be necessary.

Purpose and Effect of the Exchange Offer

In connection with the offering of the outstanding notes, we entered into a registration rights agreement in which we agreed, under certain circumstances, to file a registration statement relating to an offer to exchange the outstanding notes for exchange notes by April 2, 2009. We also agreed to use our reasonable best efforts to cause such offer to be consummated on or prior to 30 business days after the registration statement has become effective but in no event later than 40 business days thereafter. The exchange notes will have terms substantially identical to the terms of the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The outstanding notes were issued on December 3, 2008.

Under the circumstances set forth below, we will use our reasonable best efforts to cause the Securities and Exchange Commission, or the SEC, to declare effective a shelf registration statement with respect to the resale of the outstanding notes within the time periods specified in the registration rights agreement and to keep the shelf registration statement effective at least one year after the effective date of the shelf registration statement or such shorter period as will terminate when all securities covered by such shelf registration statement have been sold pursuant thereto. These circumstances include:

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

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

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

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

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

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

such holder is not an affiliate of K. Hovnanian or the guarantors within the meaning of Rule 144 of the Securities Act, or, if it is an affiliate, it will comply with all applicable registration and prospectus delivery requirements of the Securities Act;

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

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

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

Resale of Exchange Notes

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

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

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

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

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

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

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

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

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

Terms of the Exchange Offer

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, we will accept for exchange in the exchange offer outstanding notes that are validly tendered and not validly withdrawn prior to the expiration date. Outstanding notes may only be tendered in denominations of $2,000 and higher integral multiples of $1,000. We will issue $2,000 principal amount of exchange notes (and $1,000 principal amount of exchange notes in excess thereof) in exchange for each $2,000 principal amount of outstanding notes (and $1,000 principal amount of outstanding notes in excess thereof) surrendered in the exchange offer.

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

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

As of the date of this prospectus, $29,299,000 aggregate principal amount of the outstanding notes is outstanding. This prospectus and a letter of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer.

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

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

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

Expiration Date; Extensions, Amendments

As used in this prospectus, the term expiration date means 5:00 p.m., New York City time, on June 30, 2009. However, if we, in our sole discretion, extend the period of time for which the exchange offer is open, the term expiration date will mean the latest time and date to which we shall have extended the expiration of the exchange offer.

To extend the period of time during which the exchange offer is open, we will notify the exchange agent of any extension, followed by notification to the registered holders of the outstanding notes no later than 9:00 a.m., New

York City time, on the business day after the previously scheduled expiration date.

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We reserve the right, in our sole discretion:

- to delay accepting for exchange any outstanding notes that have not been properly tendered, including because of irregularities in the documents required to be delivered to the exchange agent by tendering holders or if such documents are incomplete, or because of an extension of the exchange offer;

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

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

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by notice to the registered holders of the outstanding notes. If we amend the exchange offer in a manner that we determine to constitute a material change, including the waiver of a material condition, we will promptly disclose the amendment in a manner reasonably calculated to inform the holders of outstanding notes of that amendment and we will extend the offer period if necessary so that at least five business days remain in the offer following notice of the material change.

Conditions to the Exchange Offer

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

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

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

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

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

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

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

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

We expressly reserve the right to amend or terminate the exchange offer and to reject for exchange any outstanding notes not previously accepted for exchange upon the occurrence of any of the conditions of the exchange offer specified above. We will give notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable. In the case of any extension,

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such notice will be issued no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date.

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

Procedures for Tendering

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

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

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

In addition, either:

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

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

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

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

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

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

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

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

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

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

for the account of an Eligible Guarantor Institution.

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

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

Book-Entry Delivery Procedures

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

Tender of Outstanding Notes Held Through The Depository Trust Company

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC s system may use DTC s Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing DTC to transfer the outstanding notes to the exchange agent in accordance with DTC s Automated Tender Offer Program procedures for transfer. DTC will then send an agent s message to the exchange agent. The term agent s message means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

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

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

we may enforce that agreement against such participant.

Acceptance of Exchange Notes

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

- outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent s account at DTC; and
- a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent s message.

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

- the holder is not an affiliate of K. Hovnanian or the guarantors within the meaning of Rule 405 of the Securities Act;
- the holder is not engaged in, does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the exchange notes; and
- the holder is acquiring the exchange notes in the ordinary course of its business.

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

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

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

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

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

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Guaranteed Delivery Procedures

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

- the tender is made through an Eligible Guarantor Institution;
- prior to the expiration date, the exchange agent receives from such Eligible Guarantor Institution either (i) a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery or (ii) a properly transmitted agent s message and notice of guaranteed delivery:
  - setting forth the name and address of the holder, the registered number(s) of such outstanding notes and the principal amount of outstanding notes tendered;
  - stating that the tender is being made thereby;
  - guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal, will be deposited by the Eligible Guarantor Institution with the exchange agent; and
- the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, as well as certificate(s) representing all tendered outstanding notes in proper form for transfer or a book-entry confirmation of transfer of the outstanding notes into the exchange agent s account at DTC, and all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the expiration date.

Withdrawal Rights

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

For a withdrawal to be effective:

- the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at one of the addresses set forth below under Exchange Agent ; or
- holders must comply with the appropriate procedures of DTC s Automated Tender Offer Program system.

Any notice of withdrawal must:

- specify the name of the person who tendered the outstanding notes to be withdrawn;
- identify the outstanding notes to be withdrawn, including the principal amount of the outstanding notes; and
- where certificates for outstanding notes have been transmitted, specify the name in which such outstanding notes were registered, if different from that of the withdrawing holder.

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

- the serial numbers of the particular certificates to be withdrawn; and
- a signed notice of withdrawal with signatures guaranteed by an Eligible Guarantor Institution unless such holder is an Eligible Guarantor Institution.

If outstanding notes have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with

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

Exchange Agent

Wilmington Trust Company has been appointed as the exchange agent for the exchange offer. Wilmington Trust Company also acts as trustee under the indenture governing the outstanding notes, which is the same indenture that will govern the exchange notes. You should direct all executed letters of transmittal and all questions and requests for assistance, for additional copies of this prospectus or the letter of transmittal, or for notices of guaranteed delivery to the exchange agent addressed as follows:

Delivery to: Wilmington Trust Company, Exchange Agent

By Mail:	*By Overnight Mail or Courier Delivery:*	*By Hand:*
Wilmington Trust Company Rodney Square North 1100 North Market Street Wilmington, DE 19890-1626 Attn: Corporate Trust Operations	Wilmington Trust Company Rodney Square North 1100 North Market Street Wilmington, DE 19890-1626 Attn: Corporate Trust Operations	Wilmington Trust Company Rodney Square North 1100 North Market Street Wilmington, DE 19890-1626 Attn: Corporate Trust Operations

For Facsimile Transmission:
(302) 636-4139
Confirm By Telephone:
(302) 636-6181

For Information:
(302) 636-4184

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

Fees and Expenses

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

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

We will pay the estimated cash expenses to be incurred in connection with the exchange offer. The expenses are estimated in the aggregate to be approximately $170,000. They include:

SEC registration fees;

fees and expenses of the exchange agent and trustee;

accounting and legal fees and printing costs; and

related fees and expenses.

Accounting Treatment of this Exchange Offer

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

Transfer Taxes

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

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

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

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

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

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

Consequences of Failure to Exchange

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

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

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

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

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

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

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

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

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

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

Other

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

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

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DESCRIPTION OF NOTES

In this section, references to the ***Company*** *mean Hovnanian Enterprises, Inc., a Delaware corporation, and do not include any of its subsidiaries or K. Hovnanian Enterprises, Inc., and references to the* ***Issuer, us****,* ***we*** *or* ***our*** *mean K. Hovnanian Enterprises, Inc., a California corporation. References to* ***Notes*** *in this section are references to the outstanding 18.0% Senior Secured Notes due 2017 and the exchange 18.0% Senior Secured Notes due 2017 offered hereby, collectively.*

The Issuer issued the outstanding notes, and will issue the exchange notes described in this prospectus, under an indenture (the **Indenture**), dated as of December 3, 2008, among the Issuer, the Guarantors and Wilmington Trust Company, a Delaware banking corporation, as trustee (the **Trustee**). The following is a summary of the material terms and provisions of the Notes. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**), as in effect on the date of the Indenture. The Notes are subject to all such terms, and prospective participants in the exchange offer should refer to the Indenture and the Trust Indenture Act for a statement of such terms. The form and terms of the exchange notes and the outstanding notes are identical in all material respects, except that the exchange notes will be registered under the Securities Act and will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement.

This description of the Notes contains definitions of terms, including those defined under the caption Definitions of certain terms used in the Indenture. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture.

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

General

The Notes will bear interest from the most recent date to which interest has been paid or, if no interest has been paid, from December 3, 2008 at the rate per annum of 18.0%, payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2009 to Holders of record at the close of business on April 15 or October 15, as the case may be, immediately preceding each such interest payment date. The Notes will mature on May 1, 2017, and will be issued in denominations of $2,000 and higher integral multiples of $1,000 in excess thereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Indenture does not limit the maximum aggregate principal amount of securities that the Issuer may issue thereunder. The Issuer may issue additional notes of the same series as the Notes offered hereby (the **Additional Notes**) from time to time. The Notes and any Additional Notes subsequently issued under the Indenture would be treated as a single series for all purposes under the Indenture including, without limitation, waivers, amendments, redemption and offers to purchase. Any issuance of Additional Notes under the Indenture is subject to the covenant described below under the caption Certain covenants Limitations on indebtedness and Limitations on liens.

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

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Ranking

The outstanding notes are, and the exchange notes will be, general secured obligations of the Issuer and rank senior in right of payment to all existing and future Indebtedness of the Issuer that is, by its terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future Indebtedness of the Issuer that is not so subordinated, effectively senior to all unsecured Indebtedness to the extent of the value of the Collateral referred to below and effectively junior to any obligations of the Issuer that are either (i) secured by a Lien on the Collateral (as defined below) that is senior or prior to the third-priority Liens securing the Notes, including the first-priority Liens securing obligations under the Revolving Credit Agreement referred to below and the second-priority Liens securing obligations under the Issuer s $600 million 111/2% Senior Secured Notes due May 1, 2013 (the **Second Lien Notes**), and potentially any Permitted Liens, or (ii) secured by assets that are not part of the Collateral securing the Notes, in each case to the extent of the value of the assets securing such obligations. Under specified circumstances, the Issuer may be released from its obligations under the Notes and the Indenture. See Condition for Release of the Issuer. The Guarantees of the outstanding notes are, and of the exchange notes will be, general secured obligations of the Guarantors and will rank senior in right of payment to all existing and future Indebtedness of the Guarantors that is, by its terms, expressly subordinated in right of payment to the Guarantees and *pari passu* in right of payment with all existing and future Indebtedness of the Guarantors that is not so subordinated, effectively senior to all unsecured Indebtedness of the Guarantors to the extent of the value of the Collateral and effectively junior to any obligations of any Guarantor that are either (i) secured by a Lien on the Collateral that is senior or prior to the third-priority Liens securing the Guarantees, including the first-priority Liens securing obligations of the Guarantors under the Revolving Credit Agreement and the second-priority Liens securing obligations of the Guarantors under the Second Lien Notes, and potentially any Permitted Liens, or (ii) secured by assets that are not part of the Collateral securing the Guarantees, in each case, to the extent of the value of the assets securing such obligations.

At January 31, 2009, the Issuer and the guarantors had:

- approximately $629.3 million of secured indebtedness outstanding ($624.3 million, net of discount), including the Notes and the Second Lien Notes;
- approximately $1,414.2 million of senior unsecured notes ($1,1410.8 million, net of discount);
- approximately $376.1 million senior subordinated notes; and
- no amounts drawn under the Revolving Credit Agreement, excluding letters of credit totaling approximately $168.2 million.

In addition, as of January 31, 2009, our non-guarantor subsidiaries had approximately $79.1 million of liabilities, including trade payables, but excluding intercompany obligations.

Security

General

The Notes will be secured by third-priority Liens (the **Third-Priority Liens**) granted by the Issuer, the existing Guarantors and any future Guarantor on substantially all of assets of the Issuer and the Guarantors (whether now owned or hereafter arising or acquired) to the extent such assets secure obligations under the Revolving Credit Agreement, other First-Priority Lien Obligations or the Second Lien Notes and subject to certain Permitted Liens and encumbrances described in the Security Documents (collectively, the **Collateral**).

The Collateral will not include (collectively, the **Excluded Property**) (a) any pledges of stock of a Guarantor to the extent that Rule 3-16 of Regulation S-X under the Securities Act requires or would require (or is replaced with another rule or regulation, or any other law, rule or regulation is adopted, that would require) the filing with the SEC of separate financial statements of such Guarantor that are not otherwise required to be filed, but only to the extent necessary to not be subject to such requirement, (b) up to $50.0 million of assets received in connection with Asset Dispositions and asset swaps or exchanges as permitted by paragraph (3) of the definition of Permitted Investments, (c) personal property where the cost of obtaining a security interest or perfection thereof exceeds its benefits, (d) real property subject to a Lien securing Indebtedness incurred for the purpose of financing the acquisition thereof, (e) real property located outside the United States, (f) unentitled land, (g) real property that is leased or held for the purpose of leasing to unaffiliated third parties, (h) equity interests in Unrestricted Subsidiaries (subject to future grants under the terms of the Indenture), (i) any real property in a community under development with a dollar amount of investment as of the most recent month-end (as determined in accordance with GAAP) of less than $2.0 million or with less than 10 lots remaining, (j) assets, with respect to which any applicable law or contract prohibits the creation or perfection of security interests therein and (k) any other assets excluded from the Collateral securing the First-Priority Lien Obligations or the Second Lien Notes, if any. In addition, under the terms of the Security Documents, the Issuer and the Guarantors will not be required to provide control agreements for the benefit of the Third-Priority Liens with respect to certain deposit, checking or securities accounts with average balances below a certain dollar amount.

If property (other than Excluded Property) is acquired by the Issuer or a Guarantor that is not automatically subject to a perfected security interest under the Security Documents or a Restricted Subsidiary becomes a Guarantor, then the Issuer or Guarantor will, as soon as practical after such property s acquisition or it no longer being Excluded Property, provide security over such property (or, in the case of a new Guarantor, all of its assets except Excluded Property) in favor of the Collateral Agent and cause the lien granted to be duly perfected and deliver certain certificates and opinions in respect thereof as required by the Indenture or the Security Documents.

In addition, the obligations under our Revolving Credit Agreement, and the guarantees thereof by each of the Guarantors are secured by a First-Priority Lien on the Collateral and the obligations under the Second Lien Notes and the guarantees thereof by each of the Guarantors are secured by a Second-Priority Lien on the Collateral. As set out in more detail below, upon an enforcement event or insolvency proceeding, proceeds from the Collateral will be applied first to satisfy such other obligations and then to satisfy obligations on the Notes. In addition, the Indenture will permit the Issuer and the Guarantors to create additional Liens under specified circumstances, including certain additional senior Liens on the Collateral. See the definition of **Permitted Liens.**

The Collateral securing (i) the obligations under our Revolving Credit Agreement is pledged to the administrative agent under the Revolving Credit Agreement (together with any successor, the **Administrative Agent**), on a first-priority basis, for the benefit of the **Secured Parties** (as defined in the security documents relating to the Revolving Credit Agreement) and (ii) the obligations under our Second Lien Notes is pledged to Wilmington Trust Company, as collateral agent (together with any successor, the **Second Lien Notes Collateral Agent**), on a second-priority basis, for the benefit of the trustee of the Second Lien Notes (the **Second Lien Notes Trustee**) and the holders of the Second Lien Notes. The Collateral is and will be pledged to Wilmington Trust Company, as collateral agent (together with any successor, the **Collateral Agent**), on a third-priority basis for the benefit of the Trustee and the Holders of the Notes and any additional future third-lien obligations. The Third-Priority Lien Obligations will constitute claims separate and apart from (and of a different class from) the First-Priority Lien Obligations and the Second-Priority Lien Obligations, and will be junior to the First-Priority Liens and the Second-Priority Liens. In certain states, mortgages may be granted solely to a single collateral agent, which will hold such mortgages for the benefit of the holders of the First-Priority Liens, the Second-Priority Liens and the Third-Priority Liens.

Control Over Collateral and Enforcement of Liens

The Security Documents provide that, while any First-Priority Lien Obligations (or any commitments or letters of credit in respect thereof) are outstanding, the holders of the First-Priority Liens will control at all times all remedies and other actions related to the Collateral and the Third-Priority Liens will not entitle the Collateral Agent, the Trustee or the holders of any Notes to take any action whatsoever (other than limited actions to preserve and protect the Third-Priority Liens that do not impair the First-Priority Liens or the Second-Priority Liens) with respect to the

Collateral. Any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-

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Priority Lien Obligations are outstanding, the holders of the Second Lien Notes, the Second Lien Notes Collateral Agent and the Second Lien Notes Trustee will control at all times all remedies and other actions related to the Collateral and the Third-Priority Liens will not entitle the Collateral Agent, the Trustee or the Holders of the Notes to take any action whatsoever (other than limited actions to preserve and protect the Third-Priority Liens that do not impair the Second-Priority Liens) with respect to the Collateral. As a result, while any First-Priority Lien Obligations (or any commitments or letters of credit in respect thereof) or Second-Priority Lien Obligations are outstanding, none of the Collateral Agent, the Trustee or the Holders of the Notes will be able to force a sale of the Collateral or otherwise exercise remedies normally available to secured creditors without the concurrence of the holders of the First-Priority Liens and the Second Lien Notes or challenge any decisions in respect thereof by the holders of the First-Priority Liens and the Second Lien Notes.

Proceeds realized by the Administrative Agent, the Second Lien Notes Collateral Agent or the Collateral Agent from the Collateral or in an insolvency proceeding will be applied:

first, to amounts owing to the holders of the First-Priority Liens in accordance with the terms of the First-Priority Lien Obligations until they are paid in full (which term includes a requirement that letters of credit be cash collateralized at 105% of the face amount thereof);

second, to amounts owing to the holders of the Second-Priority Liens in accordance with the terms of the Second-Priority Lien Obligations until they are paid in full;

third, to amounts owing to the Collateral Agent in its capacity as such in accordance with the terms of the Security Documents;

fourth, to amounts owing to the Trustee in its capacity as such in accordance with the terms of the Indenture and to the representatives of any other holders of debt, in their capacity as such, secured on a third-priority basis;

fifth, ratably to amounts owing to the Holders of the Notes in accordance with the terms of the Indenture; and

sixth, to the Company and/or other persons entitled thereto.

The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the condition of the homebuilding industry, our ability to implement our business strategy, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including but not limited to the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, there can be no assurance that the Collateral will be saleable, or, if saleable, that there will not be substantial delays in its liquidation. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay our obligations under the Notes. In addition, the fact that the lenders under the Revolving Credit Agreement and holders of the Second Lien Notes will receive proceeds from enforcement of the Collateral before Holders of the Notes, and that other Persons may have higher priority Liens in respect of assets subject to Permitted Liens could have a material adverse effect on the amount that would be realized upon a liquidation of the Collateral. Accordingly, there can be no assurance that proceeds of any sale of the Collateral pursuant to the Indenture and the related Security Documents following an Event of Default would be sufficient to satisfy, or would not be substantially less than, amounts due under the Notes.

If the proceeds of any of the Collateral were not sufficient to repay all amounts due on the Notes, the Holders of the Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the remaining assets of the Issuer and the Guarantors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Likewise, there can be no assurance that the Collateral will be saleable, or, if saleable, that there will not be substantial delays in its liquidation. To the extent that Liens (including Permitted Liens), rights or easements granted to third parties encumber assets located on property owned by the Issuer or the Guarantors, including the Collateral, such third parties may exercise rights and remedies with respect to the property subject to such Liens that could adversely affect the value of the Collateral and the ability of the Collateral Agent, the Trustee or the Holders of the Notes to realize or foreclose on Collateral.

Release of Liens

The Security Documents provide that, to the extent that the holders of the First-Priority Liens release their First-Priority Liens and the holders of the Second Lien Notes release their Second-Priority Liens (including with respect to the disposition of Collateral) on all or any portion of the Collateral, the Third-Priority Liens on such Collateral will likewise be released.

However, (x) if the First-Priority Liens are released in connection with the repayment (or cash collateralization of letters of credit) of the First-Priority Lien Obligations and termination of the commitments thereunder and the Second-Priority Liens are not released in accordance with the Second Lien Notes Indenture and the Intercreditor Agreement, the Third-Priority Liens on the Collateral will also not be released, except to the extent the Collateral or any portion thereof was disposed of in order to repay the First-Priority Lien Obligations secured by the Collateral, and (y) if the First-Priority Liens are released in connection with the repayment (or cash collateralization of letters of credit) of the First-Priority Lien Obligations and termination of the commitments thereunder and the Second-Priority Liens are released in connection with the repayment in full of the Second Lien Notes in accordance with the Indenture and the Intercreditor Agreement, the Third-Priority Liens on the Collateral will not be released, except to the extent the Collateral or any portion thereof was disposed of in order to repay the First-Priority Lien Obligations or the Second-Priority Lien Obligations secured by the Collateral, and thereafter, the Trustee (acting at the written direction of the holders of a majority of outstanding principal amount of Notes) will have the right to direct the Collateral Agent to exercise remedies and to take other actions with respect to the Collateral.

If, after the Third-Priority Liens on any Collateral are released as contemplated above, the First-Priority Lien Obligations or the Second-Priority Lien Obligations (or any portion thereof) are thereafter secured by assets (other than assets of the type referred to under clauses (a) or (b) of Excluded Property), the Notes will then be secured by a Third-Priority Lien on such assets, to the same extent as they were prior to such release, as provided pursuant to the Security Documents. If the Issuer subsequently incurs obligations under a new Credit Facility or other First-Priority Lien Obligations that are secured by Liens on assets of the Issuer and the Guarantors of the type constituting Collateral, then the Notes will be secured at such time by a Third-Priority Lien on the collateral securing such obligations under the new Credit Facility or First-Priority Lien Obligations to the same extent provided by the Security Documents on the terms and conditions of the security documents relating to the new Credit Facility or such other First-Priority Lien Obligations, with the Third-Priority Liens held either by the Administrative Agent under such new Credit Facility or by a collateral agent designated by the Issuer to hold the Third-Priority Liens for the benefit of the holders of Third-Priority Lien Obligations and subject to an intercreditor agreement that provides the Administrative Agent under such new Credit Facility substantially the same rights and powers as afforded under the Security Documents.

The Security Documents and the Indenture also provide that the Third-Priority Liens securing the Guarantee of any Guarantor will be automatically released when such Guarantor s Guarantee is released in accordance with the terms of the Indenture. In addition, the Third-Priority Liens securing the Notes will be released (a) upon discharge or defeasance of the Notes as set forth below under Discharge and defeasance of Indenture, (b) upon payment in full of principal, interest and all other Obligations on the Notes issued under the Indenture, (c) with the consent of the requisite Holders of the Notes in accordance with the provisions under Amendment, supplement and waiver, including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, Notes and (d) in connection with any disposition of Collateral to any Person other than the Company, the Issuer or any of the Restricted Subsidiaries (but excluding any transaction subject to Certain covenants Limitations on mergers, consolidations and sales of assets where the recipient is required to become the obligor on the Notes or a Guarantee) that is permitted by the Indenture (with respect to the Lien on such Collateral).

To the extent applicable, the Issuer will comply with Section 313(b) of the TIA, relating to reports, and, following qualification of the Indenture under the Trust Indenture Act, Section 314(d) of the TIA, relating to the release of property and to the substitution therefor of any property to be pledged as Collateral for the Notes. Any certificate or opinion required by Section 314(d) of the TIA may be made by an Officer of the Issuer except in cases where Section 314(d) requires that such certificate or opinion be made by an independent engineer, appraiser or other expert, who shall be reasonably satisfactory to the Trustee. Notwithstanding anything to the contrary herein, the Issuer and the Guarantors will not be required to comply with all or any portion of Section 314(d) of the TIA if they determine, in good faith based on advice of counsel (which may be internal counsel), that under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including no action letters or exemptive orders, all or any portion of Section 314(d) of the TIA is inapplicable to the released Collateral. Without limiting the generality of the foregoing, certain no-action letters issued by the SEC have permitted an indenture qualified under the TIA to contain provisions permitting the release of collateral from Liens under such indenture in the ordinary course of the issuer s business without requiring the issuer to provide certificates and other documents under Section 314(d) of the TIA. In addition, under interpretations provided by the SEC, to the extent that a release of a Lien is made without the need for consent by the Holders or the Trustee, the provisions of Section 314(d) may be inapplicable to the release. The Issuer believes, therefore, that such provisions of Section 314(d) will be inapplicable to the release of collateral for so long as releases of collateral are controlled by the holders of the First-Priority Liens or the holders of the Second Lien Notes.

Amendments to Security Documents

So long as the First-Priority Lien Obligations (or any commitments or letters of credit in respect thereof) are outstanding, the holders of the First-Priority Liens may change, waive, modify or vary the security documents of such holders and the Intercreditor Agreement and such changes will automatically apply to the Security Documents, and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and so long as any Second-Priority Lien Obligations are outstanding, the holders of the Second Lien Notes, the Second Lien Notes Trustee and the Second Lien Notes Collateral Agent may change, waive, modify or vary the security documents of such holders and the Intercreditor Agreement and such changes will automatically apply to the Security Documents; *provided* that any such change, waiver, modification or variance that is prejudicial to the rights of the Collateral Agent, the Trustee and the Holders of the Notes and that does not affect the holders of the First-Priority Liens or the Second-Lien Notes, as applicable, in a like or similar manner shall not apply to the Security Documents without the consent of the Collateral Agent and the Trustee (acting at the direction of the Holders of a majority of the aggregate principal amount of the applicable noteholder claims); *provided, further*, however, that notwithstanding the foregoing, the holders of the First-Priority Liens and the Second-Priority Liens, as applicable, may agree to modify the security documents of such holders and the Intercreditor Agreement, without the consent of the Holders of the Third-Priority Liens, to secure additional extensions of credit and add additional secured creditors so long as such modifications do not expressly violate the provisions of the Indenture, including that after so securing any such additional extensions of credit and additional secured creditors, the amount of First-Priority Lien Obligations and Second-Priority Lien Obligations do not exceed the applicable amounts set forth under clauses 9(b) and (d) of the definition of Permitted Liens . In any case, notice of such amendment, waiver or consent shall be given to the Trustee.

Intercreditor Agreement

The Issuer, the Guarantors, the Second Lien Notes Trustee (including in its capacity as Second Lien Notes Collateral Agent) and the Administrative Agent under the Revolving Credit Agreement (including in its capacity as collateral agent for the First-Priority Lien Obligations) and Wilmington Trust Company (as collateral agent with respect to Liens in certain states, for the First-Priority Lien Obligations, the Second-Priority Lien Obligations and the Third-Priority Lien Obligations with respect to such Liens) and the Trustee (including in its capacity as Collateral Agent) have entered into the Intercreditor Agreement which establishes the third priority status of the Third-Priority

Liens. In addition to the provisions described above with respect to control of remedies, release of Collateral and amendments to the Security Documents, the Intercreditor

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Agreement also imposes certain other customary restrictions and agreements, including the restrictions and agreements described below.

Pursuant to the Intercreditor Agreement, the Trustee and the Holders of the Notes agree that the Administrative Agent and the lenders under the Revolving Credit Agreement and the Second Lien Trustee, the Second Lien Collateral Agent and the holders of the Second Lien Notes have no fiduciary duties to them in respect of the maintenance or preservation of the Collateral (other than, in the case of the Administrative Agent (and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-Priority Lien Obligations are outstanding, the Second Lien Notes Collateral Agent), a duty to hold certain possessory collateral as bailee of the Trustee and the Holders of the Notes for purposes of perfecting the Third-Priority Liens thereon). In addition, the Trustee and the Holders of the Notes waive, to the fullest extent permitted by law, any claim against the Administrative Agent and the lenders under the Revolving Credit Agreement and the Second Lien Trustee, the Second Lien Collateral Agent and the holders of the Second Lien Notes in connection with any actions they may take under the Revolving Credit Agreement, the Second Lien Notes Indenture or with respect to the Collateral, as applicable. The Trustee and the Holders of the Notes further waive, to the fullest extent permitted by law, any right to assert, or request the benefit of, any marshalling or similar rights that may otherwise be available to them.

Pursuant to the Intercreditor Agreement, the Collateral Agent and the Trustee, for itself and on behalf of the Holders of the Notes, irrevocably constitute and appoint the Administrative Agent and any officer or agent of the Administrative Agent (and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-Priority Lien Obligations are outstanding, the Second Lien Notes Collateral Agent and any officer or agent of the Second Lien Notes Collateral Agent), with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place of the Trustee or Holder of the Notes or in the Administrative Agent s (or Second Lien Notes Collateral Agent s, as applicable) own name, from time to time in the Administrative Agent s (or Second Lien Notes Collateral Agent s, as applicable) discretion, for the purpose of carrying out the terms of certain sections of the Intercreditor Agreement (including those relating to the release of the Third-Priority Liens as permitted thereby, including releases upon sales due to enforcement of remedies), to take any and all appropriate action and to execute any and all releases, documents and instruments which may be necessary or desirable to accomplish the purposes of such section of the Intercreditor Agreement, including any financing statements, mortgage releases, intellectual property releases, endorsements or other instruments or transfer or release of such liens.

So long as the First-Priority Lien Obligations or the Second-Priority Lien Obligations are outstanding, the Issuer and the Guarantors will agree that if the Collateral Agent and/or the Trustee holds any Lien on any assets of the Issuer or any Guarantor securing any Third-Priority Lien Obligations that are not also subject to First-Priority Liens and the Second-Priority Liens, the Trustee, at the request of the Administrative Agent, the Second Lien Notes Trustee or the Issuer, will assign such Lien to the Administrative Agent as security for the First-Priority Lien Obligations and to the Second Lien Notes Trustee as security for the Second-Priority Lien Obligations (in which case the Trustee will retain a Third-Priority Lien on such assets subject to the terms of the Intercreditor Agreement).

The Trustee and the Holders agree that (i) in certain circumstances the holders under the Revolving Credit Agreement and the Second Lien Notes are required by the terms thereof to be repaid with proceeds of dispositions prior to repayment of the Indenture and (ii) they will not accept payments from such dispositions until applied to repayment of the Revolving Credit Agreement and the Second Lien Notes as so required. The Trustee and the Holders generally agree that if they receive payments from the Collateral in contravention of the Intercreditor Agreement, they will turn such payments over to First Lien Obligation holders and the holders of the Second Lien Notes as required by the Intercreditor Agreement.

Pursuant to the Intercreditor Agreement, upon the incurrence of permitted additional Third-Priority Lien Obligations, the Administrative Agent, for itself and on behalf of the lenders under the Revolving Credit Agreement, the Second Lien Collateral Agent and Second Lien Notes Trustee, for itself and on behalf of the holders of the Second Lien Notes, and the Collateral Agent and the Trustee, for itself and on behalf of the Holders of the Notes, agree to amend the Intercreditor Agreement (or to enter into a new intercreditor agreement in form and substance similar to the Intercreditor Agreement) to provide for the inclusion of such additional Third-Priority Lien Obligations.

In addition, if the Issuer or any Guarantor is subject to any insolvency or liquidation proceeding, the Trustee and the Holders agree that:

they will consent to the Issuer s use of cash collateral if the First-Priority Lien Obligation holders consent to such usage (and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-Priority Lien Obligations are outstanding, if the Second-Priority Lien Obligation holders consent to such usage) and the Third-Priority Lien Obligation holders receive adequate protection as set out below;

they shall not seek or require the Issuer to provide any adequate protection, or accept any such adequate protection, for Third-Priority Lien Obligations except replacement or additional Liens that are fully junior and subordinate to the Liens securing the First-Priority Lien Obligations and the Second-Priority Lien Obligations, and except for the foregoing, will not seek or accept any payments pursuant to Section 362(d)(3)(B) of Title 11 of the United States Code;

if the First-Priority Lien Obligation holders consent to a debtor-in-possession (DIP) financing that provides for priming of the First-Priority Lien Obligations (and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-Priority Lien Obligations are outstanding, if the Second-Priority Lien Obligation holders consent to a DIP financing that provides for priming of the Second-Priority Lien Obligations), the Trustee and the holders of the Third-Priority Lien Obligations will be deemed to have consented to priming of their Liens and will not object to the DIP financing (up to the aggregate principal amount agreed to by the holders of the First-Priority Lien Obligations and the holders of the Second-Priority Lien Obligations) or any adequate protection provided to the First-Priority Lien Obligation holders and the Second-Priority Lien Obligation holders, except that if the lenders under the Revolving Credit Agreement and the Administrative Agent and/or the holders of the Second Lien Notes and the Second Lien Notes Trustee are granted adequate protection in the form of additional collateral, the Trustee may seek or request adequate protection in the form of a replacement Lien on such additional collateral, which Lien is fully junior and subordinate to the Lien granted to the lenders under the Revolving Credit Agreement and the Administrative Agent and the Lien granted to the holders of the Second Lien Notes and the Second Lien Notes Trustee and the DIP financing providers;

without the consent of the Administrative Agent and the required lenders under the Revolving Credit Agreement and without the consent of the required holders of Second Lien Notes and the Second Lien Notes Trustee, they will not seek relief from the automatic stay so long as any amounts are outstanding under the Revolving Credit Agreement or any other first-lien indebtedness or so long as any Second-Priority Lien Obligations are outstanding or any amounts are outstanding under any other second-lien indebtedness;

they will not oppose any sale or other disposition of the Collateral consented to by the First-Priority Lien Obligation holders (and at any time when the First-Priority Lien Obligations (and any commitments or letters of credit in respect thereof) are no longer outstanding and while any Second-Priority Lien Obligations are outstanding, consented to by the Second-Priority Lien Obligation holders); and

(x) they will not vote in favor of any plan of reorganization unless (1) such plan provides for the payment in full in cash on the effective date of such plan of reorganization of all claims of the Administrative Agent and the lenders under the Revolving Credit Agreement and the cash collateralization at 105% of the face amount thereof of the letters of credit issued under the Revolving Credit

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Agreement, (2) such plan provides for treatment of such claims of the Administrative Agent and the holders of the First-Priority Liens in a manner that would result in such claims having relative Lien (or, if the obligations, property or assets to be distributed in respect of such clauses under such plan are unsecured, other) priority over the claims of the Trustee and the Holders of the Notes to at least the same extent as the First-Priority Liens have priority over the Third-Priority Liens, whether or not such obligations, property or assets are, in fact secured by any Liens, or (3) such plan is approved by the Administrative Agent and the required lenders under the Revolving Credit Agreement and (y) they will not vote in favor of any plan of reorganization unless (1) such plan provides for the payment in full in cash on the effective date of such plan of reorganization of all claims of the Second Lien Notes Trustee, the Second Lien Collateral Agent and the holders of the Second Lien Notes, (2) such plan provides for treatment of such claims of the Second Lien Notes Trustee, the Second Lien Collateral Agent and the holders of the Second Lien Notes in a manner that would result in such claims having relative Lien (or, if the obligations, property or assets to be distributed in respect of such clauses under such plan are unsecured, other) priority over the claims of the Trustee and the Holders of the Notes to at least the same extent as the Second-Priority Liens have priority over the Third-Priority Liens, whether or not such obligations, property or assets are, in fact secured by any Liens, or (3) such plan is approved by the Second Lien Notes Trustee, the Second Lien Collateral Agent and the required holders of the Second Lien Notes under the Second Lien Notes Indenture.

No Impairment of the Security Interests

Neither the Issuer nor any of the Guarantors will be permitted to take any action, or knowingly or negligently omit to take any action, which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral for the benefit of the Trustee and the Holders of the Notes.

The Indenture provides that any release of Collateral in accordance with the provisions of the Indenture and the Security Documents will not be deemed to impair the security under the Indenture, and that any engineer, appraiser or other expert may rely on such provision in delivering a certificate requesting release so long as all other provisions of the Indenture with respect to such release have been complied with.

The Guarantees

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

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

The Indenture will provide that if all or substantially all of the assets of any Guarantor other than the Company or all of the Capital Stock of any Guarantor other than the Company is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any Guarantor other than the Company is designated an Unrestricted Subsidiary in accordance with the terms of the Indenture, then

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such Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the Indenture without any further action on the part of the Trustee or any Holder of the Notes.

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

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

Redemption

Except as set forth in the next two paragraphs, the Notes are not redeemable at the option of the Issuer.

At any time and from time to time on or after May 1, 2011, the Issuer may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date.

Period Commencing	**Percentage**
May 1, 2011	102%
November 1, 2011	101%
November 1, 2012	100%

At any time and from time to time prior to May 1, 2011, the Issuer may redeem Notes with the net cash proceeds received by the Issuer from any Equity Offering of the Company at a redemption price equal to 118.0% of the principal amount plus accrued and unpaid interest to the redemption date, in an aggregate principal amount for all such redemptions not to exceed 35% of the original aggregate principal amount of the Notes, *provided* that:

(a) in each case the redemption takes place not later than 60 days after the closing of the related Equity Offering, and

(b) not less than 65% of the original aggregate principal amount of the Notes remains outstanding immediately thereafter.

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

Selection and notice

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

No Notes of $2,000 in original principal amount or less shall be redeemed in part. Notices of redemption may not be conditional.

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

Certain covenants

The following is a summary of certain covenants that are contained in the Indenture. Such covenants are applicable (unless waived or amended as permitted by the Indenture so long as any of the Notes are

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outstanding or until the Notes are defeased pursuant to provisions described under Discharge and defeasance of Indenture.

Repurchase of Notes upon Change of Control

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

On or before the thirtieth day after any Change of Control, the Issuer is obligated to mail or cause to be mailed, to all Holders of record of Notes and the Trustee, a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the Notes and the procedure which the Holder must follow to exercise such right. Substantially simultaneously with mailing of the notice, the Issuer shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, The City of New York. To exercise such right, the Holder of such Note must deliver, at least ten days prior to the Repurchase Date, written notice to the Issuer (or an agent designated by the Issuer for such purpose) of the Holder s exercise of such right, together with the Note with respect to which the right is being exercised, duly endorsed for transfer; *provided*, *however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Issuer.

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

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

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

The Indenture will require the payment of money for Notes or portions thereof validly tendered to, and accepted for payment by, the Issuer pursuant to a Change of Control offer. In the event that a Change of Control has occurred under the Indenture, a change of control will also have occurred under the indentures governing the Second Lien Notes, the Issuer s other outstanding senior and senior subordinated notes and the Revolving Credit Agreement. If a Change of Control were to occur, there can be no assurance that the Issuer would have sufficient funds to pay the purchase price for all the Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay or that the Company or the other Guarantors would be able to make such payments. In the event that the Issuer were required to purchase outstanding Notes pursuant to a Change of Control offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to enable the Issuer to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

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

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

Limitations on indebtedness

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

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

(1) Permitted Indebtedness,

(2) Refinancing Indebtedness,

(3) Non-Recourse Indebtedness,

(4) any Guarantee of Indebtedness represented by the Notes, and

(5) any guarantee of Indebtedness incurred under Credit Facilities in compliance with the Indenture.

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

(1) may classify such item of Indebtedness under and comply with either of such paragraphs (or any of such definitions), as applicable,

(2) may classify and divide such item of Indebtedness into more than one of such paragraphs (or definitions), as applicable, and

(3) may elect to comply with such paragraphs (or definitions), as applicable, in any order.

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

Limitations on restricted payments

The Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless:

(1) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Restricted Payment;

(2) immediately after giving effect to such Restricted Payment, the Company could incur at least $1.00 of Indebtedness pursuant to the first paragraph of the Limitations on indebtedness covenant; and

(3) immediately after giving effect to such Restricted Payment, the aggregate amount of all Restricted Payments (including the Fair Market Value of any non-cash Restricted Payment) declared or made on or after the Issue Date does not exceed the sum of:

(a) 50% of the Consolidated Net Income of the Company on a cumulative basis during the period (taken as one accounting period) from and including November 1, 2008 and ending on the last day of the Company s fiscal quarter immediately preceding the date of such Restricted Payment (or in the event such Consolidated Net Income shall be a deficit, *minus* 100% of such deficit), *plus*

(b) 100% of the aggregate net cash proceeds of and the Fair Market Value of Property received by the Company from (1) any capital contribution to the Company after the Issue Date or any issue or sale after the Issue Date of Qualified Stock (other than (i) to any Subsidiary of the Company or (ii) any Excluded Contribution) and (2) the issue or sale after the Issue Date of any Indebtedness or other securities of the Company convertible into or exercisable for Qualified Stock of the Company that have been so converted or exercised, as the case may be, *plus*

(c) in the case of the disposition or repayment of any Investment constituting a Restricted Payment (or if the Investment was made prior to the Issue Date, that would have constituted a Restricted Payment if made after the Issue Date, if such disposition or repayment results in cash received by the Company, the Issuer or any Restricted Subsidiary), an amount (to the extent not included in the calculation of Consolidated Net Income referred to in (a)) equal to the lesser of (x) the return of capital with respect to such Investment (including by dividend, distribution or sale of Capital Stock) and (y) the amount of such Investment that was treated (or would have been treated when made) as a Restricted Payment, in either case, less the cost of the disposition or repayment of such Investment (to the extent not included in the calculation of Consolidated Net Income referred to in (a)), *plus*

(d) with respect to any Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary after the Issue Date, in accordance with the definition of Unrestricted Subsidiary (so long as the designation of such Subsidiary as an Unrestricted Subsidiary was treated as a Restricted Payment made after the Issue Date, and only to the extent not included in the calculation of Consolidated Net Income referred to in (a)), an amount equal to the lesser of (x) the proportionate interest of the Company or a Restricted Subsidiary in an amount equal to the excess of (I) the total assets of such Subsidiary, valued on an aggregate basis at the lesser of book value and Fair Market Value thereof, over (II) the total liabilities of such Subsidiary, determined in accordance with GAAP, and (y) the Designation Amount at the time of such Subsidiary s designation as an Unrestricted Subsidiary.

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

(A) the payment of any dividend within 60 days of its declaration if such dividend could have been made on the date of its declaration without violation of the provisions of the Indenture;

(B) the purchase, repayment, repurchase, redemption, defeasance or other acquisition or retirement of any Subordinated Indebtedness of the Issuer, the Company or any Restricted Subsidiary or shares of Capital Stock of the Company in exchange for, or out of the net proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company or constituting an Excluded Contribution) of, other shares of Qualified Stock;

(C) (i) the purchase, repayment, redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer, the Company or any Restricted Subsidiary in exchange for, or out of proceeds of, Refinancing Indebtedness;

(ii) the purchase, repayment, redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer, the Company or any Restricted Subsidiary or the making of Restricted Investments in joint ventures:

(a) in an aggregate amount not to exceed $50.0 million (after giving effect to all subsequent reductions in the amount of any Restricted Investment in a joint venture made pursuant to this clause (a) as a result of the repayment or disposition thereof for cash, not to exceed the amount of such Restricted Investment previously made pursuant to this clause (a)); or

(b) in an aggregate amount made under this clause (ii)(b) not to exceed Excluded Contributions (after giving effect to all subsequent reductions in the amount of any Restricted Investment in a joint venture made pursuant to this clause (b) as a result of the repayment or disposition thereof for cash, not to exceed the amount of such Restricted Investment previously made pursuant to this clause (b)); and

(iii) the purchase, repayment, redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Issuer, the Company or any Restricted Subsidiary or the making of Restricted Investments in joint ventures (after giving effect to all subsequent reductions in the amount of any Restricted Investment in a joint venture made pursuant to this clause (iii) as a result of the repayment or disposition thereof for cash, not to exceed the amount of such Restricted Investment previously made pursuant to this clause (iii)), in an aggregate amount not to exceed $400.0 million less the aggregate amount of Restricted Payments previously made under clause (C))(ii)(a) above; *provided* that, on a pro forma basis after giving effect to any such Restricted Payment, the aggregate fair market value of the Collateral (as determined in good faith by the Company s chief financial officer) is equal to at least 200% of the aggregate principal amount of Collateralized Debt as of such date (or, in the case of a Restricted Investment in a joint venture, on the date the Company determines to make such Investment, so long as the Investment is completed within 120 days of such determination date), such fair market value to be determined by the most recent appraisal of the Collateral required to be provided under the Revolving Credit Agreement;

(D) the payment of dividends on Preferred Stock and Disqualified Stock up to an aggregate amount of $10 million in any fiscal year; provided that immediately after giving effect to any declaration of such dividend, the Company could incur at least $1.00 of Indebtedness pursuant to the first paragraph under the Limitations on indebtedness covenant; and

(E) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock, of the Company or any Subsidiary held by officers or employees or former officers or employees of the Company or any Subsidiary (or their estates or beneficiaries under their estates) not to exceed $10 million in the aggregate since the Issue Date;

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

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

In determining the Fair Market Value of Property for purposes of clause (3) of the first paragraph of this covenant, Property other than cash, Cash Equivalents and Marketable Securities shall be deemed to be equal in value to the equity value of the Capital Stock or other securities issued in exchange therefor. The equity value of such Capital Stock or other securities shall be equal to (i) the number of shares of Common Equity issued in the transaction (or issuable upon conversion or exercise of the Capital Stock or other securities issued in the transaction) multiplied by the closing sale price of the Common Equity on its principal market on the date of the transaction (less, in the case of Capital Stock or other securities which require the payment of consideration at the time of conversion or exercise, the aggregate consideration payable thereupon) or (ii) if the Common Equity is not then traded on the New York Stock Exchange, American Stock Exchange or Nasdaq Stock Market, or if the Capital Stock or other securities issued in the transaction do not consist of Common Equity (or Capital Stock or other securities convertible into or exercisable for Common Equity), the value (if more than $10 million) of such Capital Stock or other securities as determined by a nationally recognized investment banking firm retained by the Board of Directors of the Company.

Limitations on transactions with affiliates

The Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any loan, advance, guarantee or capital contribution to, or for the benefit of, or

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sell, lease, transfer or otherwise dispose of any property or assets to or for the benefit of, or purchase or lease any property or assets from, or enter into or amend any contract, agreement or understanding with, or for the benefit of, any Affiliate of the Company or any Affiliate of any of the Company s Subsidiaries or any holder of 10% or more of the Common Equity of the Company (including any Affiliates of such holders), in a single transaction or series of related transactions (each, an **Affiliate Transaction**), except for any Affiliate Transaction the terms of which are at least as favorable as the terms which could be obtained by the Company, the Issuer or such Restricted Subsidiary, as the case may be, in a comparable transaction made on an arm s-length basis with Persons who are not such a holder, an Affiliate of such a holder or an Affiliate of the Company or any of the Company s Subsidiaries.

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

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

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

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

(1) any contract, agreement or understanding with, or for the benefit of, or plan for the benefit of, employees of the Company or its Subsidiaries generally (in their capacities as such) that has been approved by the Board of Directors of the Company,

(2) Capital Stock issuances to directors, officers and employees of the Company or its Subsidiaries pursuant to plans approved by the stockholders of the Company,

(3) any Restricted Payment otherwise permitted under the Limitations on restricted payments covenant,

(4) any transaction between or among the Company and one or more Restricted Subsidiaries or between or among Restricted Subsidiaries (provided, however, no such transaction shall involve any other Affiliate of the Company (other than an Unrestricted Subsidiary to the extent the applicable amount constitutes a Restricted Payment permitted by the Indenture)),

(5) any transaction between one or more Restricted Subsidiaries and one or more Unrestricted Subsidiaries where all of the payments to, or other benefits conferred upon, such Unrestricted Subsidiaries are substantially contemporaneously dividended, or otherwise distributed or transferred without charge, to the Company or a Restricted Subsidiary,

(6) issuances, sales or other transfers or dispositions of mortgages and collateralized mortgage obligations in the ordinary course of business between Restricted Subsidiaries and Unrestricted Subsidiaries of the Company, and

(7) the payment of reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company, the Issuer or any Restricted Subsidiary.

Limitations on dispositions of assets

The Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, make any Asset Disposition unless:

(a) the Company (or such Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value thereof, and

(b) not less than 70% of the consideration received by the Company (or such Restricted Subsidiary, as the case may be) is in the form of cash, Cash Equivalents and Marketable Securities (which must be pledged as Collateral if the assets disposed of constituted Collateral).

The amount of (i) any Indebtedness (other than any Subordinated Indebtedness) of the Company or any Restricted Subsidiary that is actually assumed by the transferee in such Asset Disposition and (ii) the fair market value (as determined in good faith by the Board of Directors of the Company) of any property or assets (including Capital Stock of any Person that will be a Restricted Subsidiary following receipt thereof) received that are used or useful in a Real Estate Business (*provided* that (except as permitted by clause (3) under the definition of Permitted Investment) to the extent that the assets disposed of in such Asset Disposition were Collateral, such property or assets are pledged as Collateral under the Security Documents substantially simultaneously with such sale, with the Lien on such Collateral securing the Notes being of the same priority with respect to the Notes as the Lien on the assets disposed of), shall be deemed to be consideration required by clause (b) above for purposes of determining the percentage of such consideration received by the Company or the Restricted Subsidiaries.

The Net Cash Proceeds of an Asset Disposition shall, within one year, at the Company s election, (a) be used by the Company or a Restricted Subsidiary to invest in assets (including Capital Stock of any Person that is or will be a Restricted Subsidiary following investment therein) used or useful in the business of the construction and sale of homes conducted by the Company and the Restricted Subsidiaries (*provided* that (except as permitted by clause (3) under the definition of Permitted Investment to the extent that the assets disposed of in such Asset Disposition were Collateral, such assets are pledged as Collateral under the Security Documents with the Lien on such Collateral securing the Notes being of the same priority with respect to the Notes as the Lien on the assets disposed of), (b) be used to permanently prepay or permanently repay any (1) Indebtedness (or cash collateralize letters of credit) constituting First-Priority Lien Obligations or Second-Priority Lien Obligations, (2) Indebtedness which had been secured by the assets sold in the relevant Asset Disposition, to the extent the assets sold were not Collateral or (3) Indebtedness of a Restricted Subsidiary that is not a Guarantor, to the extent the assets sold were not Collateral, or (c) be applied to make an Offer to Purchase Notes and, if the Company or a Restricted Subsidiary elects or is required to do so, repay, purchase or redeem any other Third-Priority Lien Obligations and, if the assets disposed of were not Collateral, any other unsubordinated Indebtedness (on a *pro rata* basis if the amount available for such repayment, purchase or redemption is less than the aggregate amount of (i) the principal amount of the Notes tendered in such Offer to Purchase, (ii) the lesser of the principal amount, or accreted value, of such other Third-Priority Lien Obligations and (iii) the lesser of the principal amount, or accreted value, of such other unsubordinated Indebtedness, plus, in each case accrued interest to the date of repayment, purchase or redemption) at 100% of the principal amount or accreted value thereof, as the case may be, plus accrued and unpaid interest, if any, to the date of repurchase or repayment. Pending any such application under this paragraph, Net Cash Proceeds may be used to temporarily reduce Indebtedness or otherwise be invested in any manner not prohibited by the Indenture.

Notwithstanding the foregoing, (A) the Company will not be required to apply such Net Cash Proceeds in accordance with clauses (b) or (c) of the preceding sentence except to the extent that such Net Cash Proceeds, together with the aggregate Net Cash Proceeds of prior Asset Dispositions (other than those so used) which have not been applied in accordance with this provision and as to which no prior prepayments or repayments shall have been made and no

Offer to Purchase shall have been made, exceed $25 million and (B) in connection with an Asset Disposition, the Company and the Restricted Subsidiaries will not be required to comply with the requirements of clause (b) of the first sentence of the first paragraph of this covenant to the extent that the non-cash consideration received in connection with such Asset Disposition, together with the sum of all non-cash consideration received in connection with all prior Asset Dispositions that has not yet been converted into cash, Cash Equivalents or Marketable Securities, does not exceed $25 million; *provided, however*, that when any non-cash consideration is converted into cash, Cash Equivalents or Marketable Securities, such cash shall constitute Net Cash Proceeds and be subject to the preceding sentence.

Limitations on liens

The Indenture provides that the Company and the Issuer will not, and will not cause or permit any Restricted Subsidiary to, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its Property, or on any shares of Capital Stock or Indebtedness of any Restricted Subsidiary.

Limitations on restrictions affecting restricted subsidiaries

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

(1) pay dividends or make any other distributions on its Capital Stock or any other interest or participation in, or measured by, its profits, owned by the Company or any other Restricted Subsidiary, or pay interest on or principal of any Indebtedness owed to the Company or any other Restricted Subsidiary,

(2) make loans or advances to the Company or any other Restricted Subsidiary, or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary, except for:

(a) encumbrances or restrictions existing under or by reason of applicable law,

(b) contractual encumbrances or restrictions in effect at or entered into on the Issue Date and any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings thereof; *provided*, that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such contractual encumbrances or restrictions, as in effect at or entered into on the Issue Date,

(c) any restrictions or encumbrances arising under Acquired Indebtedness; provided, that such encumbrance or restriction applies only to either the assets that were subject to the restriction or encumbrance at the time of the acquisition or the obligor on such Indebtedness and its Subsidiaries prior to such acquisition,

(d) any restrictions or encumbrances arising in connection with Refinancing Indebtedness; *provided*, *however*, that any restrictions and encumbrances of the type described in this clause (d) that arise under such Refinancing Indebtedness shall not be materially more restrictive or apply to additional assets than those under the agreement creating or evidencing the Indebtedness being refunded, refinanced, replaced or extended,

(e) any Permitted Lien, or any other agreement restricting the sale or other disposition of property, securing Indebtedness permitted by the Indenture if such Permitted Lien or agreement does not expressly restrict the ability of a Subsidiary of the Company to pay dividends or make or repay loans or advances prior to default thereunder,

(f) reasonable and customary borrowing base covenants set forth in agreements evidencing Indebtedness otherwise permitted by the Indenture,

(g) customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business,

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

(i) encumbrances or restrictions existing under or by reason of the Indenture, the Notes or the Guarantees,

(j) purchase money obligations that impose restrictions on the property so acquired of the nature described in clause (3) of this covenant,

(k) Liens permitted under the Indenture securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien,

(l) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements,

(m) customary provisions of any franchise, distribution or similar agreements,

(n) restrictions on cash or other deposits or net worth imposed by contracts entered into in the ordinary course of business, and

(o) any encumbrance or restrictions of the type referred to in clauses (1), (2) or (3) of this covenant imposed by any amendments, modifications, restatements, renewals, supplements, refinancings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (n) of this covenant; *provided*, that such amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company s Board of Directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, supplement, refunding, replacement or refinancing.

Limitations on mergers, consolidations and sales of assets

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

(1) the Person formed by or surviving such consolidation or merger (if other than the Company, the Issuer or the Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition or assignment will be made (collectively, the **Successor**), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all of the obligations of the Company, the Issuer or the Guarantor, as the case may be, under the Notes or a Guarantee, as the case may be, and the Indenture and the Security Documents,

(2) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing, and

(3) immediately after giving effect to such transaction, the Company (or its Successor) could incur at least $1.00 of Indebtedness pursuant to the first paragraph of the Limitations on indebtedness covenant.

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The foregoing provisions shall not apply to:

(a) a transaction involving the sale or disposition of Capital Stock of a Guarantor, or the consolidation or merger of a Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor, that in any such case results in such Guarantor being released from its Guarantee as provided under The Guarantees above, or

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

Reports to holders of Notes

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

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee s receipt of them will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer s and/or the Company s compliance with any of its covenants in the Indenture (as to which the Trustee is entitled to rely exclusively on Officers Certificates).

Condition for Release of the Issuer

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

Events of default

The following are Events of Default under the Indenture:

(1) the failure by the Company, the Issuer and the Guarantors to pay interest on any Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days;

(2) the failure by the Company, the Issuer and the Guarantors to pay the principal or premium of any Note when the same becomes due and payable at maturity, upon acceleration or otherwise;

(3) the failure by the Company, the Issuer or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the Notes, the Guarantees or the Indenture and such failure continues for the period and

after the notice specified below (except in the case of a default under covenants described under Certain covenants Repurchase of Notes upon Change of Control and Certain covenants Limitations on mergers, consolidations and sales of assets, which will constitute Events of Default with notice but without passage of time);

(4) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company, the Issuer or any Restricted Subsidiary that has an outstanding principal amount of $10 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;

(5) the failure by the Company, the Issuer or any Restricted Subsidiary to make any principal or interest payment in an amount of $10 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Restricted Subsidiary within 30 days of such principal or interest becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(6) a final judgment or judgments that exceed $10 million or more, individually or in the aggregate, for the payment of money having been entered by a court or courts of competent jurisdiction against the Company, the Issuer or any of its Restricted Subsidiaries and such judgment or judgments is not satisfied, stayed, annulled or rescinded within 60 days of being entered;

(7) the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors;

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Company, the Issuer or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,

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

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

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

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

(10) the Liens created by the Security Documents shall at any time not constitute a valid and perfected Lien on any material portion of the Collateral intended to be covered thereby (to the extent perfection by filing, registration, recordation or possession is required by the Indenture or the Security Documents) other than in accordance with the terms of the relevant Security Document and the Indenture and other than the satisfaction in full of all Obligations

under the Indenture or the release or amendment of any such Lien in accordance with the terms of the Indenture or the Security Documents, or, except for expiration in accordance with its terms or amendment, modification, waiver, termination or release in accordance with the terms of the Indenture and the relevant Security Document, any of the Security Documents shall for whatever reason be terminated or cease to be in full force and effect, if in either case, such default continues for 30 days after notice, or the enforceability thereof shall be contested by the Issuer or any Guarantor.

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

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

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

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

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

Discharge and defeasance of Indenture

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

The Indenture will permit the Company, the Issuer and the Guarantors to terminate all of their respective obligations under the Indenture with respect to the Notes and the Guarantees and under the Security Documents and cause the release of all Liens on the Collateral granted under the Security Documents, other

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than the obligation to pay interest on and the principal of the Notes and certain other obligations (**legal defeasance**), at any time by:

(1) depositing in trust with the Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and premium and interest on the Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise, which opinion of counsel is based upon a change in the applicable federal tax law since the Issue Date.

In addition, the Indenture will permit the Company, the Issuer and the Guarantors to terminate all of their obligations under the Indenture with respect to certain covenants and Events of Default specified in the Indenture, and the Guarantors and the Liens on the Collateral granted under the Security Documents will be released (**covenant defeasance**), at any time by:

(1) depositing in trust with the Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of, premium and interest on the Notes to their maturity or redemption, as the case may be, and

(2) complying with certain other conditions, including delivery to the Trustee of an opinion of counsel or a ruling received from the Internal Revenue Service, to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

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

- rights of registration of transfer and exchange of Notes;
- rights of substitution of mutilated, defaced, destroyed, lost or stolen Notes;
- rights of Holders of the Notes to receive payments of principal thereof, premium, if any, and interest thereon, upon the original due dates therefor, but not upon acceleration;
- rights, obligations, duties and immunities of the Trustee;
- rights of Holders of Notes that are beneficiaries with respect to property so deposited with the Trustee payable to all or any of them; and
- obligations of the Company, the Issuer or the Guarantors to maintain an office or agency in respect of the Notes.

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

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Transfer and exchange

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

Amendment, supplement and waiver

Subject to certain exceptions, the Indenture, the Notes, the Guarantees or the Security Documents may be amended or supplemented with the consent (which may include written consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in principal amount of the Notes then outstanding, and future compliance with any provision of the Indenture, the Notes, the Guarantees or the Security Documents may be waived (other than any continuing Default or Event of Default in the payment of interest on or the principal of the Notes) with the consent (which may include waivers obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in principal amount of the Notes then outstanding. Without the consent of, or notice to, any Holder, the Company, the Issuer, the Guarantors, the Trustee, the Collateral Agent, the Administrative Agent, the Second Lien Notes Collateral Agent, the Second Lien Notes Trustee and Wilmington Trust Company may amend or supplement the Indenture, the Notes or the Security Documents to cure any ambiguity, defect or inconsistency; to comply with the Limitations on mergers, consolidations and sales of assets covenant set forth in the Indenture; to comply with any requirements of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act; to evidence and provide for the acceptance of appointment under the Indenture by a successor or replacement Trustee or under the Security Documents of a successor or replacement Collateral Agent; to provide for uncertificated Notes in addition to or in place of certificated Notes; to provide for any Guarantee of the Notes; to add security to or for the benefit of the Notes and, in the case of the Security Documents, to or for the benefit of the other secured parties named therein or to confirm and evidence the release, termination or discharge of any Guarantee of or Lien securing the Notes when such release, termination or discharge is permitted by the Indenture and the Security Documents; to provide for or confirm the issuance of Additional Notes; to make any change that does not adversely affect the legal rights of any Holder; to evidence the assumption by the Company (or its successor entity) or a successor entity of the Issuer of the obligations of the Issuer under the Indenture and the Notes; to add covenants or new events of default for the protection of the Holders of the Notes; or to conform any provision of the Indenture, the Notes, the Guarantees or the Security Documents to this Description of Notes to the extent that this Description of Notes was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Guarantees or the Security Documents. In addition, the Collateral Agent, the Trustee, the Administrative Agent, the Second Lien Notes Collateral Agent, the Second Lien Notes Trustee and Wilmington Trust Company will be authorized to