Power REIT
Form 10-K
March 29, 2013

POWER REIT

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended December 31, 2012

Commission File Number: 000-54560

Power REIT

(Exact name of registrant as specified in its charter)

Maryland	45-3116572
(State of organization)	(I.R.S. Employer Identification No.)

301 Winding Road, Old Bethpage, NY	11804
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 750-0373

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class: Common Shares of beneficial interest, with $0.001 par value

Name of each exchange on which registered: NYSE MKT

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company X

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2012, the Registrant's most recently completed second fiscal quarter, was approximately $11,995,000 based upon the closing price on June 29, 2012. For purposes of this calculation, shares held by persons who hold more than 5% of the outstanding shares and shares held by executive officers and trustees have been excluded. This is not a determination of affiliate or executive officer status for any other purpose.

At March 1, 2013, there were 1,623,250 outstanding common shares.

Notices and communications from the U.S. Securities and Exchange Commission (the "SEC" or the "Commission") for the registrant may be sent to David H. Lesser, CEO and Chairman of the Board of Trustees, Power REIT, c/o Richard Baumann, Morrison & Cohen LLP, 909 Third Avenue, New York, New York 10022.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates by reference Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

PART I

Item 1 BUSINESS

Power REIT ("Registrant", and together with its subsidiaries, the "Company", "Power REIT" or "we") is a Maryland domiciled real estate investment trust (REIT) that develops, acquires and manages transportation and energy infrastructure real estate assets within the United States, including its territories ("U.S."). Within the transportation and energy infrastructure sectors, Power REIT is currently primarily focused on new acquisitions of real estate that are or will be leased to renewable energy generation projects, such as utility-scale wind farms and solar farms, with low or minimal technology risk. Power REIT is structured as a holding company and owns its assets through special purpose subsidiaries that have been formed for the purpose of holding real estate assets and generating lease revenue. Power REIT was formed through a reorganization and reverse merger of the Pittsburgh & West Virginia Railroad ("P&WV") on December 2, 2011. P&WV survived the reorganization as a wholly-owned subsidiary of the Registrant.

As of December 31, 2012, the Company's assets consisted of railroad infrastructure and related real estate owned by P&WV and 54 acres of fee simple land leased to a 5.7MW solar farm in Massachusetts. The solar farm property was acquired by Power REIT on December 31, 2012 through our wholly-owned subsidiary, PW Salisbury Solar, LLC ("PWSS").

Due to the PWSS acquisition closing on the last day of 2012, PWSS did not contribute to the Company's operating results in 2012 and Power REIT's consolidated operating results during 2012 consisted solely of its ownership of P&WV. P&WV's railroad real estate is leased to Norfolk Southern Corporation ("NSC") under a 99-year, triple-net lease with base cash rent of $915,000 per year, which base amount is fixed and unvarying for the life of the lease, including any renewal periods. PWSS' land is leased to a solar farm pursuant to a twenty-two-year lease agreement that commenced on December 1, 2011 with $80,800 of annual cash rent to be paid from December 1, 2012 to November 30, 2013, with a 1.0% escalation each year thereafter. Rent from the lease is paid quarterly in advance and will be recorded on a straight-line basis, with $89,494 to be recorded during the 2013 calendar year. PWSS is expected to start contributing to the Company's operating results during the first quarter of 2013.

Power REIT has elected to be treated as a real-estate investment trust. REITs are exempt from federal income tax, to the extent that a REIT's income is distributed to its shareholders. In order to maintain the Company's REIT qualification, at least 90% of its ordinary taxable income must be distributed to shareholders.

Power REIT currently has no employees. Mr. David H. Lesser serves as our Chief Executive Officer and is the Chairman of our board of trustees. Business development, accounting and other general administrative services are currently provided through a consulting agreement with Caravan Partners, LLC, an affiliate of Mr. Arun Mittal, who serves as our Vice President, Secretary and Treasurer. As Power REIT's business grows, Power REIT will re-evaluate its staffing needs and general and administrative overhead. Transfer agent services are provided by a third-party shareholder services company.

Item 1A RISK FACTORS

An investment in the Company's common shares involves risks. Investors who are making an investment decision regarding the Company's securities should carefully consider the following risk factors, together with all of the other information included in this annual report before making an investment decision. Some of these factors relate principally to the Company's business and business plans. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that are currently deemed immaterial may also have a material adverse effect on the Company's business and operations. If any of the matters included in the following risks were to occur, the Company's business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, investors may lose all or part of their investment.

The Company's business strategy includes growth plans. The Company's financial condition and results of operations could be negatively affected if it fails to grow or fails to manage its growth effectively. Even if the Company is able to execute its business plan, its business or investment strategies may not be successful.

The Company intends to pursue a growth strategy focused on acquiring infrastructure properties that qualify as real estate for REIT purposes. The Company's business prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. General and administrative ("G&A") expenses, including expenses related to tax, legal and audit, have been increasing and are expected to continue to increase due to the complexities of the holding company structure, our intention to form an umbrella partnership REIT in the future for the purposes of facilitating asset acquisitions ("URPEIT" or "Operating Partnership"), expenses related to litigation and other expenses related to our growth. The Company cannot assure stockholders that it will be able to expand its market presence in existing markets or successfully enter new markets or that any such expansion will not adversely affect its results of operations. Failure to manage growth effectively could have a material adverse effect on the Company's business, future prospects, financial condition or results of operations and could adversely affect the Company's ability to successfully implement its business strategy or pay a dividend.

Even if the Company is able to expand its business as expected, its investments may not be successful due to a variety of factors, including but not limited to asset underperformance, higher than forecasted expenses related to its investments, failure of the Company's lessees or changes in market conditions, any of which may result in lower returns than expected and may adversely affect the Company's financial condition, results of operations, cash flow and ability to pay a dividend, and the market price of the Company's securities.

The Company operates in a highly competitive market for investment opportunities.

The Company competes with public and private funds, commercial and investment banks and commercial financing companies to make the types of investments that it seeks to make in the U.S. infrastructure sector. Many of the Company's competitors are substantially larger and have considerably greater financial, technical and marketing resources than the Company. For example, some competitors may have a lower cost of funds and access to funding sources that are not currently available to the Company. In addition, some of the Company's competitors may have higher risk tolerances or different risk assessments, allowing them to consider a wider variety of investments. Furthermore, many of the Company's competitors are not subject to the restrictions that the Company is subject to as a real estate investment trust. These competitive conditions may adversely affect the Company's ability to make investments in the infrastructure sector and could adversely affect distributions to stockholders.

Because the Company expects to distribute substantially all of its free cash-flow to stockholders or lenders, the Company will continue to need additional capital to make new investments. If additional funds are unavailable

or not available on favorable terms, the Company's ability to make new investments will be impaired. Issuance of additional securities will result in dilution of ownership.

If the Company distributes substantially all of its investment income to stockholders and desires to make new investments, it will require a substantial amount of capital. The Company may raise additional capital from the issuance of securities senior to our common shares, including additional borrowings or other indebtedness or the issuance of additional securities, including limited partnership interests. The Company may also raise additional capital through the issuance of additional equity. However, the Company may not be able to raise additional capital in the future on favorable terms or at all. Unfavorable economic conditions could increase the Company's funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to the Company. This may materially affect the Company's business and ability to grow and may impact the market's perception of the Company and impact its share price.

Additional issuance of equity securities may result in dilution to stockholders. Although the Company expects to deploy additional capital for the purpose of making accretive transactions, such additional dilution may reduce existing stockholders' percentage ownership of the Company and voting percentage.

The Company's investment portfolio is currently concentrated and in the future it may continue to have concentrated exposure to a relatively few number of investments, industries and lessees. Furthermore, the Company will continue to be subject to its current and future lessees' financial condition.

As of December 31, 2012, the Company has two investments consisting of its ownership of its two wholly-owned subsidiaries: PWSS and P&WV. P&WV constituted approximately 100% of the Company's operating results in 2012. Not accounting for any impact of growth, P&WV is projected to comprise more than 90% of the Company's revenue on a consolidated basis in 2013 and beyond. The Company is exposed to concentration risks and the underperformance or non-performance of any of its assets may severely impact the Company's results from operations. Furthermore, P&WV is currently in litigation with its lessee, Norfolk Southern Corporation. The result of the litigation is uncertain, and may result in an unfavorable outcome to P&WV, which may impact the Company's operations and ability to execute its business plan.

Any economic slowdown may have a negative impact on the operations of the Company's lessees due to downturns in their business and/or their inability to make lease payments when due. The Company's lessees may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of our lease agreements and could cause a reduction in the Company's cash flow and adversely affect the Company's financial condition.

As the Company grows, its portfolio may be concentrated in a limited number of investments. An inherent risk associated with this investment concentration is that the Company may be adversely affected if one or more of our investments perform poorly or if the fair value of any one investment decreases. Financial difficulty or poor business performance on the part of any single lessee or the default on any single lease will expose the Company to a greater risk of loss than would be the case if the Company were "diversified" and holding numerous investments. Further, the Company intends to concentrate its investment activities in the infrastructure sector, including energy and transportation, which will subject the Company to more risks than if the Company were broadly diversified across sectors. At times, the performance of the infrastructure sector may lag the performance of other sectors or the broader market as a whole.

Power REIT and its wholly-owned subsidiary, P&WV, are in litigation with NSC, the lessee of P&WV's assets, and NSC's sub-lessee. The litigation involves various risks.

As previously disclosed in our public filings with the SEC, Power REIT and its wholly-owned subsidiary, P&WV, are in litigation with NSC and NSC's sub-lessee, Wheeling & Lake Erie Railroad (together with NSC, the "Litigants"). The case is pending in the Federal trial court in Pittsburgh, PA ("Court"). The Litigants initiated the litigation against Power REIT and P&WV in December 2011, seeking, among other things, a declaratory judgment that NSC was not in default under the 99-year lease that NSC had entered into with P&WV effective in 1964. P&WV, as lessor, has asserted counterclaims seeking determinations that NSC is in default under the lease for, among other things, failing to reimburse certain legal fees incurred by P&WV and failing to permit P&WV to inspect NSC's books and records as called for under the terms of the lease. P&WV also seeks determinations from the Court declaring (a) that NSC's obligation to repay the indebtedness owed under the lease is not indefinite in duration; and (b) that the indebtedness owed to P&WV is due on demand with interest. See "Legal Proceedings" under Item 3 for a further discussion of the litigation.

As part of the litigation proceedings, Power REIT filed a motion requesting that it be dismissed from the litigation on the ground that it is not in contractual privity with either of the Litigants. The Litigants opposed Power REIT's motion to dismiss, alleging that Power REIT is a successor in interest to P&WV in respect of the lease. Pursuant to applicable law, on a motion to dismiss, a court must accept as true all of the allegations contained in the challenged pleadings. On this ground, the Court overseeing the litigation denied Power REIT's motion to dismiss.

The litigation involves various risks. In regard to the Litigants' allegation that Power REIT is a successor in interest in respect of the lease, if that allegation were to be decided against us in a fact-finding stage of any proceeding, it could lead to liability, expenses or other adverse effects, including to the extent we have issued any stock or engaged in certain other financing without the prior written consent of the lessee. This is because, under the terms of the lease, the "lessor" may not (subject to certain exceptions) borrow money, issue debt or stock or engage in certain other financing without the prior written consent of the lessee (which, pursuant to the lease, may not be unreasonably withheld).

We believe that Power REIT is not the "lessor" under the lease and is not constrained by any of the lease restrictions. Nevertheless, there can be no assurance that Power REIT and P&WV will prevail in any determination on the merits of the Litigants' allegation or on any of the Litigants' other claims and allegations, and avoid an adverse judgment or other adverse effects.

In addition to the foregoing risks, the perception of the litigation in the market or to prospective business or finance counter-parties, whether or not accurate, may make it harder for us to source investment opportunities or obtain debt or equity financing on terms that would otherwise be available, which in turn might constrain Power REIT's ability to grow its asset base and diversify its business.

If we are unable to raise additional financing as a result of the litigation, our business could suffer.

We believe we have sufficient liquidity and access to financing to fund the litigation discussed above and our other operations; however, if we were unable to raise additional financing as a result of the litigation, we could be required to, among other things, cut or eliminate dividend payments in order to fund the litigation costs. Difficulties in growing or accessing financing, or a need to reduce or eliminate quarterly dividends, could adversely affect our business and our share price.

The Company's lease arrangements generally require its lessees to have insurance coverage and/or to indemnify the Company or to name the Company as an insured, but such indemnity or insurance provisions may not cover all losses to which the Company is potentially subject.

The Company's current lease agreements require the Company's lessees to carry insurance and/or provide broad indemnification to its subsidiaries, but such protection may not cover all losses to which the Company may be subject. The Company believes its properties are adequately covered by lease provisions. However, if the Company suffers loses that are not covered by indemnification provisions or under its lessee's insurance policies, or if the Company's lessees or insurance companies are unable to make payment on covered losses, the Company could

experience a significant loss of capital invested and future revenue and may still be liable for any debt that was incurred in the acquisition or financing of the subject property.

The Company may be exposed to various environmental risks that may result in unanticipated losses or liability that could affect its operating results and financial condition.

Although the Company believes that its lessees bear environmental risks through contractual provisions of the related lease agreements, if the Company's lessees fail to operate the leased properties in a manner compliant with environmental laws and is unable or unwilling to remediate the problem, the Company may be subject to significant liability. Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, property damage or other costs, including investigation and cleanup costs, resulting from the environmental contamination.

The Company cannot give any assurance that other such conditions do not exist or may not arise in the future. The presence of such substances on our real estate properties could adversely affect the Company's ability to lease, develop or sell such properties or to borrow using such properties as collateral and may have an adverse effect on the Company's distributable cash flow.

Legislative, regulatory, accounting or tax changes or actions, or significant litigation, could adversely affect the Company, the infrastructure industry or the REIT industry.

The Company and its investments are and will be subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect operations, investments, accounting treatment, tax benefits and the economic health of lessees that lease the Company's properties. If these laws, regulations or decisions change, the Company may have to incur significant expenses in order to comply, or the Company may have to restrict its operations. In addition, if the Company does not comply with applicable laws, regulations and decisions, or fails to obtain licenses or approvals that may become necessary, the Company may be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon the Company's business, results of operations or financial condition. Actions by regulatory agencies or significant litigation against the Company or by the Company could require significant time and resources and may lead to penalties that materially affect the Company and its stockholders. Proposed changes to the accounting treatment of leases by both lessors and lessees under U.S. GAAP may adversely impact the Company's financial statements and our growth plans.

Changes in interest rates or disruptions in the global capital or credit markets may negatively affect the value of the Company's assets, its ability to access debt financing and the trading price of its stock.

The Company's investment in certain assets will generally decline in value if long-term interest rates increase. If interest rates were to rise from their current historically low levels, it may affect the market perceived or actual value of the Company's assets and/or dividends and consequently the Company's stock price may decline in value. Further, the Company may borrow funds; a rise in interest rates may result in re-financing risk when those borrowings become due and the Company may be required to pay higher interest rates and/or issue additional equity to refinance its borrowings, which may adversely impact the Company's operating results and/or the Company's stock price. To the extent there is turmoil in the financial markets or tightening of the credit markets, it has the potential to materially affect the value of the Company's properties and investments in its subsidiaries, the availability or the terms of financing that the Company may have or may anticipate utilizing, the Company's ability to make principal and interest payments on, or refinance any outstanding debt when due and may impact the ability of the Company's lessees to satisfy rental payments under existing leases.

The Company's quarterly results may fluctuate.

The Company could experience fluctuations in its quarterly operating results due to a number of factors, including the return on current or future investments, including any future investments with revenue participation, the interest rates payable on our debt investments, the default rates on such investments, the level of the Company's expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which the Company encounters competition in its markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

The Company may fail to remain qualified as a REIT, which would reduce the cash available for distribution to stockholders and may have other adverse consequences.

Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the U.S. Internal Revenue Code for which there are only limited judicial or administrative interpretations, including interpretation of lease agreements with our lessees, which may contain complex tax indemnification and non-cash payment provisions. The Company's qualification as a REIT also depends on various facts and circumstances that are not entirely within its control. In addition, legislation, new regulations, administrative interpretations or court decisions might change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT.

If, with respect to any taxable year, the Company were to fail to maintain its qualification as a REIT, it would not be able to deduct distributions to our shareholders in computing our taxable income and would have to pay federal corporate income tax (including any applicable alternative minimum tax) on its taxable income. If the Company had to pay federal income tax, the amount of money available to distribute to stockholders would be reduced for the year or years involved. In addition, the Company would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost and thus its cash available for distribution to stockholders would be reduced in each of those years, unless it were entitled to relief under relevant statutory provisions. Failure to qualify as a REIT may also subject the Company to regulation under the Investment Company Act of 1940 ("1940 Act") and could result in additional expenses or adverse consequences.

Although the Company currently intends to operate in a manner designed to allow it to continue to qualify as a REIT, future economic, market, legal, tax or other considerations might cause the Company to revoke or lose its REIT status, which could have a material adverse effect on the Company's business, future prospects, financial condition or results of operations and could adversely affect its ability to successfully implement its business strategy or pay a dividend.

In order to maintain the Company's status as a REIT, the Company may be forced to borrow funds or sell assets during unfavorable market conditions.

As a REIT, the Company must distribute at least 90% of its annual taxable income, subject to certain adjustments, to stockholders. To the extent that the Company satisfies the REIT distribution requirement but distributes less than 100% of its taxable income, the Company will be subject to federal corporate income tax on its undistributed taxable income. In addition, the Company will be subject to a 4% nondeductible excise tax if the actual amount that it pays to stockholders in a calendar year is less than a minimum amount specified under federal tax laws.

From time to time, the Company may have taxable income greater than cash flow available for distribution to stockholders (for example, due to substantial non-deductible cash outlays, such as capital expenditures or principal payments on debt). If the Company did not have other funds available in these situations, it could be required to borrow funds, sell investments at disadvantageous prices or find alternative sources of funds to make distributions

sufficient to enable it to pay out enough of its taxable income to satisfy the REIT distribution requirement and to avoid income and excise taxes in a particular year. These alternatives could increase its operating costs and diminish available cash flow, sustainable future cash flow or future ability to grow.

If an investment that was initially believed to be a real asset is later deemed not to have been a real asset at the time of investment, the Company could lose its qualification as a REIT or be precluded from investing according to its business plan.

The Company must meet income and assets tests to qualify as a REIT. If an investment that was originally believed to be a real asset is later deemed not to have been a real asset at the time of investment, its qualification as a REIT may be jeopardized or the Company may be precluded from investing according to its then current business plan, either of which would have a material adverse effect on the Company's business, financial condition and results of operations. The Company may also be required to dispose of investments, which could have a material adverse effect on the Company and its stockholders, because even if the Company were successful in finding a buyer, it may have difficulty in finding a buyer to purchase such investments on favorable terms or in a sufficient timeframe.

Issuance of securities with claims that are senior to those of the common shares of the Company may limit or prevent the Company from paying dividends on its common shares and there is no limitation on the amount of indebtedness that the Company may incur in the future.

The Company's common shares are equity interests. As such, common shares rank junior to any indebtedness and other non-equity claims with respect to assets available to satisfy claims on the Company. The Company may issue senior securities or guarantee the debt of its subsidiaries (or any indirect subsidiaries or Operating Partnership formed in the future), which may expose the Company to typical risks associated with leverage, including increased risk of loss. If the Company issues preferred securities, which will rank "senior" to common shares in the Company's capital structure, the holders of such preferred securities may have separate voting rights and other rights, preferences or privileges more favorable than those held by owners of the Company's common shares, and the issuance of such preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for security holders or otherwise be in Company's best interest.

In addition, limited partnership interests or other securities issued by the Operating Partnership may have a senior priority on cash-flow or liquidation proceeds generated by the Operating Partnership. To the extent, the Operating Partnership is unable to make cash distributions to the Company, the Company may be forced to issue additional equity or debt, at unfavorable terms, to maintain compliance with IRS rules that require it to distribute 90% of its taxable income to its shareholders. If the Company is unable to make such distributions, it may lose its REIT qualification.

Unlike indebtedness, for which principal and interest customarily are payable on specified due dates, in the case of common shares, dividends are payable only when, as and if declared by the Company's board of trustees and depend on, among other things, the Company's results of operations, financial condition, debt service requirements, distributions received from subsidiaries or Operating Partnership, other cash needs and any other factors the board of trustees may deem relevant or as required by law. The Company may incur substantial amounts of additional debt and other obligations that will rank senior to its common shares.

Factors may cause the Company to lose its NYSE MKT listing.

The Company could lose its listing on the NYSE MKT depending on a number of factors, including failure to qualify as a REIT, or failure to meet the NYSE MKT ongoing listing requirements, including those relating to the number of shareholders, the price of the Company's common shares and the amount and composition of assets.

Low trading volume in the Company's common shares may adversely affect stockholders' ability to resell shares at prices that are attractive, or at all.

Power REIT common shares are traded on the NYSE MKT under the ticker "PW". The average daily trading volume for Power REIT's common shares is less than larger companies. During the 12 months ending December 31, 2012, the average daily trading volume for the Company's common shares was approximately 4,600 shares. Due to its relatively small trading volume, sales of the Company's common shares may place significant downward pressure on the market price of the Company's shares. Furthermore, it may be difficult for holders to sell their shares at prices they find attractive, or at all.

The price of the Company's common shares may fluctuate significantly and this may make it difficult for stockholders to sell the Company's common shares when desired or at prices that are attractive.

The market value of the Company's common shares will likely continue to fluctuate in response to a number of factors, including factors that are beyond the Company's control. The market value of the Company's common shares may also be affected by conditions affecting the financial markets generally, including the volatility of the trading markets. These conditions may result in: (i) fluctuations in the market prices of stocks generally and, in turn, the Company's common shares; and (ii) sales of substantial amounts of the Company's common shares in the market, in each case to a degree that could be unrelated or disproportionate to any changes in the Company's operating performance. Such market fluctuations could adversely affect the market value of the Company's common shares. A significant decline in the Company's share price could result in substantial losses for stockholders and could lead to costly and disruptive securities litigation.

Item 1B UNRESOLVED STAFF COMMENTS

None

Item 2 PROPERTIES

Registrant's property consists of its wholly-owned subsidiaries:

1. Pittsburgh & West Virginia Railroad ("P&WV"). P&WV leases the entirety of its railroad property to NSC. The railroad property consists of 112 miles of main line road extending from Pittsburgh Junction, Ohio, through parts of West Virginia, to Connellsville, Pennsylvania and approximately 20 miles of branch lines and other related real estate. P&WV was organized in Pennsylvania in 1967 as a real-estate investment trust for the purpose of acquiring the business and property of a small leased railroad. The railroad was leased to Norfolk and Western Railway Company, now known as Norfolk Southern Corporation ("NSC"), effective in 1964, by P&WV's predecessor company for 99 years with the right of unlimited renewal for additional 99 year periods under the same terms and conditions, including annual rent payments. The more significant provisions of the lease applicable to P&WV's leased railroad are:

– Annual Base Cash Rent. P&WV currently receives annual base cash rent of $915,000 per year in cash, paid quarterly, which amount is fixed and unvarying for the life of the lease, including any renewal periods. In addition to annual base cash rent, NSC pays additional rent to P&WV, which it can elect to pay in cash or treat as an indebtedness owed to P&WV by NSC.

– Triple Net Lease. NSC at its own expense and without deduction from the rent, maintains, manages and operates the leased property and make such improvements thereto as it considers desirable. Such part of the leased property as is, in the opinion of NSC, not necessary, may be disposed of. The proceeds of dispositions, at NSC's option, may be paid to NSC and treated as an indebtedness owed to P&WV by NSC.

– NSC Liability owed to P&WV. According to the books and records maintained by NSC, the unpaid principal balance of the indebtedness owed to P&WV from NSC is approximately $16,600,000 as of December 31, 2012. This amount results primarily from Section 4(b)(1) rent payments from NSC, which NSC has historically elected to pay in the form of indebtedness rather than cash. Section 4(b)(1) rent is calculated based on the annual amount of tax depreciation and amortization of P&WV's assets that are leased to NSC. The indebtedness amount also includes the gross amount of sales transactions, whereby NSC sells portions of P&WV's real-estate and has the option to retain the proceeds from such sales as indebtedness to P&WV.

Due to the ongoing litigation over the amount, term and character of this indebtedness, for financial reporting purposes, additional rent payments and the indebtedness amount are not reported on P&WV's, or the Registrant's, consolidated GAAP balance sheet or statement of operations. Although, the Company does not record these items for GAAP purposes, the Company has historically booked taxable income from Section 4(b)(1) rent payments and capital gains from asset sales and maintains that the indebtedness is a valid amount that is due on demand, with interest. See Item 3, Legal Proceedings.

– Indemnification. Under the terms of the lease, NSC indemnifies P&WV for taxes, charges, damages and other losses imposed on it by virtue of its operation of the lease.

2. PW Salisbury Solar, LLC ("PWSS"). PWSS owns approximately 54 acres of fee simple land located in Salisbury, Massachusetts that is leased to an operational solar farm. Pursuant to the lease agreement, the tenant is required to pay an annual cash payment of $80,800 to be paid during December 1,2012 to November 30, 2013, with a 1.0% escalation each year thereafter. Rent from the lease is paid quarterly in advance and will be recorded on a straight-line basis, with $89,494 to be recorded during the 2013 calendar year. At the end of the twenty-two year lease, which commenced on December 1, 2011, the tenant has renewal options with terms to be mutually agreed upon.

The Company's revenue is highly concentrated, with lease payments from NSC to P&WV representing 100% of its consolidated revenues in 2012. NSC is a Class I railroad and, as reported in its Form 10-K filed with the SEC on February 15, 2013, has approximately $9.8 billion of stockholders' equity as of December 31, 2012 and earned $1.7 billion of net income during fiscal year 2012. Assuming no acquisitions during 2013, P&WV will represent over 90% of the Company's consolidated revenue in 2013.

Item 3 LEGAL PROCEEDINGS

As previously disclosed in our public filings with the SEC, Power REIT and its wholly-owned subsidiary, P&WV, are in litigation with NSC and NSC's sub-lessee, Wheeling & Lake Erie Railroad (together with NSC, the "Litigants"). The case is pending in Federal trial court in Pittsburgh, PA ("Court"). The Litigants initiated the litigation against Power REIT and P&WV in December 2011, seeking, among other things, a declaratory judgment that NSC was not in default under the 99-year lease that NSC had entered into with P&WV effective in 1964. P&WV, as lessor, has asserted counterclaims seeking determinations that NSC is in default under the lease for, among other things, failing to reimburse certain legal fees incurred by P&WV and failing to permit P&WV to inspect NSC's books and records as called for under the terms of the lease. P&WV also seeks determinations from the Court declaring (a) that NSC's obligation to repay the indebtedness owed under the lease is not indefinite in duration; and (b) that the indebtedness owed to P&WV is due on demand with interest.

The indebtedness owed to P&WV under the lease (the "Indebtedness") is the cumulative result of additional rent and other sums that NSC owes to P&WV but has elected under the lease to pay to P&WV via indebtedness rather than cash. These sums include amounts received by NSC from its sale of portions of P&WV's assets. The Indebtedness has not been reported in the consolidated balance sheets as prepared under GAAP due to the dispute on when these amounts are due. Similarly the amounts of additional rent paid by NSC that have been treated as indebtedness have not been included in PWV's statement of operations prepared under GAAP; however these additional rent amounts

have historically been recorded as taxable income.

As part of the litigation proceedings, Power REIT filed a motion requesting that it be dismissed from the litigation on the ground that it is not in contractual privity with either of the Litigants. The Litigants opposed Power REIT's motion to dismiss, alleging that Power REIT is a successor in interest to P&WV in regard to the lease. Pursuant to applicable law, on a motion to dismiss, a court must accept as true all of the allegations contained in the challenged pleadings. On this ground, the Court overseeing the litigation denied Power REIT's motion to dismiss. We believe that there is no merit to the successor-in-interest allegation and intend to vigorously defend our position; however there can be no assurance that we will prevail.

As of the date of this filing, the fact discovery phase of the litigation has been mostly completed. The parties are currently in the expert witness discovery phase of the litigation. At this stage, limited guidance on the ultimate outcome of the litigation can be provided by management due to the unpredictable nature of court proceedings.

In 2012, P&WV incurred approximately $700,000 of legal expenses in connection with the litigation. P&WV has taken the position with NSC that the costs associated with the litigation are reimbursable by NSC under the lease as additional rent. Nevertheless, there can be no assurance that P&WV will be successful in recovering its costs associated with the litigation.

As of the date of this filing, NSC has continued to make all quarterly base cash rental payments due during the pendency of the litigation. P&WV expects that NSC will continue to make such payments, since a failure to do so would be a clear default under the lease and NSC initiated the litigation in an effort to avoid a default and potential termination of the lease by P&WV. Nevertheless, in light of the ongoing litigation, there can be no assurance that NSC will continue to make such payments.

See "Risk Factors" under Item 1A for a discussion of risks related to the litigation.

Item 4 MINE SAFETY DISCLOSURES

Not Applicable

PART II

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

Registrant's common shares of $0.001 par value are listed for trading on the NYSE MKT under the symbol of "PW". At February 15, 2013, there were approximately 525 registered holders of registrant's common shares of beneficial interest.

Stock Market and Dividend information per common share:

	Quarters Ended 2012			
	3/31	**6/30**	**9/30**	**12/31**
Closing Price:				
High....	$11.53	$10.11	$9.00	$10.35
Low ...	9.28	6.91	7.05	7.16
Dividends Paid	0.10	0.10	0.10	(*)

	Quarters Ended 2011			
	3/31	**6/30**	**9/30**	**12/31**
Closing Price:				
High....	$13.43	$12.50	$12.99	$15.37
Low ...	9.02	10.34	11.00	10.70
Dividends Paid	0.10	0.10	0.10	0.10

———

* A dividend of $0.10 per common share was declared on January 3, 2013 and paid on January 25, 2013.

During the first quarter of 2013 through February 28, 2013, the sales price per share of our common shares hit a high of $11.20 and a low of $10.03.

Distributions

U.S. federal income tax law generally requires that a REIT distribute annually to its shareholders at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates on any taxable income that it does not distribute. We currently, and intend to continue to, declare and pay dividends following the end of each quarter.

The timing and frequency of our distributions are authorized and declared by our board of trustees based upon a number of factors, including:

- our funds from operations;
- our debt service requirements;
- our taxable income, combined with the annual distribution requirements necessary to maintain REIT qualification;
- requirements of Maryland law;
- our overall financial condition; and
- other factors deemed relevant by our board of trustees.

Any distributions we make will be at the discretion of our board of trustees and we cannot provide assurance that our dividends will be made or sustained.

Item 6 SELECTED FINANCIAL DATA

The financial data below presents the condensed, consolidated financial statements of Power REIT and its wholly-owned subsidiaries as if Power REIT had historically consolidated P&WV as a subsidiary.

($thousands, except per share amounts)

	Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Statement of Income					
Revenues	$915	$915	$915	$915	$915
Expenses	1,237	278	151	165	145
Net Income (Loss)	(322)	637	764	750	770
Balance Sheet Data					
Total Assets	$10,637	$10,135	$9,199	$9,190	$9,195
Total Liabilities	1,283	10	--	--	--
Shareholder Equity	9,354	10,125	9,199	9,190	9,195
Per Share and Distribution Data					
Earnings (Loss) Per Share - Basic	$(0.20)	$0.40	$0.51	$0.50	$0.51
Earnings (Loss) Per Share - Diluted	$(0.20)	$0.40	$0.51	$0.50	$0.51
Cash Dividends Per Share	$0.30	$0.40	$0.50	$0.50	$0.51

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "plan," "assume" or other similar expressions, or negatives of those expressions, although not all forward-looking statements contain these identifying words. All statements contained in this report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects and the future of our industries and results that might be obtained by pursuing management's current or future plans and objectives are forward-looking statements.

You should not place undue reliance on any forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date of the filing of this report. New risks and uncertainties arise from time to time, and it is impossible for us to predict these matters or how they may affect us. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our security holders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Power REIT is a Maryland domiciled real estate investment trust (REIT) that develops, acquires and manages transportation and energy infrastructure real estate assets within the United States, including its territories ("U.S."). Within the transportation and energy infrastructure sectors, Power REIT is focused on new acquisitions of real estate that is or will be leased to renewable energy generation projects, such as utility-scale wind farms and solar farms, with low or minimal technology risk.

Power REIT is structured as a holding company and owns its assets through special purpose subsidiaries that have been formed for the purpose of holding real estate assets and generating lease revenue. Power REIT was formed through a reorganization and reverse merger of the Pittsburgh & West Virginia Railroad ("P&WV") on December 2, 2011. P&WV survived the reorganization as a wholly-owned subsidiary of the Power REIT. The Company's business plan and infrastructure real estate focused investment strategy builds upon its P&WV subsidiary's historical ownership of railroad real estate assets, which are currently triple-net leased to Norfolk Southern Corporation ("NSC").

At the end of December 31, 2012, Power REIT's assets consisted of railroad infrastructure and related real estate owned by P&WV, whose assets are leased to NSC, and 54 acres of fee simple land leased to a 5.7MW solar farm in Massachusetts. All of P&WV's railroad real estate property is leased to NSC, for 99 years, with unlimited renewals at NSC's option on the same terms. The base cash rental is a fixed amount of $915,000 per year, with no provision for change during the term of the lease and any renewal periods. Pursuant to the lease, NSC is responsible for all operations and maintenance of P&WV's property.

The 54-acre solar farm property was acquired by Power REIT on December 31, 2012 through a newly formed and wholly-owned subsidiary, PW Salisbury Solar, LLC ("PWSS"). The PWSS transaction is consistent with Power REIT's business strategy of acquiring real estate that is leased to renewable generation projects.

For the calendar year 2012, P&WV accounted for 100% of the consolidated revenues of Power REIT. Due to the PWSS acquisition closing on the last day of 2012, PWSS did not contribute to the Company's operating results in 2012, but is expected to contribute positively to the Company's operating results beginning in the first quarter of 2013. During the fourth quarter of 2012, the Company terminated an option to acquire a parcel of land that was to be developed into an energy park; as a result of this termination, $10,000 of the previously paid deposit was expensed and the remaining $5,000 is expected to be received back from the seller during the first or second quarter of 2013. During the fourth quarter of 2012, the Company expensed $63,000 of previously capitalized amounts and $25,000 of a deposit, both in connection with the negotiation of a loan facility that the Company is no longer pursuing. Both total assets and liabilities increased from year-end 2011 to year-end 2012 principally as a result of the purchase of the PWSS property.

Revenue in 2012 and 2011 was approximately $915,000 and $915,000, respectively. Net income available for distribution in 2012 and in 2011 was approximately $(322,000) and $637,000, respectively. The difference between our 2011 and 2012 results were principally attributable to the following: approximately $700,000 of litigation expenses related to the NSC litigation, which commenced near the end of 2011; approximately $70,000 of additional expenses above "business as usual" related to a proxy challenge in 2012 by a small shareholder seeking control of the Registrant's board; legal costs related to the negotiation of a loan facility not entered into and other items related to the activity under our expanded business plan. The difference between our 2010 and 2011 results were principally attributable to the following: additional expenses above "business as usual" related to a threatened but abandoned proxy challenge in 2011 by a small shareholder; and other items related to the activity under our expanded business plan.

The Company's cash outlays, other than dividend payments, are for general and administrative ("G&A") expenses, which consist principally of legal and other professional fees, consultant fees, trustees' fees, NYSE MKT listing fees, shareholder service company fees and auditing costs. The Company expects that it will continue to incur substantial G&A expenses in 2013 due to the NSC litigation. The Company further expects that the remainder of its G&A expenses will continue to increase in 2013 and beyond as it further implements its expanded business plan.

Including only the revenue that is expected to be contributed by P&WV and PWSS in calendar year 2013, P&WV is expected to account for more than 90% of the consolidated revenues of Power REIT. If Power REIT is successful in its business plan and acquisition strategies, Power REIT's revenue contribution from renewable generation related real estate and other infrastructure real estate is expected to increase over time as a percentage of total consolidated revenue.

There can be no assurance that Power REIT will be successful in expanding its business. See Note Regarding Forward-Looking Statements and Item 1A for a discussion of risk factors.

Item 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Quarterly financial data (in $thousands, except per share amounts)

	2012 Quarter Ended			
	3/31	**6/30**	**9/30**	**12/31**
Revenues	$ 229	$229	$229	$229
Net Income (Loss)	47	(98)	18	(288)
Net Income (Loss) Per Share - Basic	0.03	(0.06)	0.01	(0.18)
Net Income (Loss) Per Share - Diluted	0.03	(0.06)	0.01	(0.18)

	2011 Quarter Ended			
	3/31	**6/30**	**9/30**	**12/31**
Revenues	$ 229	$229	$229	$229
Net Income (Loss)	169	127	174	168
Net Income (Loss) Per Share - Basic	0.11	0.08	0.11	0.10
Net Income (Loss) Per Share - Diluted	0.11	0.08	0.11	0.10

Detailed financial statements of Registrant appear on pages F-3 through F-17 of this report. Per share data for the year may be slightly different from the sum of four quarters due to rounding.

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

None

Item 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures. As of the end of the period covered by this report, the Registrant carried out an evaluation under the supervision and with the participation of the Registrant's management, including the Chief Executive Officer and Treasurer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Treasurer have concluded that the Registrant's disclosure controls and procedures are adequate and effective to ensure that information required to be disclosed in the Registrant's required SEC filings is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

There have been no significant changes in the Registrant's internal controls or in other factors that that could significantly affect internal controls subsequent to the date the Registrant carried out its evaluation.

Changes in Internal Control over Financial Reporting

Power REIT maintains a system of internal accounting controls that is designed to provide reasonable assurance that our books and records accurately reflect the transactions of the Registrant and that our policies and procedures are followed. There have been no changes in our internal control during the fourth quarter that have materially affected, or are reasonably likely to materially affect such controls.

Management's Annual Report on Internal Control over Financial Reporting

This annual report does not include an attestation report of the Registrant's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Registrant's independent registered public accounting firm pursuant to rules of the Commission that permit the Registrant to provide only management's report in this annual report.

The management of Power REIT is responsible for establishing and maintaining adequate internal control over financial reporting. The Registrant's internal control system was designed to provide reasonable assurance to management and the Trustees regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement presentation and preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management conducted an evaluation of the effectiveness of the Registrant's internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Item 9B. OTHER INFORMATION

During the first quarter of 2013, Power REIT entered into an "at-the-market" sales agreement with MLV & Co. LLC, as its agent, and filed a prospectus supplement to its shelf offering that will enable the Company to issue up to $5.4 million of common shares. Power REIT expects to issue common shares under the "at-the-market" offering from time to time to fund acquisitions and its working capital needs. The "at-the-market" offering was previously disclosed on Form 8-K filed with the SEC on March 29, 2013. During the first quarter of 2013, Power REIT's subsidiary, PWSS extended the term on the bridge loan that was used to finance the Salisbury property acquisition, with a new initial term through June 30, 2014, and an option to extend through January 31, 2015. The interest rate on the bridge loan remains 5.0% through June 30, 2013, and resets to 8.5% thereafter.

PART III

Item 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information in response to this item is incorporated by reference to the Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

Item 11 EXECUTIVE COMPENSATION

Information in response to this item is incorporated by reference to the Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

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

Information in response to this item is incorporated by reference to the Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

Item 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information in response to this item is incorporated by reference to the Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

Item 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Information in response to this item is incorporated by reference to the Registrant's definitive proxy statement to be filed with the Commission within 120 days after December 31, 2012.

PART IV

Item 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

A list of all financial statements and financial statement schedules filed as part of this report is set forth starting on page F-1 herein.

A list of all exhibits filed as a part of this report is set forth below:

Exhibit 2.1 Agreement and Plan of Merger by and among Pittsburgh & West Virginia Railroad, Power REIT and Power REIT PA, LLC, dated December 1, 2011, incorporated herewith by reference to such exhibit to the Registrant's report on Form 8-K filed with the Commission as of December 5, 2011.

Exhibit 3.1 Articles of Amendment and Restatement of Declaration of Trust of Power REIT, filed November 30, 2011, incorporated herewith by reference to such exhibit to the Registrant's report on Form 8-K filed with the Commission as of December 5, 2011.

Exhibit 3.2 By-laws of Power REIT, dated October 20, 2011, incorporated herewith by reference to the Registrant's registration statement on Form S-4 filed with the Commission as of November 8, 2011.

Exhibit 21.1 Subsidiaries of the Registrant

Exhibit 31.1 Sarbanes-Oxley Act ("SOX") Section 302 Certification of David H. Lesser.

Exhibit 31.2 SOX Section 302 Certification of Arun Mittal.

Exhibit 32.1 SOX Section 906 Certification of David H. Lesser and Arun Mittal.

Exhibit 101 Interactive data files pursuant to Rule 405 of Regulation S-T, for the year ended December 31, 2012: (i) Consolidated Statement of Income, (ii) Consolidated Balance Sheet, (iii) Consolidated Statement of Cash Flows, and (iv) Notes to the Consolidated Financial Statements.

SIGNATURES

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

POWER REIT

By: /s/ David H. Lesser

David H. Lesser

CEO and Chairman of the Board

Date: March 29, 2013

By: /s/ Arun Mittal

Arun Mittal

Vice President Business Development, Secretary and Treasurer

Date: March 29, 2013

Audited Consolidated Financial Statements

Power REIT AND SUBSIDIARIES

Years Ended December 31, 2012 and 2011

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 ty 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);

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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

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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.

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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, 2009	Year Ended October 31, 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

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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

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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.

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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.

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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;

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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;

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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

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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

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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).

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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.

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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

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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,

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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.

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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

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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);

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(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.

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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 amend the Security Documents to add additional secured parties to the extent Liens securing Obligations held by such parties are permitted under the Indenture and that after so securing any such additional secured parties, the amount of First-Priority Lien Obligations and Second-Priority Lien Obligations do not exceed the amounts set forth under clauses 9(b) and (d), respectively, of the definition of Permitted Liens .

Without the consent of each Holder affected, the Company, the Issuer, the Guarantors, the Trustee, the Collateral Agent, the Administrative Agent, the Second Lien Notes Trustee, the Second Lien Notes Collateral Agent and Wilmington Trust Company may not:

(1) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver,

(2) reduce the rate of or extend the time for payment of interest, including default interest, on any Note,

(3) reduce the principal of or change the fixed maturity of any Note or alter the provisions (including related definitions) with respect to redemptions described under Redemption or with respect to mandatory offers to

repurchase Notes described under Certain covenants Limitations on dispositions of assets or Certain covenants Repurchase of Notes upon Change of Control,

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(4) make any Note payable in money other than that stated in the Note,

(5) make any change in the Waiver of Defaults by Majority of Holders or the Proceedings by Holders sections set forth in the Indenture,

(6) modify the ranking or priority of the Notes or any Guarantee,

(7) release any Guarantor from any of its obligations under its Guarantee or the Indenture otherwise than in accordance with the Indenture,

(8) waive a continuing Default or Event of Default in the payment of principal of or interest on the Notes, or

(9) effect a release of all or substantially all of the Collateral other than pursuant to the terms of the Security Documents or as otherwise permitted by the Indenture.

The right of any Holder to participate in any consent required or sought pursuant to any provision of the Indenture (and our obligation to obtain any such consent otherwise required from such Holder) may be subject to the requirement that such Holder shall have been the Holder of record of any Notes with respect to which such consent is required or sought as of a date identified by the Trustee in a notice furnished to Holders in accordance with the terms of the Indenture.

Governing law

The Indenture, the Notes, the Guarantees and the Security Documents are governed by the laws of the State of New York.

Definitions of certain terms used in the Indenture

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all terms used in the Indenture.

Acquired Indebtedness means (1) with respect to any Person that becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) after the Issue Date, Indebtedness of such Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary (or being merged into the Company, the Issuer or any Restricted Subsidiary) and (2) with respect to the Company, the Issuer or any Restricted Subsidiary, any Indebtedness expressly assumed by the Company, the Issuer or any Restricted Subsidiary in connection with the acquisition of any assets from another Person (other than the Company, the Issuer or any Restricted Subsidiary), which Indebtedness was not incurred by such other Person in connection with or in contemplation of such acquisition. Indebtedness incurred in connection with or in contemplation of any transaction described in clause (1) or (2) of the preceding sentence shall be deemed to have been incurred by the Company or a Restricted Subsidiary, as the case may be, at the time such Person becomes a Restricted Subsidiary (or is merged into the Company, the Issuer or any Restricted Subsidiary) in the case of clause (1) or at the time of the acquisition of such assets in the case of clause (2), but shall not be deemed Acquired Indebtedness.

Affiliate means, when used with reference to a specified Person, any Person directly or indirectly controlling, or controlled by or under direct or indirect common control with the Person specified.

Asset Acquisition means (1) an Investment by the Company, the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary or shall be consolidated or merged with or into the Company, the Issuer or any Restricted Subsidiary or (2) the acquisition by the Company, the Issuer or any Restricted Subsidiary of the assets of any Person, which constitute all or substantially all of the assets or of an operating unit or line of business of such Person or which is otherwise outside the ordinary course of business.

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Asset Disposition means any sale, transfer, conveyance, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback or sale of shares of Capital Stock in any Subsidiary) (each, a **transaction**) by the Company, the Issuer or any Restricted Subsidiary to any Person of any Property having a Fair Market Value in any transaction or series of related transactions of at least $5 million. The term **Asset Disposition** shall not include:

(1) a transaction between the Company, the Issuer and any Restricted Subsidiary or a transaction between Restricted Subsidiaries,

(2) a transaction in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to governmental authorities, leases and sales and leasebacks of (A) homes, improved land and unimproved land and (B) real estate (including related amenities and improvements),

(3) a transaction involving the sale of Capital Stock of, or the disposition of assets in, an Unrestricted Subsidiary,

(4) any exchange or swap of assets of the Company, the Issuer or any Restricted Subsidiary for assets (including Capital Stock of any Person that is or will be a Restricted Subsidiary following receipt thereof) that (x) are to be used by the Company, the Issuer or any Restricted Subsidiary in the ordinary course of its Real Estate Business and (y) have a Fair Market Value not less than the Fair Market Value of the assets exchanged or swapped (*provided* that (except as permitted by clause (3) under the definition of Permitted Investment) to the extent that the assets exchanged or swapped were Collateral, the assets received are pledged as Collateral under the Security Documents substantially simultaneously with such sale, with the Lien on such assets received being of the same priority with respect to the Notes as the Lien on the assets disposed of),

(5) any sale, transfer, conveyance, lease or other disposition of assets and properties that is governed by the provisions set forth under Limitations on mergers, consolidation and sales of assets,

(6) dispositions of mortgage loans and related assets and mortgage-backed securities in the ordinary course of a mortgage lending business, or

(7) the creation of a Permitted Lien and dispositions in connection with Permitted Liens.

Attributable Debt means, with respect to any Capitalized Lease Obligations, the capitalized amount thereof determined in accordance with GAAP.

Bankruptcy Law means title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

Capital Stock means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person s capital stock or other equity interests, and options, rights or warrants to purchase such capital stock or other equity interests, whether now outstanding or issued after the Issue Date, including, without limitation, all Disqualified Stock and Preferred Stock.

Capitalized Lease Obligations of any Person means the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

Cash Equivalents means

(1) U.S. dollars;

(2) securities issued or directly and fully guaranteed or insured by the U.S. government or any agency or instrumentality thereof having maturities of one year or less from the date of acquisition;

(3) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers acceptances with maturities not exceeding six months and overnight bank

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deposits, in each case with any domestic commercial bank having capital and surplus in excess of $500 million;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper rated P-1, A-1 or the equivalent thereof by Moody s or S&P, respectively, and in each case maturing within six months after the date of acquisition; and

(6) investments in money market funds substantially all of the assets of which consist of securities described in the foregoing clauses (1) through (5).

Change of Control means

(1) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Restricted Subsidiaries to any Person (other than a Restricted Subsidiary); provided, however, that a transaction where the holders of all classes of Common Equity of the Company immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of such Person immediately after such transaction shall not be a Change of Control;

(2) a person or group (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) the Permitted Hovnanian Holders)) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of Common Equity of the Company representing more than 50% of the voting power of the Common Equity of the Company;

(3) Continuing Directors cease to constitute at least a majority of the Board of Directors of the Company;

(4) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided, however,* that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (1) above shall not constitute a Change of Control; or

(5) a change of control shall occur as defined in the instrument governing any publicly traded debt securities of the Company or the Issuer which requires the Company or the Issuer to repay or repurchase such debt securities.

Collateralized Debt means (i) the aggregate principal amount of all Indebtedness and all letters of credit secured by Liens on the Collateral and (ii) the aggregate amount of all unfunded commitments under all credit facilities or lines of credit secured by Liens on the Collateral but excluding Indebtedness, letters of credit and unfunded commitments secured by Liens on the Collateral that rank junior to the Liens on the Collateral securing the Second Priority Liens.

Common Equity of any Person means Capital Stock of such Person that is generally entitled to (1) vote in the election of directors of such Person or (2) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

Consolidated Adjusted Tangible Assets of the Company as of any date means the Consolidated Tangible Assets of the Company, the Issuer and the Restricted Subsidiaries at the end of the fiscal quarter immediately preceding the date less any assets securing any Non-Recourse Indebtedness, as determined in accordance with GAAP.

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Consolidated Cash Flow Available for Fixed Charges means, for any period, Consolidated Net Income for such period plus (each to the extent deducted in calculating such Consolidated Net Income and determined in accordance with GAAP) the sum for such period, without duplication, of:

(1) income taxes,

(2) Consolidated Interest Expense,

(3) depreciation and amortization expenses and other non cash charges to earnings, and

(4) interest and financing fees and expenses which were previously capitalized and which are amortized to cost of sales, *minus*

all other non-cash items (other than the receipt of notes receivable) increasing such Consolidated Net Income.

Consolidated Fixed Charge Coverage Ratio means, with respect to any determination date, the ratio of (x) Consolidated Cash Flow Available for Fixed Charges for the prior four full fiscal quarters (the **Four Quarter Period**) for which financial results have been reported immediately preceding the determination date (the **Transaction Date**), to (y) the aggregate Consolidated Interest Incurred for the Four Quarter Period. For purposes of this definition, **Consolidated Cash Flow Available for Fixed Charges** and **Consolidated Interest Incurred** shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence or the repayment, repurchase, defeasance or other discharge or the assumption by another Person that is not an Affiliate (collectively, **repayment**) of any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) giving rise to the need to make such calculation, and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period, except that Indebtedness under revolving credit facilities shall be deemed to be the average daily balance of such Indebtedness during the Four Quarter Period (as reduced on such *pro forma* basis by the application of any proceeds of the incurrence of Indebtedness giving rise to the need to make such calculation);

(2) any Asset Disposition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Company, the Issuer or any Restricted Subsidiary (including any Person that becomes a Restricted Subsidiary as a result of any such Asset Acquisition) incurring Acquired Indebtedness at any time on or after the first day of the Four Quarter Period and on or prior to the Transaction Date), as if such Asset Disposition or Asset Acquisition (including the incurrence or repayment of any such Indebtedness) and the inclusion, notwithstanding clause (2) of the definition of Consolidated Net Income, of any Consolidated Cash Flow Available for Fixed Charges associated with such Asset Acquisition as if it occurred on the first day of the Four Quarter Period; *provided*, *however*, that the Consolidated Cash Flow Available for Fixed Charges associated with any Asset Acquisition shall not be included to the extent the net income so associated would be excluded pursuant to the definition of Consolidated Net Income, other than clause (2) thereof, as if it applied to the Person or assets involved before they were acquired; and

(3) the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Interest Incurred attributable to discontinued operations, as determined in accordance with GAAP, shall be excluded.

Furthermore, in calculating Consolidated Cash Flow Available for Fixed Charges for purposes of determining the denominator (but not the numerator) of this Consolidated Fixed Charge Coverage Ratio,

(a) interest on Indebtedness in respect of which a pro forma calculation is required that is determined on a fluctuating basis as of the Transaction Date (including Indebtedness actually incurred on the Transaction Date) and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date, and

(b) notwithstanding clause (a) above, interest on such Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Protection Agreements, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

Consolidated Interest Expense of the Company for any period means the Interest Expense of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

Consolidated Interest Incurred for any period means the Interest Incurred of the Company, the Issuer and the Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

Consolidated Net Income for any period means the aggregate net income (or loss) of the Company and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; *provided*, that there will be excluded from such net income (loss) (to the extent otherwise included therein), without duplication:

(1) the net income (or loss) of (x) any Unrestricted Subsidiary (other than a Mortgage Subsidiary) or (y) any Person (other than a Restricted Subsidiary or a Mortgage Subsidiary) in which any Person other than the Company, the Issuer or any Restricted Subsidiary has an ownership interest, except, in each case, to the extent that any such income has actually been received by the Company, the Issuer or any Restricted Subsidiary in the form of cash dividends or similar cash distributions during such period, which dividends or distributions are not in excess of the Company s, the Issuer s or such Restricted Subsidiary s (as applicable) *pro rata* share of such Unrestricted Subsidiary s or such other Person s net income earned during such period,

(2) except to the extent includable in Consolidated Net Income pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company, the Issuer or any of its Restricted Subsidiaries (except, in the case of an Unrestricted Subsidiary that is redesignated a Restricted Subsidiary during such period, to the extent of its retained earnings from the beginning of such period to the date of such redesignation) or (b) the assets of such Person are acquired by the Company or any Restricted Subsidiary,

(3) the net income of any Restricted Subsidiary to the extent that (but only so long as) the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of that income is not permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary during such period,

(4) the gains or losses, together with any related provision for taxes, realized during such period by the Company, the Issuer or any Restricted Subsidiary resulting from (a) the acquisition of securities, or extinguishment of Indebtedness, of the Company or any Restricted Subsidiary or (b) any Asset Disposition by the Company or any Restricted Subsidiary, and

(5) any extraordinary gain or loss together with any related provision for taxes, realized by the Company, the Issuer or any Restricted Subsidiary;

provided, *further*, that for purposes of calculating Consolidated Net Income solely as it relates to clause (3) of the first paragraph of the Limitations on Restricted Payments covenant, clause (4)(b) above shall not be applicable.

Consolidated Tangible Assets of the Company as of any date means the total amount of assets of the Company, the Issuer and the Restricted Subsidiaries (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, as determined in accordance with GAAP, less (1) Intangible Assets and (2) appropriate adjustments on account of minority interests of other Persons holding equity investments in Restricted

Subsidiaries.

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Continuing Director means a director who either was a member of the Board of Directors of the Company on the Issue Date or who became a director of the Company subsequent to such date and whose election or nomination for election by the Company s stockholders was duly approved by a majority of the Continuing Directors on the Board of Directors of the Company at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors of the Company in which such individual is named as nominee for director.

control when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing.

Credit Facilities means, collectively, each of the credit facilities and lines of credit of the Company or one or more Restricted Subsidiaries in existence, or entered into, on the Issue Date, including, without limitation, the Revolving Credit Agreement, and one or more other facilities and lines of credit among or between the Company or one or more Restricted Subsidiaries and one or more lenders pursuant to which the Company or one or more Restricted Subsidiaries may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit.

Currency Agreement of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

Custodian means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

Default means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

Designation Amount has the meaning provided in the definition of Unrestricted Subsidiary.

Disqualified Stock means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (1) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the Notes or (2) is convertible into or exchangeable or exercisable for (whether at the option of the issuer or the holder thereof) (a) debt securities or (b) any Capital Stock referred to in (1) above, in each case, at any time prior to the final maturity date of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Capital Stock is convertible, exchangeable or exercisable) the right to require the Company to repurchase or redeem such Capital Stock upon the occurrence of a change in control or asset disposition occurring prior to the final maturity date of the Notes shall not constitute Disqualified Stock if the change in control or asset disposition provision applicable to such Capital Stock are no more favorable to such holders than the provisions described under the captions Certain covenants Repurchase of Notes upon Change of Control or Certain covenants Limitations on dispositions of assets, as applicable, and such Capital Stock specifically provides that the Company will not repurchase or redeem any such Capital Stock pursuant to such provisions prior to the Company s repurchase of the Notes as are required pursuant to the provisions described under the captions Certain covenants Repurchase of Notes upon Change of Control or Certain covenants Limitations on dispositions of assets,

as applicable.

Equity Offering means any public or private sale, after the Issue Date, of Qualified Stock of the Company, other than (i) an Excluded Contribution, (ii) public offerings registered on Form S-4 or S-8 or any

successor form thereto or (iii) any issuance pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees.

Event of Default has the meaning set forth in Events of Default.

Excluded Contribution means cash or Cash Equivalents received by the Company as capital contributions to its equity (other than through the issuance of Disqualified Stock) or from the issuance or sale (other than to a Subsidiary) of Qualified Stock of the Company, in each case, after January 31, 2008 and to the extent designated as an Excluded Contribution pursuant to an Officer s Certificate of the Company.

Fair Market Value means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction, as such price is determined in good faith by the Board of Directors of the Company or a duly authorized committee thereof, as evidenced by a resolution of such Board or committee.

First-Priority Lien Obligations has the meaning set forth in the definition of Permitted Liens.

First-Priority Liens means all Liens that secure the First-Priority Lien Obligations.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on the Issue Date.

guarantee means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; *provided*, that the term **guarantee** does not include endorsements for collection or deposit in the ordinary course of business. The term guarantee used as a verb has a corresponding meaning.

Guarantee means the guarantee of the Notes by the Company and each other Guarantor under the Indenture.

Guarantors means (i) initially, the Company and each of the Company s Restricted Subsidiaries in existence on the Issue Date, other than the Issuer and K. Hovnanian Poland, sp.zo.o. and (ii) each of the Company s Subsidiaries that becomes a Guarantor of the Notes pursuant to the provisions of the Indenture, and their successors, in each case until released from its respective Guarantee pursuant to the Indenture.

Holder or *Holder(s) of Notes* means the Person in whose name a Note is registered in the books of the Registrar for the Notes.

Indebtedness of any Person means, without duplication,

(1) any liability of such Person (a) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than standby letters of credit or similar instruments issued for the benefit of,

or surety, performance, completion or payment bonds, earnest money notes or similar purpose undertakings or indemnifications issued by, such Person in the ordinary course of business), (b) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with capital expenditures (other than any obligation to pay a contingent purchase price which, as of the date of incurrence thereof, is not required to be recorded as a

liability in accordance with GAAP), or (c) in respect of Capitalized Lease Obligations (to the extent of the Attributable Debt in respect thereof),

(2) any Indebtedness of others that such Person has guaranteed to the extent of the guarantee; *provided*, *however*, that Indebtedness of the Company and its Restricted Subsidiaries will not include the obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages at prices no greater than 98% of the principal amount thereof, and upon any such purchase the excess, if any, of the purchase price thereof over the Fair Market Value of the mortgages acquired, will constitute Restricted Payments subject to the Limitations on restricted payments covenant,

(3) to the extent not otherwise included, the obligations of such Person under Currency Agreements or Interest Protection Agreements to the extent recorded as liabilities not constituting Interest Incurred, net of amounts recorded as assets in respect of such agreements, in accordance with GAAP, and

(4) all Indebtedness of others secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;

provided, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be (a) the outstanding balance at such date of all unconditional obligations as described above, net of any unamortized discount to be accounted for as Interest Expense, in accordance with GAAP, (b) the maximum liability of such Person for any contingent obligations under clause (1) above at such date, net of an unamortized discount to be accounted for as Interest Expense in accordance with GAAP, and (c) in the case of clause (4) above, the lesser of (x) the fair market value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (y) the amount of the Indebtedness secured.

Intangible Assets of the Company means all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with GAAP) and all other items which would be treated as intangible on the consolidated balance sheet of the Company, the Issuer and the Restricted Subsidiaries prepared in accordance with GAAP.

Intercreditor Agreement means the Intercreditor Agreement dated on or about the Issue Date among the Administrative Agent, the Second Lien Notes Trustee, the Second Lien Notes Collateral Agent, the Trustee, the Collateral Agent, Wilmington Trust Company, the Issuer, the Company and each other Guarantor named therein, as such agreement may be amended, restated, supplemented or otherwise modified from time to time.

Interest Expense of any Person for any period means, without duplication, the aggregate amount of (i) interest which, in conformity with GAAP, would be set opposite the caption interest expense or any like caption on an income statement for such Person (including, without limitation, imputed interest included in Capitalized Lease Obligations, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing, the net costs (but reduced by net gains) associated with Currency Agreements and Interest Protection Agreements, amortization of other financing fees and expenses, the interest portion of any deferred payment obligation, amortization of discount or premium, if any, and all other noncash interest expense (other than interest and other charges amortized to cost of sales)), and (ii) all interest actually paid by the Company or a Restricted Subsidiary under any guarantee of Indebtedness (including, without limitation, a guarantee of principal, interest or any combination thereof) of any Person other than the Company, the Issuer or any Restricted Subsidiary during such period; provided, that Interest Expense shall exclude any expense associated with the complete write-off of financing

fees and expenses in connection with the repayment of any Indebtedness.

Interest Incurred of any Person for any period means, without duplication, the aggregate amount of (1) Interest Expense and (2) all capitalized interest and amortized debt issuance costs.

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Interest Protection Agreement of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Indebtedness permitted to be incurred under the Indenture.

Investments of any Person means (i) all investments by such Person in any other Person in the form of loans, advances or capital contributions, (ii) all guarantees of Indebtedness or other obligations of any other Person by such Person, (iii) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Capital Stock or other securities of any other Person and (iv) all other items that would be classified as investments in any other Person (including, without limitation, purchases of assets outside the ordinary course of business) on a balance sheet of such Person prepared in accordance with GAAP.

Issue Date means December 3, 2008.

Lien means, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

Marketable Securities means (a) equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or The Nasdaq Stock Market and (b) debt securities that are rated by a nationally recognized rating agency, listed on the New York Stock Exchange or the American Stock Exchange or covered by at least two reputable market makers.

Moody s means Moody s Investors Service, Inc. or any successor to its debt rating business.

Mortgage Subsidiary means any Subsidiary of the Company substantially all of whose operations consist of the mortgage lending business.

Net Cash Proceeds means with respect to an Asset Disposition, payments received in cash (including any such payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise (including any cash received upon sale or disposition of such note or receivable), but only as and when received), excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the Property disposed of in such Asset Disposition or received in any other non-cash form unless and until such non-cash consideration is converted into cash therefrom, in each case, net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state and local taxes required to be accrued as a liability under GAAP as a consequence of such Asset Disposition, and in each case net of a reasonable reserve for the after-tax cost of any indemnification or other payments (fixed and contingent) attributable to the seller s indemnities or other obligations to the purchaser undertaken by the Company, the Issuer or any of its Restricted Subsidiaries in connection with such Asset Disposition, and net of all payments made on any Indebtedness which is secured by or relates to such Property (other than Indebtedness secured by Liens on the Collateral), in accordance with the terms of any Lien or agreement upon or with respect to such Property or which such Indebtedness must by its terms or by applicable law be repaid out of the proceeds from such Asset Disposition, and net of all contractually required distributions and payments made to minority interest holders in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition.

Non-Recourse Indebtedness with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such

Indebtedness or such Indebtedness was incurred within 90 days after the acquisition of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (a) environmental warranties and indemnities, or (b) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and

condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics liens.

Notes means the 18.0% Senior Secured Notes due 2017 offered pursuant to this prospectus.

Obligations means with respect to any Indebtedness, all obligations (whether in existence on the Issue Date or arising afterwards, absolute or contingent, direct or indirect) for or in respect of principal (when due, upon acceleration, upon redemption, upon mandatory repayment or repurchase pursuant to a mandatory offer to purchase, or otherwise), premium, interest, penalties, fees, indemnification, reimbursement and other amounts payable and liabilities with respect to such Indebtedness, including all interest accrued or accruing after the commencement of any bankruptcy, insolvency or reorganization or similar case or proceeding at the contract rate (including, without limitation, any contract rate applicable upon default) specified in the relevant documentation, whether or not the claim for such interest is allowed as a claim in such case or proceeding.

Permitted Hovnanian Holders means, collectively, Kevork S. Hovnanian, Ara K. Hovnanian, the members of their immediate families, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof, or any entity of which any of the foregoing, individually or collectively, beneficially own more than 50% of the Common Equity.

Permitted Indebtedness means

(1) Indebtedness under Credit Facilities which does not exceed $300.0 million principal amount outstanding at any one time;

(2) Indebtedness in respect of obligations of the Company and its Subsidiaries to the trustees under indentures for debt securities;

(3) intercompany debt obligations of (i) the Company to the Issuer, (ii) the Issuer to the Company, (iii) the Company or the Issuer to any Restricted Subsidiary and (iv) any Restricted Subsidiary to the Company or the Issuer or any other Restricted Subsidiary; *provided, however*, that any Indebtedness of any Restricted Subsidiary or the Issuer or the Company owed to any Restricted Subsidiary or the Issuer that ceases to be a Restricted Subsidiary shall be deemed to be incurred and shall be treated as an incurrence for purposes of the first paragraph of the covenant described under Limitations on indebtedness at the time the Restricted Subsidiary in question ceases to be a Restricted Subsidiary;

(4) Indebtedness of the Company or the Issuer or any Restricted Subsidiary under any Currency Agreements or Interest Protection Agreements in a notional amount no greater than the payments due (at the time the related Currency Agreement or Interest Protection Agreement is entered into) with respect to the Indebtedness or currency being hedged;

(5) Purchase Money Indebtedness and Capitalized Lease Obligations in an aggregate principal amount outstanding at any one time not to exceed $25.0 million;

(6) obligations for, pledge of assets in respect of, and guaranties of, bond financings of political subdivisions or enterprises thereof in the ordinary course of business;

(7) Indebtedness secured only by office buildings owned or occupied by the Company or any Restricted Subsidiary, which Indebtedness does not exceed $10 million aggregate principal amount outstanding at any one time;

(8) Indebtedness under warehouse lines of credit, repurchase agreements and Indebtedness secured by mortgage loans and related assets of mortgage lending Subsidiaries in the ordinary course of a mortgage lending business; and

(9) Indebtedness of the Company or any Restricted Subsidiary which, together with all other Indebtedness under this clause (9), does not exceed $50 million aggregate principal amount outstanding at any one time.

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Permitted Investment means

(1) Cash Equivalents;

(2) any Investment in the Company, the Issuer or any Restricted Subsidiary or any Person that becomes a Restricted Subsidiary as a result of such Investment or that is consolidated or merged with or into, or transfers all or substantially all of the assets of it or an operating unit or line of business to, the Company or a Restricted Subsidiary;

(3) any receivables, loans or other consideration taken by the Company, the Issuer or any Restricted Subsidiary in connection with any asset sale otherwise permitted by the Indenture; *provided* that non-cash consideration received in an Asset Disposition or an exchange or swap of assets shall be pledged as Collateral under the Security Documents to the extent the assets subject to such Asset Disposition or exchange or swap of assets constituted Collateral, 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; *provided, further,* that notwithstanding the foregoing clause, up to an aggregate of $50.0 million of (x) non-cash consideration and consideration received as referred to in clause (ii) of the second paragraph under Certain covenants Limitations on dispositions of assets , (y) assets invested in pursuant to the third paragraph under Certain covenants Limitations on dispositions of assets and (z) assets received pursuant to clause (4) under the definition of Asset Disposition may be designated by the Company or the Issuer as Excluded Property not required to be pledged as Collateral;

(4) Investments received in connection with any bankruptcy or reorganization proceeding, or as a result of foreclosure, perfection or enforcement of any Lien or any judgment or settlement of any Person in exchange for or satisfaction of Indebtedness or other obligations or other property received from such Person, or for other liabilities or obligations of such Person created, in accordance with the terms of the Indenture;

(5) Investments in Currency Agreements or Interest Protection Agreements described in the definition of Permitted Indebtedness ;

(6) any loan or advance to an executive officer, director or employee of the Company or any Restricted Subsidiary made in the ordinary course of business or in accordance with past practice; *provided, however*, that any such loan or advance exceeding $1 million shall have been approved by the Board of Directors of the Company or a committee thereof consisting of disinterested members;

(7) Investments in interests in issuances of collateralized mortgage obligations, mortgages, mortgage loan servicing, or other mortgage related assets;

(8) obligations of the Company or a Restricted Subsidiary under warehouse lines of credit of Mortgage Subsidiaries to repurchase mortgages; and

(9) Investments in an aggregate amount outstanding not to exceed $10 million.

Permitted Liens means

(1) Liens for taxes, assessments or governmental or quasi-government charges or claims that (a) are not yet delinquent, (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required, or (c) encumber solely property abandoned or in the process of being abandoned,

(2) statutory Liens of landlords and carriers , warehousemen s, mechanics , suppliers , materialmen s, repairmen s or other Liens imposed by law and arising in the ordinary course of business and with respect to amounts that, to the extent applicable, either (a) are not yet delinquent or (b) are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established or other provisions have been made in accordance with GAAP, if required,

(3) Liens (other than any Lien imposed by the Employer Retirement Income Security Act of 1974, as amended) incurred or deposits made in the ordinary course of business in connection with workers compensation, unemployment insurance and other types of social security,

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(4) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contacts, utility services, developer s or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (1)(a) of the definition of Indebtedness), in each case incurred in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(5) attachment or judgment Liens not giving rise to a Default or an Event of Default,

(6) easements, dedications, assessment district or similar Liens in connection with municipal or special district financing, rights-of-way, restrictions, reservations and other similar charges, burdens, and other similar charges or encumbrances not materially interfering with the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(7) zoning restrictions, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such real property in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(8) Liens securing Indebtedness incurred pursuant to clause (7) or (8) of the definition of Permitted Indebtedness,

(9) Liens on the Collateral and other assets not constituting Collateral pursuant to clauses (a) and (b) of the definition of Excluded Property securing:

(a) the Notes (other than Additional Notes), the Guarantees thereof and other Obligations under the Indenture and the Security Documents and in respect thereof and any obligations owing to the Trustee or the Collateral Agent under the Indenture or the Security Documents;

(b) (i) Indebtedness incurred under clause (1) of the definition of Permitted Indebtedness (and all Obligations, including letters of credit and similar instruments, incurred, issued or arising under such secured Credit Facilities that permit borrowings not in excess of the limit set out in such clause (1)) and Liens securing Refinancing Indebtedness in respect thereof (which Refinancing Indebtedness is incurred under such clause (1)), (ii) up to an additional $25.0 million of Indebtedness otherwise permitted to be incurred under the Indenture (and all Obligations, including letters of credit and similar instruments, incurred, issued or arising thereunder) and Liens securing Refinancing Indebtedness in respect thereof and (iii) Obligations under Currency Agreements and Interest Protection Agreements entered into with agents or lenders under the Indebtedness referred to in clause (i) or their affiliates, which Liens incurred under this clause (b) may be on a first-lien priority basis senior to the Liens securing the Notes on terms as set forth in the Intercreditor Agreement (collectively, **First-Priority Lien Obligations**);

(c) other Indebtedness permitted to be incurred under the Indenture (and all Obligations in respect thereof), which may be in the form of Additional Notes; *provided*, that (i) such Indebtedness is Refinancing Indebtedness issued in exchange for or to refinance Indebtedness of the Issuer outstanding on May 27, 2008 and (ii) the Liens securing such Indebtedness rank *pari passu* with (or junior to) the Liens on the Collateral securing the Notes (if junior, on a basis substantially the same as the basis on which the Liens securing the Notes are treated under the Intercreditor Agreement with respect to the Second-Priority Liens); *provided*, *further*, that after giving effect to such incurrence, the aggregate amount of all consolidated Indebtedness of the Company, the Issuer and the Restricted Subsidiaries (including, with respect to Capitalized Lease Obligations, the Attributable Debt in respect thereof) secured by Liens (other than Non-Recourse Indebtedness and Indebtedness incurred pursuant to clause (8) of the definition of Permitted Indebtedness) shall not exceed 40% of Consolidated Adjusted Tangible Assets at any one time outstanding (after giving effect to the incurrence of such Indebtedness and the use of the proceeds thereof); and

(d) the Second Lien Notes, the guarantees thereof and other Obligations under the Second-Lien Notes Indenture and the security documents related thereto and in respect thereof and any obligations

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owing to the Second Lien Notes Trustee or the Second Lien Notes Collateral Agent under the Second Lien Notes Indenture or the security documents related thereto and any Liens securing Refinancing Indebtedness in respect thereof, which Liens incurred under this clause (d) may be on a second-lien priority basis senior to the Liens securing the Notes on terms as set forth in the Intercreditor Agreement (the **Second-Priority Lien Obligations**),

(10) Liens securing Non-Recourse Indebtedness of the Company, the Issuer or any Restricted Subsidiary; *provided*, that such Liens apply only to the property financed out of the net proceeds of such Non-Recourse Indebtedness within 90 days after the incurrence of such Non-Recourse Indebtedness,

(11) Liens securing Purchase Money Indebtedness; *provided*, that such Liens apply only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness within 90 days after the incurrence of such Purchase Money Indebtedness,

(12) Liens on property or assets of the Company, the Issuer or any Restricted Subsidiary securing Indebtedness of the Company, the Issuer or any Restricted Subsidiary owing to the Company, the Issuer or one or more Restricted Subsidiaries (other than K. Hovnanian Poland, Sp.zo.o.),

(13) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Restricted Subsidiaries,

(14) purchase money security interests (including, without limitation, Capitalized Lease Obligations); *provided*, that such Liens apply only to the Property acquired and the related Indebtedness is incurred within 90 days after the acquisition of such Property,

(15) any right of first refusal, right of first offer, option, contract or other agreement to sell an asset; *provided*, that such sale is not otherwise prohibited under the Indenture,

(16) any right of a lender or lenders to which the Company, the Issuer or a Restricted Subsidiary may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company, the Issuer or a Restricted Subsidiary with or held by such lender or lenders or its Affiliates,

(17) any pledge or deposit of cash or property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or similar purpose undertakings or indemnifications in the ordinary course of business of the Company, the Issuer and the Restricted Subsidiaries,

(18) Liens for homeowner and property owner association developments and assessments,

(19) Liens securing Refinancing Indebtedness; *provided*, that such Liens extend only to the assets securing the Indebtedness being refinanced and have the same or junior priority as the initial Liens; *provided*, *further,* that no Liens may be incurred under this clause (19) in respect of Refinancing Indebtedness incurred to refinance Indebtedness that is secured by Liens incurred under clauses (9)(b)(i), 9(b)(ii) or 9(d) above (it being understood that Liens incurred in respect of such Indebtedness may only be refinanced under such clauses (9)(b)(i), 9(b)(ii) or 9(d)),

(20) Liens incurred in the ordinary course of business as security for the obligations of the Company, the Issuer and the Restricted Subsidiaries with respect to indemnification in respect of title insurance providers,

(21) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or becomes a Subsidiary of the Company; *provided*, that such Liens were in existence prior to the contemplation of such merger or consolidation or acquisition and do not extend to any assets other than those of the Person merged into or consolidated with the Company or the Subsidiary or acquired by the Company or its Subsidiaries,

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(22) Liens on property existing at the time of acquisition thereof by the Company or any Subsidiary of the Company, *provided*, that such Liens were in existence prior to the contemplation of such acquisition,

(23) Liens existing on the Issue Date (other than Liens securing Obligations under the Revolving Credit Agreement, the Second Lien Notes or the Notes) and any extensions, renewals or replacements thereof, and

(24) Liens on specific items of inventory or other goods and proceeds of any Person securing such Person s obligations in respect of bankers acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods.

Person means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Preferred Stock of any Person means all Capital Stock of such Person which has a preference in liquidation or with respect to the payment of dividends.

Property of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

Purchase Money Indebtedness means Indebtedness of the Company, the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company, the Issuer and the Restricted Subsidiaries; provided, however, that (1) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred no later than 90 days after the acquisition of such property or completion of such construction or improvement.

Qualified Stock means Capital Stock of the Company other than Disqualified Stock.

Real Estate Business means homebuilding, housing construction, real estate development or construction and the sale of homes and related real estate activities, including the provision of mortgage financing or title insurance.

Refinancing Indebtedness means Indebtedness (to the extent not Permitted Indebtedness) that refunds, refinances or extends any Indebtedness of the Company, the Issuer or any Restricted Subsidiary (to the extent not Permitted Indebtedness) outstanding on the Issue Date or other Indebtedness (to the extent not Permitted Indebtedness) permitted to be incurred by the Company, the Issuer or any Restricted Subsidiary pursuant to the terms of the Indenture, but only to the extent that:

(1) the Refinancing Indebtedness is subordinated, if at all, to the Notes or the Guarantees, as the case may be, to the same extent as the Indebtedness being refunded, refinanced or extended (provided that Refinancing Indebtedness issued to refund, refinance or extend Subordinated Indebtedness outstanding as of the Issue Date (**Existing Subordinated Debt**) need not be subordinated to the Notes or the Guarantees, as the case may, so long as any Liens securing such Indebtedness are *pari passu* or junior to the Liens securing the Notes or the Guarantees, as the case may be),

(2) the Refinancing Indebtedness is scheduled to mature either (a) no earlier than the Indebtedness being refunded, refinanced or extended or (b) after the maturity date of the Notes (unless the Refinancing Indebtedness is in respect of Existing Subordinated Debt and is secured by Liens on the Collateral, in which case the Refinancing Indebtedness

must be scheduled to mature no earlier than the maturity date of the Notes),

(3) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the

portion of the Indebtedness being refunded, refinanced or extended that is scheduled to mature on or prior to the maturity date of the Notes, and

(4) such Refinancing Indebtedness is in an aggregate principal amount that is equal to or less than the aggregate principal amount then outstanding under the Indebtedness being refunded, refinanced or extended.

Restricted Investment means any Investment other than a Permitted Investment.

Restricted Payment means any of the following:

(1) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company, the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than (a) dividends or distributions payable solely in Qualified Stock and (b) in the case of the Issuer or Restricted Subsidiaries, dividends or distributions payable to the Company, the Issuer or a Restricted Subsidiary);

(2) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company, the Issuer or any Restricted Subsidiary (other than a payment made to the Company, the Issuer or any Restricted Subsidiary);

(3) any Investment (other than any Permitted Investment), including any Investment in an Unrestricted Subsidiary (including by the designation of a Subsidiary of the Company as an Unrestricted Subsidiary) and any amounts paid in accordance with clause (2) of the definition of Indebtedness ; and

(4) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other principal installment payment, of any Subordinated Indebtedness (other than (a) Indebtedness permitted under clause (3) of the definition of Permitted Indebtedness or (b) the purchase, repurchase, redemption, defeasance, or other acquisition or retirement of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, amortization or principal installment or final maturity, in each case due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement).

Restricted Subsidiary means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

Revolving Credit Agreement means that certain Seventh Amended and Restated Credit Agreement dated as of March 7, 2008, as amended by Amendment No. 1 thereto dated May 16, 2008, among the Issuer, the Company, the Administrative Agent, and a syndicate of lenders, as may be amended, restated, renewed, modified, refunded, replaced, revised, restructured or refinanced in whole or in part from time to time, including to extend the maturity thereof, to increase the amount of commitments thereunder (*provided* that any such increase is permitted under the covenant described under Certain covenants Limitations on indebtedness), or to add Restricted Subsidiaries as additional borrowers or guarantors thereunder, whether by the same or any other agent, lender or group of lenders or investors and whether such revision, restructuring, amendment, restatement, refunding, renewal, modification, replacement or refinancing is under one or more credit facilities or commercial paper facilities, indentures or other agreements, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters or credit, together with related documents thereto (including, without limitation, any guaranty agreements and security documents).

S&P means Standard & Poor s Ratings Services, a division of The McGraw Hill Companies, Inc., a New York corporation, or any successor to its debt rating business.

Second-Priority Lien Obligations has the meaning set forth in the definition of Permitted Liens.

Second-Priority Liens means all Liens that secure the Second-Priority Lien Obligations.

Security Documents means (i) the Intercreditor Agreement and (ii) the security documents granting a security interest in any assets of any Person to secure the Obligations under the Notes and the Guarantees as each may be amended, restated, supplemented or otherwise modified from time to time.

Significant Subsidiary means any Subsidiary of the Company which would constitute a significant subsidiary as defined in Rule 1-02(w)(1) or (2) of Regulation S-X under the Securities Act and the Exchange Act as in effect on the Issue Date.

Subordinated Indebtedness means Indebtedness subordinated in right of payment to the Notes pursuant to a written agreement and includes any Indebtedness ranking equally in right of payment to the Notes but unsecured or secured by the Collateral on a basis entirely junior to that of the Notes.

Subsidiary of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the Board of Directors or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

Third-Priority Lien Obligations means (i) all Indebtedness and other Obligations under the Indenture, the Notes, the Guarantees and the Security Documents and (ii) any other Indebtedness secured on a third-priority basis by the Collateral and the Obligations under the indenture under which such Indebtedness is issued, the guarantees thereof and the security documents related thereto.

Trustee means the party named as such above until such time, if any, a successor replaces such party in accordance with the applicable provisions of the Indenture and thereafter means the successor serving as trustee under the Indenture in respect of the Notes.

Unrestricted Subsidiary means any Subsidiary of the Company so designated by a resolution adopted by the Board of Directors of the Company or a duly authorized committee thereof as provided below; *provided*, that (a) the holders of Indebtedness thereof do not have direct or indirect recourse against the Company, the Issuer or any Restricted Subsidiary, and neither the Company, the Issuer nor any Restricted Subsidiary otherwise has liability for, any payment obligations in respect of such Indebtedness (including any undertaking, agreement or instrument evidencing such Indebtedness), except, in each case, to the extent that the amount thereof constitutes a Restricted Payment permitted by the Indenture, in the case of Non-Recourse Indebtedness, to the extent such recourse or liability is for the matters discussed in the last sentence of the definition of Non-Recourse Indebtedness, or to the extent such Indebtedness is a guarantee by such Subsidiary of Indebtedness of the Company, the Issuer or a Restricted Subsidiary and (b) no holder of any Indebtedness of such Subsidiary shall have a right to declare a default on such Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity as a result of a default on any Indebtedness of the Company, the Issuer or any Restricted Subsidiary. As of the Issue Date, our home mortgage subsidiaries, our joint ventures and certain of our title insurance subsidiaries are designated as Unrestricted Subsidiaries under the Indenture.

Subject to the foregoing, the Board of Directors of the Company or a duly authorized committee thereof may designate any Subsidiary in addition to those named above to be an Unrestricted Subsidiary; *provided*, *however*, that (1) the net amount (the **Designation Amount**) then outstanding of all previous Investments by the Company and the Restricted Subsidiaries in such Subsidiary will be deemed to be a Restricted Payment at the time of such designation and will reduce the amount available for Restricted Payments under the Limitations on restricted payments covenant set forth in the Indenture, to the extent provided therein, (2) the Company must be permitted under the Limitations on restricted payments covenant set forth in the Indenture to make the Restricted Payment deemed to have been made pursuant to clause (1), and (3) after giving effect to such designation, no Default or Event of Default shall have occurred or be continuing. In accordance with the foregoing, and not in limitation thereof, Investments made by any Person in any Subsidiary of such Person prior to such Person s merger with the Company or any Restricted Subsidiary

(but not in contemplation or anticipation of such merger) shall not be counted as an Investment by the Company or such Restricted Subsidiary if such Subsidiary of such Person is designated as an Unrestricted Subsidiary.

The Board of Directors of the Company or a duly authorized committee thereof may also redesignate an Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that (1) the Indebtedness of such

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Unrestricted Subsidiary as of the date of such redesignation could then be incurred under the Limitations on indebtedness covenant and (2) immediately after giving effect to such redesignation and the incurrence of any such additional Indebtedness, the Company and the Restricted Subsidiaries could incur $1.00 of additional Indebtedness under the first paragraph of the Limitations on indebtedness covenant. Any such designation or redesignation by the Board of Directors of the Company or a committee thereof will be evidenced to the Trustee by the filing with the Trustee of a certified copy of the resolution of the Board of Directors of the Company or a committee thereof giving effect to such designation or redesignation and an Officers Certificate certifying that such designation or redesignation complied with the foregoing conditions and setting forth the underlying calculations of such Officers Certificate. The designation of any Person as an Unrestricted Subsidiary shall be deemed to include a designation of all Subsidiaries of such Person as Unrestricted Subsidiaries; *provided*, *however*, that the ownership of the general partnership interest (or a similar member s interest in a limited liability company) by an Unrestricted Subsidiary shall not cause a Subsidiary of the Company of which more than 95% of the equity interest is held by the Company or one or more Restricted Subsidiaries to be deemed an Unrestricted Subsidiary.

U.S. Government Obligations means non-callable, non-payable bonds, notes, bills or other similar obligations issued or guaranteed by the United States government or any agency thereof the full and timely payment of which are backed by the full faith and credit of the United States.

Weighted Average Life to Maturity means, when applied to any Indebtedness or portion thereof at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including, without limitation, payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (ii) the sum of all such payments described in clause (i)(a) above.

Concerning the Trustee

The Trustee is also the trustee with respect to the Second Lien Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest during the continuance of any Default, it must, so long as such Default has not been cured or duly waived, eliminate that conflicting interest within 90 days, apply to the SEC for permission to continue or resign.

The holders of a majority in principal amount of the Notes then outstanding will have the right to direct the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur (which shall not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless that holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

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EXCHANGE OFFER; REGISTRATION RIGHTS

The Issuer, the Company and the other guarantors party thereto entered into a registration rights agreement on December 3, 2008, which we refer to as the **Registration Rights Agreement.** Pursuant to the Registration Rights Agreement, the Issuer, the Company and the other guarantors party thereto agreed to file with the SEC the Exchange Offer Registration Statement on the appropriate form under the Securities Act with respect to the exchange offer. Upon the effectiveness of the Exchange Offer Registration Statement and pursuant to the exchange offer, the Issuer will offer to the holders of Transfer Restricted Securities (as defined below) who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for exchange notes. Capitalized terms used in this section but not otherwise defined have the meanings given to them in the Registration Rights Agreement.

Under the Registration Rights Agreement:

(1) the Issuer, the Company and the other guarantors agreed to file an Exchange Offer Registration Statement with the SEC on or prior to 120 days after December 3, 2008;

(2) the Issuer, the Company and the other guarantors agreed to use their reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to 180 days after December 3, 2008;

(3) unless the exchange offer would not be permitted by applicable law or SEC policy, the Issuer, the Company and the other guarantors agreed to commence the exchange offer, keep the exchange offer open for a period of not less than 20 business days and use their reasonable best efforts to issue, on or prior to 30 business days after the date on which the Exchange Offer Registration Statement was declared effective by the SEC, but in no event later than 40 business days thereafter, exchange notes in exchange for all outstanding notes tendered prior thereto in the exchange offer; and

(4) if obligated to file the Shelf Registration Statement, the Issuer, the Company and the other guarantors will file the Shelf Registration Statement with the SEC on or prior to 30 days after that filing obligation arises and use their reasonable best efforts to cause the Shelf Registration Statement to be declared effective by the SEC on or prior to 90 days after that obligation arises.

In the event that:

(1) the Issuer is not permitted to file the Exchange Offer Registration Statement or permitted to consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy; or

(2) any holder of Transfer Restricted Securities notifies the Issuer in writing prior to the 20th business day following consummation of the exchange offer that:

(a) based on an opinion of counsel, it is prohibited by law or SEC policy from participating in the exchange offer; or

(b) it is a broker-dealer and owns notes acquired directly from the Issuer,

then, the Issuer, the Company and the other guarantors have agreed to file with the SEC a Shelf Registration Statement to cover resales of the notes by the holders thereof who satisfy certain conditions relating to the provisions of information in connection with the Shelf Registration Statement.

The Company, the Issuer and the other guarantors have agreed to use their reasonable best efforts to cause the applicable registration statement to be declared effective as promptly as possible by the SEC.

For purposes of the preceding, **Transfer Restricted Securities** means:

(1) each outstanding note, until the earliest to occur of:

(a) the date on which that outstanding note is exchanged in the exchange offer for an exchange note which is entitled to be resold to the public by the holder thereof without complying with the prospectus delivery requirements of the Securities Act;

(b) the date on which that outstanding note has been disposed of in accordance with a Shelf Registration Statement (and purchasers thereof have been issued new exchange notes); or

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(c) the date on which the outstanding note is distributed to the public pursuant to Rule 144 or Regulation S under the Securities Act (and purchasers thereof have been issued new exchange notes); and

(2) new exchange notes issued to a broker-dealer until the date on which those exchange notes are disposed of by that broker-dealer pursuant to the Plan of Distribution contemplated by the Exchange Offer Registration Statement (including the delivery of the prospectus contained therein).

The Issuer, the Company and other guarantors have agreed to pay additional interest to each holder of Transfer Restricted Securities upon the occurrence of any of the following:

(1) the Issuer, the Company and the other guarantors fail to file any of the Registration Statements required by the Registration Rights Agreement on or before the date specified for that filing;

(2) any of such Registration Statements is not declared effective by the SEC on or prior to the date specified for that effectiveness, which we refer to as the **Effectiveness Target Date** ;

(3) the Issuer, the Company and the other guarantors fail to consummate the exchange offer within 40 business days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or

(4) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable (without being succeeded immediately by a post-effective amendment to such Registration Statement) in connection with resales of Transfer Restricted Securities during the periods specified in the Registration Rights Agreement.

We refer to each event referred to in clauses (1) through (4) above as a **Registration Default.**

Such additional interest shall be:

(1) with respect to the first 90-day period immediately following the occurrence of the first Registration Default, an amount equal to $.05 per week per $1,000 principal amount of Transfer Restricted Securities held by that holder; and

(2) an additional $.05 per week per $1,000 principal amount of Transfer Restricted Securities held by that holder with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of additional interest for all Registration Defaults of $.25 per week per $1,000 principal amount of Transfer Restricted Securities.

All accrued additional interest will be paid on each Interest Payment Date at the same time and in the same manner as interest. Following the cure of all Registration Defaults, the accrual of additional interest will cease. Additional interest will only be payable in respect of one Registration Default at any time.

Holders of Transfer Restricted Securities will be required to make certain representations to the Issuer, the Company and the other guarantors (as described in the Registration Rights Agreement) in order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the Registration Rights Agreement in order to have their notes included in the Shelf Registration Statement and to benefit from the provisions regarding additional interest set forth above with respect to the Shelf Registration Statement.

The outstanding notes and the exchange notes will constitute a single series of debt securities under the Indenture. If an Exchange Offer is consummated, holders of outstanding notes who do not exchange their outstanding notes in that

Exchange Offer will vote together with the holders of the 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 remain outstanding after 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 the Exchange Offer is consummated, percentages in aggregate principal amount of outstanding notes and exchange notes outstanding.

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BOOK-ENTRY, DELIVERY AND FORM

Book-Entry Procedures for the Global Notes

The exchange notes will initially be represented in the form of one or more global notes in fully-registered book-entry form without interest coupons that will be deposited upon issuance with the trustee under the indenture, Wilmington Trust Company, as custodian for The Depository Trust Company, or DTC, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant as described below.

Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See Exchange of Global Notes for Certificated Notes. In addition, transfer of beneficial interests in the global notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time. The notes may be presented for registration of transfer and exchange at the Corporate Trust Office of the trustee.

Depositary Procedures

DTC has advised the Issuer that it is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the **Participants**) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the **Indirect Participants**). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interest and transfer of ownership interest of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it,

(1) upon deposit of the global notes, DTC will credit the accounts of Participants with an interest in the global notes; and

(2) ownership of such interests in the global notes will be shown on, and the transfer of ownership thereof, will be effected only through, records maintained by DTC (with respect to Participants) or by Participants and the Indirect Participants (with respect to other owners of beneficial interests in the global notes).

The laws of some states require that certain persons take physical delivery in definitive form of securities they own. Consequently, the ability to transfer beneficial interest in a global note to such persons may be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see Exchange of Global Notes for Certificated Notes.

Except as described below, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose.

Payments in respect of the principal and premium and additional interest, if any, and interest on a global note registered in the name of DTC or its nominee will be payable by the trustee to DTC or its nominee in its capacity as the registered holder under the indenture. Under the terms of the indenture, the indenture and the

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trustee will treat the persons in whose names the notes, including the global notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever.

Consequently, none of the Issuer, the trustee nor any agent of the Issuer or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to or payments made on account of beneficial ownership interests in the global notes, or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the global notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the exchange notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by Participants and the Indirect Participants to the beneficial owners of exchange notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or the Issuer. Neither the Issuer nor the trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the exchange notes, and the Issuer and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream participants, interests in the global notes will trade in DTC s Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants.

Transfers between Participants in DTC will be effected in accordance with DTC s procedures, and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, crossmarket transfers between Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC s rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities accounts of a Euroclear or Clearstream Participant purchasing an interest in a note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream Participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interests in an exchange note by or through a Euroclear or Clearstream Participant to

a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC s settlement date. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of exchange notes only at the direction of one or

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more Participants to whose account DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange global notes for legended exchange notes in certificated form, and to distribute such exchange notes to its Participants.

The information in this section concerning DTC, Euroclear and Clearstream and their book-entry systems has been obtained from sources that the Issuer believes to be reliable.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among Participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A global note is exchangeable for a certificated exchange note if:

(1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the global notes and the Issuer thereupon fails to appoint a successor depositary within 90 days or (b) has ceased to be a clearing agency registered under the Exchange Act;

(2) the Issuer, at its option, notifies the trustee in writing that it elects to cause the issuance of the notes in certificated form (provided that the Issuer understands that under current industry practices, DTC would notify Participants of the Issuer s determination in this clause (2), but would only withdraw beneficial interests from a global note at the request of Participants); or

(3) there shall have occurred and be continuing to occur a default or an event of default with respect to the notes.

In addition, beneficial interests in a global note may be exchanged for certificated exchange notes upon request but only upon at least 20 days prior written notice given to the trustee by or on behalf of DTC in accordance with customary procedures. In all cases, certificated exchange notes delivered in exchange for any global note or beneficial interest therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures).

Same Day Settlement And Payment

The indenture requires that payments in respect of notes represented by the global notes (including principal, premium, if any, interest and additional interest, if any) be made by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. With respect to certificated notes, we will make all payments of principal, premium, if any, interest and additional interest, if any, by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder s registered address. The notes represented by the global notes are expected to trade in PORTAL and to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. We expect that secondary trading in any certificated notes will also be settled in immediately available funds.

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UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE EXCHANGE OFFER

The exchange of outstanding notes for exchange notes in the exchange offer will not constitute a taxable event to holders for United States federal income tax purposes. Consequently, no gain or loss will be recognized by a holder upon receipt of an exchange note, the holding period of the exchange note will include the holding period of the outstanding note exchanged therefor, and the basis of the exchange note will be the same as the basis of the outstanding note immediately before the exchange.

In any event, persons considering the exchange of outstanding notes for exchange notes should consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

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PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. 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 as a result of market-making activities or other trading activities. To the extent that any such broker-dealer participates in the exchange offer and so notifies us, or causes us to be so notified in writing, we have agreed that for a period of up to 180 days after the consummation of this offer to use our best efforts to make this prospectus, as amended or supplemented, available to such broker-dealer for use in connection with any such resale and will deliver as many additional copies of this prospectus and each amendment or supplement to this prospectus and any documents incorporated by reference in this prospectus as such broker-dealer may reasonably request.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own accounts pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of these methods of resale at market prices prevailing at the time of resale, at prices related to the prevailing market prices or at negotiated prices. Any resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any broker-dealer or the purchasers of any exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by these persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver 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.

We have also agreed to pay all expenses incident to the exchange offer, including the expenses of one counsel for the holders of all of the sellers of the outstanding notes, and will indemnify the holders of the outstanding notes, including any broker-dealers, against certain liabilities under the Securities Act.

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LEGAL MATTERS

The validity and the legally binding effect of the exchange notes and related guarantees offered hereby will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York and by Peter S. Reinhart Esq., Senior Vice President and General Counsel for the Issuer and the guarantors.

EXPERTS

The consolidated financial statements of Hovnanian Enterprises, Inc. appearing in Hovnanian Enterprises, Inc. s Annual Report (Form 10-K) for the year ended October 31, 2008 and the effectiveness of Hovnanian Enterprises, Inc. s internal control over financial reporting as of October 31, 2008, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and file reports, proxy statements and other information with the SEC. We have also filed a registration statement on Form S-4 with the SEC. This prospectus, which forms a part of the registration statement, does not have all the information contained in the registration statement. You may read, free of charge, and copy, at the prescribed rates, any reports, proxy statements and other information, including the registration statement, at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Copies of such material also can be obtained by mail from the Public Reference Section of the SEC, at 100 F Street, N.E., Washington, D.C. 20549, at the prescribed rates. The SEC also maintains a website that contains reports, proxy and information statements and other information, including the registration statement. The website address is: *http://www.sec.gov*. Hovnanian s Class A common stock is listed on the New York Stock Exchange, and reports, proxy statements and other information also can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

This prospectus is part of a registration statement filed with the SEC. The SEC allows us to incorporate by reference selected documents we file with it, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus, and information in documents that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below filed by Hovnanian:

Annual Report on Form 10-K for the fiscal year ended October 31, 2008, Registration File No. 1-8551;

The portions of Hovnanian s definitive proxy statement that were deemed filed with the SEC under the Exchange Act on February 4, 2009, Registration File Nos. 1-8551;

Quarterly Report on Form 10-Q for the quarter ended January 31, 2009, Registration File No. 1-8551 and;

Current Reports on Form 8-K filed on November 25, 2008, December 8, 2008, December 9, 2008, January 8, 2009 and April 29, 2009, Registration File Nos. 1-8551.

All documents filed by Hovnanian pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of the offering made by this prospectus are to be incorporated herein by reference. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

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$29,299,000

K. Hovnanian Enterprises, Inc.

Guaranteed by

Hovnanian Enterprises, Inc.

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

Until January 2, 2010, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters with respect to their unsold allotments or subscriptions.

PROSPECTUS

May 27, 2009