HOVNANIAN ENTERPRISES INC
Form 10-Q
September 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X]Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For quarterly period ended JULY 31, 2011

OR

[ ]Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-8551

Hovnanian Enterprises, Inc. (Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)

22-1851059 (I.R.S. Employer Identification No.)

110 West Front Street, P.O. Box 500, Red Bank, NJ 07701 (Address of Principal Executive Offices)

732-747-7800 (Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer [ ] Accelerated Filer [X]
Non-Accelerated Filer [ ] (Do not check if smaller reporting company) Smaller Reporting Company [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 80,395,958 shares of Class A Common Stock and 14,560,764 shares of Class B Common Stock were outstanding as of September 6, 2011.

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HOVNANIAN ENTERPRISES, INC.

FORM 10-Q

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

	July 31, 2011 (Unaudited)	October 31, 2010 (1)
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 273,443	$ 359,124
Restricted cash	79,069	108,983
Inventories:		
Sold and unsold homes and lots under development	714,984	591,729
Land and land options held for future development or sale	307,427	348,474
Consolidated inventory not owned:		
Specific performance options	2,619	21,065
Variable interest entities	-	32,710
Other options	-	7,962
Total consolidated inventory not owned	2,619	61,737
Total inventories	1,025,030	1,001,940
Investments in and advances to unconsolidated joint ventures	62,493	38,000
Receivables, deposits, and notes	48,783	61,023
Property, plant, and equipment – net	55,531	62,767
Prepaid expenses and other assets	84,725	83,928
Total homebuilding	1,629,074	1,715,765
Financial services:		
Cash and cash equivalents	8,942	8,056
Restricted cash	4,214	4,022
Mortgage loans held for sale	53,198	86,326
Other assets	2,332	3,391
Total financial services	68,686	101,795
Total assets	$ 1,697,760	$ 1,817,560

(1) Derived from the audited balance sheet as of October 31, 2010.

See notes to condensed consolidated financial statements (unaudited).

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

	July 31, 2011 (Unaudited)	October 31, 2010 (1)
LIABILITIES AND EQUITY		
Homebuilding:		
Nonrecourse land mortgages	$23,583	$4,313
Accounts payable and other liabilities	280,672	319,749
Customers' deposits	15,490	9,520
Nonrecourse mortgages secured by operating properties	19,981	20,657
Liabilities from inventory not owned	2,619	53,249
Total homebuilding	342,345	407,488
Financial services:		
Accounts payable and other liabilities	14,076	16,142
Mortgage warehouse line of credit	41,659	73,643
Total financial services	55,735	89,785
Notes payable:		
Senior secured notes	786,214	784,592
Senior notes	827,696	711,585
Senior subordinated notes	-	120,170
TEU senior subordinated amortizing notes	14,450	-
Accrued interest	34,896	23,968
Total notes payable	1,663,256	1,640,315
Income taxes payable	35,782	17,910
Total liabilities	2,097,118	2,155,498
Equity:		
Hovnanian Enterprises, Inc. stockholders' equity deficit:		
Preferred stock, $.01 par value - authorized 100,000 shares; Issued 5,600 shares with a liquidation preference of $140,000 at July 31, 2011 and at October 31, 2010	135,299	135,299
Common stock, Class A, $.01 par value – authorized 200,000,000 shares; issued 91,587,374 shares at July 31, 2011 and 74,809,683 shares at October 31, 2010 (including 11,694,720 shares at July 31, 2011 and October 31, 2010 held in Treasury)	915	748
Common stock, Class B, $.01 par value (convertible to Class A at time of sale) – authorized 30,000,000 shares; Issued 15,253,512 shares at July 31, 2011 and 15,256,543 shares at October 31, 2010 (including 691,748 shares at July 31, 2011 and October 31, 2010 held in Treasury)	153	153
Paid in capital - common stock	590,592	463,908
Accumulated deficit	(1,011,158)	(823,419)
Treasury stock - at cost	(115,257)	(115,257)
Total Hovnanian Enterprises, Inc. stockholders' equity deficit	(399,456)	(338,568)
Noncontrolling interest in consolidated joint ventures	98	630
Total equity deficit	(399,358)	(337,938)
Total liabilities and equity	$1,697,760	$1,817,560

(1) Derived from the audited balance sheet as of October 31, 2010.

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2011	2010	2011	2010
Revenues:				
Homebuilding:				
Sale of homes	$276,479	$368,077	$759,338	$987,923
Land sales and other revenues	1,289	3,770	13,695	7,489
Total homebuilding	277,768	371,847	773,033	995,412
Financial services	7,850	8,753	20,249	23,418
Total revenues	285,618	380,600	793,282	1,018,830
Expenses:				
Homebuilding:				
Cost of sales, excluding interest	234,256	306,054	646,149	822,796
Cost of sales interest	14,222	22,184	43,804	60,777
Inventory impairment loss and land option write-offs	11,426	48,959	41,876	55,111
Total cost of sales	259,904	377,197	731,829	938,684
Selling, general and administrative	34,900	42,184	114,944	127,615
Total homebuilding expenses	294,804	419,381	846,773	1,066,299
Financial services	5,547	6,168	16,194	17,194
Corporate general and administrative	11,648	14,816	38,609	45,232
Other interest	25,207	22,671	74,079	71,634
Other operations	341	1,791	1,933	5,455
Total expenses	337,547	464,827	977,588	1,205,814
(Loss) gain on extinguishment of debt	(1,391)	5,256	(3,035)	25,047
Loss from unconsolidated joint ventures	(2,255)	(871)	(6,479)	(853)
Loss before income taxes	(55,575)	(79,842)	(193,820)	(162,790)
State and federal income tax benefit:				
State	(4,642)	(6,988)	(4,349)	(6,160)
Federal	(3)	-	(1,732)	(291,331)
Total income taxes	(4,645)	(6,988)	(6,081)	(297,491)
Net (loss) income	$(50,930)	$(72,854)	$(187,739)	$134,701
Per share data:				
Basic:				
(Loss) income per common share	$(0.47)	$(0.92)	$(1.92)	$1.71
Weighted-average number of common shares outstanding	108,721	78,763	97,648	78,662
Assuming dilution:				
(Loss) income per common share	$(0.47)	$(0.92)	$(1.92)	$1.69
Weighted-average number of common shares outstanding	108,721	78,763	97,648	79,873

See notes to condensed consolidated financial statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(In Thousands Except Share Amounts)
(Unaudited)

	A Common Stock		B Common Stock		Preferred Stock				
	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding	Amount	Paid-In Capital	Accumulated Deficit	Treasury Stock
Balance, November 1, 2010	63,114,963	$748	14,564,795	$153	5,600	$135,299	$463,908	$(823,419)	$(115,25
Stock options, amortization and issuances							3,709		
Restricted stock amortization, issuances and forfeitures	402,862	4					147		
Stock issuance February 14, 2011	13,512,500	135					54,764		
Issuance of prepaid common stock purchase contracts							68,092		
Settlement of prepaid common stock purchase contracts	2,859,298	28					(28)		
Conversion of Class B to Class A Common Stock	3,031		(3,031)						
Noncontrolling interest in consolidated joint ventures									
Net loss								(187,739)	
Balance, July 31, 2011	79,892,654	$915	14,561,764	$153	5,600	$135,299	$590,592	$(1,011,158)	$(115,25

See notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended July 31, 2011	Nine Months Ended July 31, 2010
Cash flows from operating activities:		
Net (loss) income	$(187,739)	$134,701
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	7,167	9,089
Compensation from stock options and awards	5,110	7,022
Amortization of bond discounts and deferred financing costs	4,456	3,757
Gain on sale and retirement of property and assets	(44)	(71)
Loss from unconsolidated joint ventures	6,479	853
Distributions of earnings from unconsolidated joint ventures	366	1,812
Loss (gain) on extinguishment of debt	3,035	(25,047)
Inventory impairment and land option write-offs	41,876	55,111
Decrease (increase) in assets:		
Mortgage loans held for sale	33,128	8,090
Restricted cash, receivables, prepaids, deposits and other assets	42,344	36,258
Inventories	(85,657)	(14,020)
Increase (decrease) in liabilities:		
State and Federal income tax liabilities	17,872	(43,187)
Customers' deposits	5,970	(7,543)
Accounts payable, accrued interest and other accrued liabilities	(73,604)	(74,884)
Net cash (used in) provided by operating activities	(179,241)	91,941
Cash flows from investing activities:		
Proceeds from sale of property and assets	950	348
Purchase of property, equipment, and other fixed assets	(743)	(1,503)
Investments in and advances to unconsolidated joint ventures	(3,288)	(3,595)
Distributions of capital from unconsolidated joint ventures	2,999	4,637
Net cash provided by (used in) investing activities	(82)	(113)
Cash flows from financing activities:		
Proceeds from mortgages and notes	61	4,793
Proceeds from senior debt	151,220	-
Proceeds from senior secured notes	12,660	-
Proceeds from tangible equity units issuance	83,707	-
Proceeds from common stock issuance	54,899	-
Net (payments) proceeds related to mortgage warehouse lines of credit	(31,984)	101
Deferred financing cost from note issuances	(5,396)	(1,602)
Principal payments and debt repurchases	(170,639)	(111,576)
Net cash provided by (used in) financing activities	94,528	(108,284)
Net decrease in cash and cash equivalents	(84,795)	(16,456)
Cash and cash equivalents balance, beginning of period	367,180	426,692
Cash and cash equivalents balance, end of period	$282,385	$410,236

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

	Nine Months Ended July 31, 2011	2010
Supplemental disclosures of cash flow:		
Cash received during the period for:		
Income taxes	$24,024	$254,304

Supplemental disclosure of noncash financing activities:

In the first quarter of fiscal 2011, our partner in a land development joint venture transferred its interest in the venture to us. The consolidation resulted in increases in inventory and non-recourse land mortgages of $9.5 million and $18.5 million, respectively, and a decrease in other liabilities of $9.0 million.

See notes to Condensed Consolidated Financial Statements (unaudited).

HOVNANIAN ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. Hovnanian Enterprises, Inc. and its consolidated subsidiaries (the "Company”, “we”, “us” or “our”) has reportable segments consisting of six Homebuilding segments (Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West) and the Financial Services segment (see Note 16).

The accompanying unaudited Condensed Consolidated Financial Statements include our accounts and those of all wholly-owned subsidiaries after elimination of all significant intercompany balances and transactions. Certain immaterial prior year amounts have been reclassified to conform to the current year presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended October 31, 2010. In the opinion of management, all adjustments for interim periods presented have been made, which include normal recurring accruals and deferrals necessary for a fair presentation of our consolidated financial position, results of operations, and cash flows. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements. Results for interim periods are not necessarily indicative of the results which might be expected for a full year. The balance sheet at October 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. For the three and nine months ended July 31, 2011, the Company’s total stock-based compensation expense was $1.5 million and $5.1 million, respectively, and $2.6 million and $7.1 million for the three and nine months ended July 31, 2010, respectively. Included in this total stock-based compensation expense was the vesting of stock options of $1.1 million and $3.7 million for the three and nine months ended July 31, 2011, respectively, and $1.2 million and $3.7 million for the three and nine months ended July 31, 2010, respectively.

3. Interest costs incurred, expensed and capitalized were:

	Three Months Ended July 31,		Nine Months Ended July 31,	
(In thousands)	2011	2010	2011	2010
Interest capitalized at beginning of period	$135,556	$155,126	$136,288	$164,340
Plus interest incurred(1)	40,051	38,107	117,773	116,449
Less cost of sales interest expensed	14,222	22,184	43,804	60,777
Less other interest expensed(2)(3)	25,207	22,671	74,079	71,634
Interest capitalized at end of period(4)	$136,178	$148,378	$136,178	$148,378

(1) Data does not include interest incurred by our mortgage and finance subsidiaries.
(2) Other interest expensed is comprised of interest that does not qualify for capitalization because our assets that qualify for interest capitalization (inventory under development) do not exceed our debt. Interest on completed homes and land in planning, which does not qualify for capitalization is expensed.

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(3) Cash paid for interest, net of capitalized interest, is the sum of other interest expensed, as defined above, and interest paid by our mortgage and finance subsidiaries adjusted for the change in accrued interest, which is calculated as follows:

(In thousands)	Nine Months Ended July 31, 2011	2010
Other interest expensed	$ 74,079	$ 71,634
Interest paid by our mortgage and finance subsidiaries	1,523	1,280
Increase in accrued interest	(10,928)	(7,017)
Cash paid for interest, net of capitalized interest	$ 64,674	$ 65,897

(4) We have incurred significant inventory impairments in recent years, which are determined based on total inventory including capitalized interest. However, the capitalized interest amounts above are shown gross before allocating any portion of the impairments to capitalized interest.

4. Accumulated depreciation at July 31, 2011 and October 31, 2010 amounted to $76.9 million and $73.0 million, respectively, for our homebuilding property, plant and equipment.

5. We record impairment losses on inventories related to communities under development and held for future development when events and circumstances indicate that they may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. If the expected undiscounted cash flows are less than the carrying amount, then the community is written down to its fair value. We estimate the fair value of each impaired community by determining the present value of the estimated future cash flows at a discount rate commensurate with the risk of the respective community. For the nine months ended July 31, 2011, our discount rates used for the impairments recorded ranged from 17.5% to 19.8%. Should the estimates or expectations used in determining cash flows or fair value decrease or differ from current estimates in the future, we may need to recognize additional impairments. We recorded impairment losses, which are included in the Condensed Consolidated Statement of Operations line entitled "Inventory impairment loss and land option write-offs", and deducted from inventory, of $5.1 million and $49.7 million for the three months ended July 31, 2011 and 2010, respectively, and $28.2 million and $54.1 million for the nine months ended July 31, 2011 and 2010, respectively.

The following table represents inventory impairments by homebuilding segment for the three and nine months ended July 31, 2011 and 2010:

(Dollars in millions)	Three Months Ended July 31, 2011			Three Months Ended July 31, 2010		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)
Northeast	-	$ -	$ -	6	$ 13.5	$ 29.8
Mid-Atlantic	-	-	-	-	-	-
Midwest	1	0.4	0.9	-	-	-
Southeast	10	1.5	4.9	7	1.1	3.8
Southwest	-	-	-	1	0.1	0.2
West	2	3.2	10.9	14	35.0	48.4
Total	13	$ 5.1	$ 16.7	28	$ 49.7	$ 82.2

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(Dollars in millions)	Nine Months Ended July 31, 2011			Nine Months Ended July 31, 2010		
	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)	Number of Communities	Dollar Amount of Impairment	Pre-Impairment Value(1)
Northeast	5	$ 17.7	$ 88.6	8	$ 16.6	$ 35.5
Mid-Atlantic	3	2.1	10.9	2	0.5	1.5
Midwest	1	0.4	0.9	-	-	-
Southeast	10	1.5	4.9	13	1.5	5.0
Southwest	-	-	-	2	0.2	0.4
West	4	6.5	21.5	15	35.3	48.8
Total	23	$ 28.2	$ 126.8	40	$ 54.1	$ 91.2

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

We also record losses for the write-offs of options, and approval, engineering and capitalized interest costs when we redesign communities and/or abandon certain engineering costs or we do not exercise options because the communities' forecasted profitability is not projected to produce adequate returns on investment commensurate with the risk. Total aggregate write-offs were $6.3 million and $(0.7) million for the three months ended July 31, 2011 and 2010, respectively, and $13.7 million and $1.0 million for the nine months ended July 31, 2011 and 2010, respectively. Occasionally, these write-offs are offset by recovered deposits (sometimes through legal action) that had been written off in a prior period as walk-away costs. These recoveries have not been significant in comparison to the total cost written off.

The following table represents write-offs of such costs (after giving effect to any recovered deposits in the applicable period) and the number of lots walked away from by homebuilding segment for the three and nine months ended July 31, 2011 and 2010:

	Three Months Ended July 31,			
	2011		2010	
(Dollars in millions)	Number of Walk-Away Lots	Dollar Amount of Write-Offs	Number of Walk-Away Lots	Dollar Amount of Write-Offs
Northeast	486	$0.8	-	$-
Mid-Atlantic	485	4.8	-	-
Midwest	-	-	547	-
Southeast	184	0.5	-	(0.7)
Southwest	225	0.1	-	-
West	-	0.1	-	-
Total	1,380	$6.3	547	$(0.7)