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HOVNANIAN ENTERPRISES INC

Form 8-K/A

February 19, 2002

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

Form 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 10, 2002

HOVNANIAN ENTERPRISES, INC.
(Exact Name of registrant specified in its charter)
Delaware (State or other Jurisdiction of Incorporation)

1-8551 (Commission File Number)

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

10 Highway 35, P.O. Box 500
Red Bank, New Jersey 07701
(Address of principal executive offices)

Registrant's telephone number:
(732) 747-7800

This form 8-K/A of Hovnanian Enterprises, Inc., a Delaware corporation ("Hovnanian" or the "Registrant"), constitutes Amendment No. 1 to Hovnanian's Current Report on Form 8-K, which was filed with the Securities and Exchange Commission on January 24, 2002 (the "Form 8-K"). This amendment sets forth the information required by Items 7(a) and 7(b) omitted from the Form 8-K. Item 2. Acquisition or Disposition of Assets. On January 10, 2002, Hovnanian completed its acquisition of the California homebuilding operations of The Forecast Group, L.P., a privately held, single family homebuilder headquartered in Rancho Cucamonga, California ("Forecast").

The total equity value of Hovnanian's acquisition of Forecast was approximately \$176.5 million, paid by the issuance of 2,208,738 shares of Hovnanian's Class A Common Stock plus approximately \$131.0 million in cash. Hovnanian also repaid approximately \$88 million of Forecast's indebtedness. The purchase price is subject to adjustment based on Forecast's earnings through January 31, 2002. Additionally, and subject to option contracts, for a period of three years following January 10, 2002, Hovnanian will have the option to purchase certain land parcels retained by the principal owner of Forecast valued at \$49 million.

Copies of the Asset Purchase Agreement and the Securities Purchase Agreement each dated as of January 4, 2002 and a copy of the related press release dated January 11, 2002 were previously filed as Exhibits 2.1, 2.2 and 99.1, respectively, and are hereby incorporated by reference. Item 7. Financial Statements, Pro Forma Financial Information and Exhibits (a) Financial Statements of Business Acquired.

Consolidated financial statements of Forecast and its consolidated subsidiaries as of October 31, 2000 and 2001 and the years then ended are incorporated by reference herein to Forecast's annual report for the

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fiscal year ended October 31, 2001 on Form 10K (Commission File No. 33-72106).

(b) Pro Forma Financial Information.

The following unaudited pro forma consolidated financial statements of Hovnanian give effect to the acquisition of the California homebuilding operations of Forecast (less holdback land with a book value amounting to \$40 million as described below) and Hovnanian using the purchase method of accounting. The unaudited pro forma consolidated financial statements are based on the historical audited consolidated financial statements of Hovnanian and audited Forecast consolidated financial statements each at October 31, 2000 and 2001. The unaudited pro forma consolidated financial statements are based on the estimates and assumptions set forth in the notes, including Hovnanian management's estimates of the value of the tangible and intangible assets acquired. Under the terms of the agreement, Hovnanian's acquisition of Forecast was approximately \$178 million, which includes an estimated adjustment based on Forecast earnings through January 31, 2002, plus an additional \$18.5 million representing a three year consulting agreement, a three year right of first refusal agreement, and two option agreements. Of this total amount, \$45.5 million was paid by the issuance of 2,208,738 shares of Hovnanian's Class A Common Stock, based on the average closing share price of \$20.60 for the five business days ending on January 7, 2002. The balance was paid in cash. Hovnanian also repaid approximately \$88 million of Forecast's indebtedness as of the acquisition date. Additionally, \$40 million representing certain parcels of land were held back from the initial acquisition of assets. Hovnanian signed option contracts with terms up to three years to purchase these held back parcels of land.

The unaudited pro forma consolidated balance sheets assumes that the acquisition took place on October 31, 2001. The unaudited pro forma consolidated statements of income assumes that the acquisition took place as of November 1, 2000.

The unaudited pro forma consolidated financial statements, are presented for illustrative purposes only and are not indicative of the consolidated financial position or results of operations of future periods that actually would have been realized had Hovnanian and Forecast been a consolidated company during the specific periods. The unaudited pro forma consolidated financial statements, including the notes thereto, should be read in conjunction with the historical consolidated financial statements of (i) Hovnanian as filed in its Form 10-K for the year ended October 31, 2001 and (ii) Forecast as filed in its Form 10-K for the year ended October 31, 2001.

HOVNIANIAN ENTERPRISES INC. AND CONSOLIDATED SUBSIDIARIES UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS OCTOBER 31, 2001 (In Thousands)

| | Hovnanian | Forecast | Adjustments | Pro Forma October 31, 2001 |
|------------------------|-----------|-----------|---------------------|----------------------------------|
| | ----- | ----- | ----- | ----- |
| ASSETS | | | | |
| HOMEBUILDING: | | | | |
| Cash & Equivalents | \$ 10,173 | \$ 30,869 | \$ (30,869) 1,2,4,5 | \$ 10,173 |
| Inventory | 740,114 | 200,770 | (17,009) 1,2,3 | 923,875 |
| Receivables & Deposits | 75,802 | 6,724 | (4,049) 1,4 | 78,477 |
| PPE - net | 30,756 | 419 | (24) 1 | 31,151 |

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| | | | | |
|-------------------------|--------------|------------|-----------------|--------------|
| Senior Rentals | 9,890 | | | 9,890 |
| Goodwill | 32,618 | | 60,519 2 | 93,137 |
| Prepays & Other | 46,178 | 1,012 | 12,500 2 | 59,690 |
| | ----- | ----- | ----- | ----- |
| Total Homebuilding | 945,531 | 239,794 | 21,068 | 1,206,393 |
| FINANCIAL SERVICES | 118,008 | | | 118,008 |
| INCOME TAXES RECEIVABLE | 719 | | | 719 |
| | ----- | ----- | ----- | ----- |
| TOTAL ASSETS | \$ 1,064,258 | \$ 239,794 | \$ 21,068 | \$ 1,325,120 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES & EQUITY | | | | |
| HOMEBUILDING: | | | | |
| Land Mortgages | \$ 10,086 | | | \$ 10,086 |
| Accounts Payable | | | | |
| & Other | 124,125 | \$ 48,643 | \$ (618) 1 | 172,150 |
| Customer's Deposits | 39,114 | | | 39,114 |
| Operating Property | | | | |
| Mortgages | 3,404 | | | 3,404 |
| | ----- | ----- | ----- | ----- |
| Total Homebuilding | 176,729 | 48,643 | (618) | 224,754 |
| | ----- | ----- | ----- | ----- |
| FINANCIAL SERVICES | 103,569 | | | 103,569 |
| | ----- | ----- | ----- | ----- |
| NOTES PAYABLE: | | | | |
| Revolving Credit | | | | |
| Agreement | | 50,029 | 117,308 5 | 167,337 |
| Senior & Subordinated | | | | |
| Notes | 396,544 | | | 396,544 |
| Accrued Interest | 11,770 | | | 11,770 |
| | ----- | ----- | ----- | ----- |
| Total Notes | 408,314 | 50,029 | 117,308 | 575,651 |
| | ----- | ----- | ----- | ----- |
| Total Liabilities | 688,612 | 98,672 | 116,690 | 903,974 |
| | ----- | ----- | ----- | ----- |
| PARTNERS' CAPITAL | | 141,122 | (141,122) 1,2,3 | |
| | ----- | ----- | ----- | ----- |
| STOCKHOLDERS' EQUITY: | | | | |
| Class A Common Stock | 246 | | 22 2 | 268 |
| Class B Common Stock | 78 | | | 78 |
| Paid in Capital | 100,957 | | 45,478 2 | 146,435 |
| Retained Earnings | 310,106 | | | 310,106 |
| Deferred Compensation | (127) | | | (127) |
| Treasury Stock | (35,614) | | | (35,614) |
| | ----- | ----- | ----- | ----- |
| Total Equity | 375,646 | | 45,500 | 421,146 |
| | ----- | ----- | ----- | ----- |
| TOTAL LIAB & EQUITY | \$ 1,064,258 | \$ 239,794 | \$ 21,068 | \$ 1,325,120 |
| | ===== | ===== | ===== | ===== |

HOVNANIAN ENTERPRISES INC. AND CONSOLIDATED SUBSIDIARIES
 UNAUDITED CONSOLIDATED PRO FORMA STATEMENTS OF INCOME
 YEAR ENDED OCTOBER 31, 2001
 (In Thousands Except Per Share)

| | Hovnanian | Forecast | Adjustments | Pro Form Year Ended October 31, 2001 |
|--|-----------|----------|-------------|---|
| | ----- | ----- | ----- | ----- |

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REVENUES:

Homebuilding:

| | | | | |
|-----------------------------|--------------|------------|--------------|--------------|
| Sale of Homes | \$ 1,693,717 | \$ 482,115 | \$ (2,578) 1 | \$ 2,173,254 |
| Land Sales & Other Revenues | 16,818 | 25,118 | (9,772) 1 | 32,164 |
| | ----- | ----- | ----- | ----- |
| Total Homebuilding | 1,710,535 | 507,233 | (12,350) | 2,205,418 |
| Financial Services | 31,428 | | | 31,428 |
| | ----- | ----- | ----- | ----- |
| Total Revenues | 1,741,963 | 507,233 | (12,350) | 2,236,846 |
| | ----- | ----- | ----- | ----- |

EXPENSES:

Homebuilding:

| | | | | |
|------------------------------------|-----------|-----------|----------------|-----------|
| Cost of Sales | 1,355,354 | 382,564 | (5,734) 1,6,9 | 1,732,184 |
| Selling, General & Administrative | 140,126 | 52,073 | (18,055) 1,6,7 | 174,144 |
| Inventory Impairment Loss | 4,368 | | | 4,368 |
| | ----- | ----- | ----- | ----- |
| Total Homebuilding | 1,499,848 | 434,637 | (23,789) | 1,910,696 |
| Financial Services | 21,443 | | | 21,443 |
| Corporate General & Administrative | 44,278 | | | 44,278 |
| Interest | 51,446 | | 14,721 6,10 | 66,167 |
| Other Operations | 15,347 | 491 | 10,719 8 | 26,557 |
| Restructure Charge | 3,247 | | | 3,247 |
| | ----- | ----- | ----- | ----- |
| Total Expenses | 1,635,609 | 435,128 | 1,651 | 2,072,388 |
| | ----- | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES | 106,354 | 72,105 | (14,001) | 164,458 |
| TOTAL TAXES | 42,668 | | 23,299 11 | 65,967 |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$ 63,686 | \$ 72,105 | \$ (37,300) | \$ 98,491 |
| | ===== | ===== | ===== | ===== |

EARNINGS PER SHARE:

| | | | | |
|-----------------------------|---------|--|----------|---------|
| Basic | \$ 2.38 | | | \$ 3.39 |
| Weighted Shares Outstanding | 26,810 | | 2,209 12 | 29,019 |
| Diluted | \$ 2.29 | | | \$ 3.28 |
| Weighted Shares Outstanding | 27,792 | | 2,209 12 | 30,001 |

HOVNANIAN ENTERPRISES, INC. AND CONSOLIDATED SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

(In Thousands)

1. Adjustment represents the elimination of the Forecast assets, liabilities, partner's equity and operations not purchased by Hovnanian as follows:

ASSETS:

| | |
|------------------------|----------|
| Cash and Equivalents | \$ 57 |
| Inventory | 4,753 |
| Receivables & Deposits | 169 |
| PPE - Net | 24 |
| | ----- |
| Total Assets | \$ 5,003 |
| | ===== |

LIABILITIES & EQUITY:

| | |
|----------------------------|----------|
| Account Payable & Other | \$ 618 |
| Partner's Capital | 4,385 |
| | ----- |
| Total Liabilities & Equity | \$ 5,003 |
| | ===== |

REVENUES:

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| | |
|-----------------------------------|------------|
| Sale of Homes | \$ 2,578 |
| Land Sales & Other Revenues | 9,772 |
| | ----- |
| Total Revenues | 12,350 |
| | ----- |
| EXPENSES: | |
| Cost of Sales | 9,968 |
| Selling, General & administration | 4,786 |
| | ----- |
| Total Expenses | 14,754 |
| | ----- |
| Loss Before Income Taxes | \$ (2,404) |
| | ===== |

2. Adjustment represents the components of the purchase price and the elimination of \$40.0 million of holdback land (see 3 below) subject to an option to purchase. Under the terms of the agreements Hovnanian purchased the California assets (excluding the holdback properties) net of related liabilities of Forecast for approximately \$178 million plus expenses of which \$45.5 million was paid in Hovnanian Class A Common Stock and the balance in cash. In addition, Hovnanian entered into a two year consulting agreement with Forecast's former president, entered into two additional option agreements and secured a three year right of first offer for residential land developed by Forecast. The additional cost for these agreements was \$18.5 million which was paid in cash. The following table summarizes the calculation of the purchase price at October 31, 2001 and the recording of the acquisition using purchase accounting:

| | |
|----------------------------|-----------|
| Acquisition Consideration: | |
| Cash | \$132,500 |
| Class A Common Stock | 45,500 |
| Transaction Costs - Cash | 1,000 |
| Other Agreements - Cash | 18,500 |
| | ----- |
| Total Purchase Price | \$197,500 |
| | ===== |

| | |
|---------------------------|-----------|
| Purchase Accounting: | |
| Partner's Capital | \$ 96,737 |
| Inventory Step Up | 21,744 |
| Goodwill | 60,519 |
| Inventory - Option costs | 6,000 |
| Other Assets | 12,500 |
| | ----- |
| Total Purchase Accounting | \$197,500 |
| | ===== |

3. Adjustment represents the elimination of \$40.0 million of holdback land subject to an option purchase agreement.
4. Adjustment represents the payoff of Forecast related party receivables amounting to \$3.88 million.
5. Adjustment represents the draw on Hovnanian's line of credit to pay the cash portion of the purchase price and pay off Forecast existing debt. The draw amount is net of Forecast available cash.

| | |
|------------------------|-----------|
| Line of Credit Draw: | |
| Purchase Price | \$152,000 |
| Forecast Existing Debt | 50,029 |
| Less Forecast Cash | (34,692) |
| | ----- |
| Total Draw | \$167,337 |
| | ===== |

6. Adjustment represents the reclassification of certain year ended October 31, 2001 Forecast expenses for a consistent classification with

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similar Hovnanian expenses as follows:

Cost of Sales:

| | |
|-------------|----------|
| Commissions | \$ 6,089 |
| Interest | (8,263) |
| | ----- |

| | |
|---------------------|------------|
| Total Cost of Sales | \$ (2,174) |
| | ===== |

Selling, General & Administrative -

| | |
|-------------|------------|
| Commissions | \$ (6,089) |
| | ===== |

| | |
|---------------------|----------|
| Interest - Interest | \$ 8,263 |
| | ===== |

7. Adjustment represents the elimination from Selling, General & Administrative Expense of \$7.18 million of Forecast administrative salaries and bonuses for the year ended October 31, 2001 related to associates that were excluded from the purchase.
8. Adjustment represents the amortization of goodwill over 10 years amounting to \$6.052 million, and the amortization of the right of first refusal over 3 years and consulting agreement over 2 years amounting to \$4.667 million to Other Expenses for the year ended October 31, 2001. On November 1, 2001 Hovnanian adopted Statement of Financial Accounting Standard No. 142 and will no longer amortize goodwill.
9. Adjustment represents the increased inventory value from the purchase accounting step up for homes delivered and charged to Cost of Sales during the year ended October 31, 2001 amounting to \$6.408 million.
10. Adjustment represents additional Interest Expense, including interest amortized as homes are delivered, on the draw on Hovnanian's existing credit facility at an interest rate of 7.1% amounting to \$6.458 million for the year ended October 31, 2001.
11. Adjustment represents the net increase in Income Tax Expense for the tax accrual on the Forecast pretax income, net of operations not purchased and excluded associates, offset by increased amortization, cost of sales and interest expenses. Hovnanian's effective tax rate of 40.1% was used to calculate the additional Income Tax Expense amounting to \$23.299 million for the year ended October 31, 2001.
12. Basic earnings per share are computed based upon the weighted average number of Common Stock Class A and Class B shares outstanding during the year ended October 31, 2001. Diluted earnings per share are computed based upon the increased number of Common Stock Class A and Class B shares that would be outstanding assuming the exercise of dilutive Common Stock Class A and Class B stock options. The increase in Common Stock Class A shares issued in connection with the merger was 2,208,738 shares.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HOVNANIAN ENTERPRISES, INC.
(Registrant)

By: /S/PETER S. REINHART
Name: Peter S. Reinhart
Title: Senior Vice President
General Counsel

Date: February 18, 2002