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HOVNANIAN ENTERPRISES INC
Form 8-K
February 07, 2001

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

Form 8-K

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 23, 2001

HOVNANIAN ENTERPRISES, INC.

(Exact Name of registrant specified in its charter)

| | | |
|---|--------------------------|---|
| Delaware | 1-8551 | 22-1851059 |
| ----- | ----- | ----- |
| (State or other Jurisdiction of Incorporation) | (Commission File Number) | (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

Item 2. Acquisition or Disposition of Assets

On January 23, 2001, Hovnanian Enterprises, Inc., a Delaware corporation ("Hovnanian" or the "Registrant"), completed its acquisition of Washington Homes, Inc., a Maryland corporation ("WHI").

The total equity value of Hovnanian's acquisition of WHI was approximately \$94.8 million, paid 40% in cash and the balance in Hovnanian Class A common stock, in accordance with the Agreement and Plan of Merger among Hovnanian, WHI Holding Co., Inc. and WHI (the "Merger Agreement"). Hovnanian also refinanced the outstanding debt of WHI under Hovnanian's \$375 million revolving credit agreement.

A copy of the Merger Agreement is incorporated by reference herein to Annex I of the Joint Proxy Statement/Prospectus contained in Hovnanian's Registration Statement on Form S-4 (File No. 333-52090). A copy of the press release, dated January 24, 2001, is attached as an exhibit hereto and incorporated herein by reference.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

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(a) Financial Statements of Business Acquired.

Condensed consolidated financial statements of Washington Homes, Inc. and its consolidated subsidiaries as of October 31, 2000 and for the three months then ended are incorporated by reference herein to Washington Homes, Inc.'s quarterly report for the period ended October 31, 2000 on Form 10-Q (Commission File No. 001-07643).

Consolidated financial statements of Washington Homes, Inc. and its consolidated subsidiaries as of July 31, 2000 and July 31, 1999 and for the years then ended are incorporated by reference herein to Washington Homes, Inc.'s annual report for the fiscal year ended July 31, 2000 on Form 10-K (Commission File No. 001-07643).

(b) Pro Forma Financial Information.

The following pro forma consolidated financial statements of Hovnanian Enterprises, Inc. ("Hovnanian") give effect to the merger of Washington Homes, Inc. ("Washington Homes") and Hovnanian using the purchase method of accounting. The pro forma consolidated financial statements are based on the historical audited consolidated financial statements of Hovnanian, audited Washington Homes consolidated financial statements at July 31, 2000, and unaudited Washington Homes consolidated financial statements at October 31, 1999 and 2000. The 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. These estimates and assumptions are preliminary and have been made solely for the purpose of developing the pro forma information. Under the terms of the merger agreement, Washington Homes' shareholders received the equivalent of 1.39 shares of Hovnanian Class A Common shares or \$10.08 in cash for each of the 8,334,461 shares of Washington Homes, subject to certain adjustments. The 531,500 stock options held by employees of Washington Homes were converted to Hovnanian options with a similar aggregate implied value. Of this amount 391,250 employee stock options were vested as of the merger date and the fair value of these options are included as a component of purchase price. Additionally, the 109,000 vested stock options held by non-employees of Washington Homes were purchased by Hovnanian for the difference of \$10.08 and their respective exercise prices. These pro forma consolidated financial statements are based on the actual consideration as elected by the Washington Homes' shareholders and in accordance with the agreement, of approximately 45% cash and 55% Hovnanian shares. Accordingly, the total purchase price was approximately \$86.6 million, based on Hovnanian's closing share price of \$7 1/16 on August 25, 2000.

The pro forma consolidated balance sheet assumes that the merger took place on October 31, 2000. The pro forma consolidated statements of income for the year ended October 31, 2000 assumes that the merger took place as of November 1, 1999.

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 Washington Homes been a consolidated company during the specified periods. The pro forma consolidated financial statements, including the notes thereto, are

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qualified in their entirety by reference to, and 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, 2000 and (ii) Washington Homes as filed in its Form 10-K for the year ended July 31, 2000, and its Form 10Q for the three months ended October 31, 2000.

HOVNANIAN ENTERPRISES INC. AND CONSOLIDATED SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 OCTOBER 31, 2000
 UNAUDITED
 (In Thousands)

| | Hovnanian Enterprises, Inc. ----- | Pro Forma Washington Homes, Inc. ----- | Adjustments Increase (Decrease) ----- |
|--|---|---|--|
| Assets | | | |
| Homebuilding: | | | |
| Cash and cash equivalents | \$ 40,131 | \$ 10,876 | \$ (1) (2) |
| Inventories | 614,983 | 132,907 | |
| Property, plant and equipment - net | 35,594 | 674 | |
| Senior rentals | 10,276 | | |
| Other | 101,087 | 14,731 | 6,609 (1) (3) (4) |
| | ----- | | |
| Total homebuilding | 802,071 | 159,188 | 6,609 |
| Financial services | 67,127 | 2,889 | |
| Collateralized mortgage financing | 4,343 | | |
| | ----- | | |
| Total assets | \$ 873,541 | \$ 162,077 | \$ 6,609 |
| ===== | | | |
| Liabilities and stockholders' equity | | | |
| Homebuilding: | | | |
| Nonrecourse land mortgages | \$ 18,166 | \$ 2,584 | |
| Accounts payable and other liabilities | 82,205 | 30,244 | 8,050 (4) |
| Customers' deposits | 31,475 | 3,158 | |
| Nonrecourse mortgages secured by operating properties | 3,554 | | |
| | ----- | | |
| Total homebuilding | 135,400 | 35,986 | 8,050 |
| Financial services | 58,564 | 428 | |

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| | | | |
|--|------------|------------|---------------------|
| Collateralized mortgage financing | 3,007 | | |
| Notes payable | 409,139 | 37,114 | 39,481 (2) |
| Income taxes payable | 4,072 | 587 | (73) (1) (3) (4) |
| Total liabilities | 610,182 | 74,115 | 47,458 |
| Stockholders' equity: | | | |
| Common Stock Class A | 173 | 82 | (18) (1) (4) |
| Common Stock Class B | 79 | | |
| Paid in capital | 46,086 | 36,530 | 10,858 (1) (4) (11) |
| Retained earnings | 246,420 | 51,392 | (51,392) (3) (4) |
| Deferred compensation | | 307 | (646) (4) (11) |
| Treasury stock | (29,399) | (349) | 349 (4) |
| Total stockholders' equity | 263,359 | 87,962 | (40,849) |
| Total liabilities and stockholders' equity | \$ 873,541 | \$ 162,077 | \$ 6,609 |

HOVNIANIAN ENTERPRISES, INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEAR ENDED OCTOBER 31, 2000
UNAUDITED
(In Thousands Except Per Share Data)

| | Hovnianian Enterprises, Inc. | (5) Pro Forma Washington Homes, Inc | Adjustments Increase (Decrease) |
|-----------------------------------|---------------------------------|--|---------------------------------------|
| Revenues: | | | |
| Homebuilding: | | | |
| Sale of homes | \$ 1,105,466 | \$ 467,524 | |
| Land sales and other revenues | 13,017 | 4,793 | |
| Total homebuilding | 1,118,483 | 472,317 | |
| Financial services | 18,855 | 9,285 | |
| Collateralized mortgage financing | 469 | | |
| Total revenues | 1,137,807 | 481,602 | |
| Expenses: | | | |
| Homebuilding: | | | |
| Cost of sales | 882,711 | 401,000 | (192) (6) |
| Selling, general & administration | 104,771 | 40,565 | (1,058) (7) (11) |
| Inventory impairment loss | 1,791 | | |

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| | | | |
|--------------------------------------|-----------|----------|----------------|
| Total homebuilding | 989,273 | 441,565 | (1,250) |
| Financial services | 19,334 | 5,369 | |
| Collateralized mortgage financing | 416 | | |
| Corporate general and administration | 33,309 | | |
| Interest | 34,956 | 9,421 | 1,468 (9) (12) |
| Other operations | 8,701 | 519 | 3,250 (8) (12) |
| Total expenses | 1,085,989 | 456,874 | 3,468 |
| Income before income taxes | 51,818 | 24,728 | (3,468) |
| Income taxes | 18,655 | 9,655 | (754) (10) |
| Net income | \$ 33,163 | \$ 15,07 | \$ (2,714) |
| Earnings per share: | | | |
| Basic | \$ 1.51 | | |
| Weighted shares outstanding | 21,933 | | (13) |
| Diluted | \$ 1.50 | | |
| Weighted shares outstanding | 22,043 | | (13) |

Hovnianian Enterprises, Inc.

Notes to Unaudited Pro Forma Consolidated Financial Statements (In Thousands Except Per Share Data)

(1) Adjustment reflects the components of its purchase price. Under the terms of the transaction, Hovnianian exchanged 1.39 shares of Hovnianian Class A Common shares for approximately 4,570,600 Washington Homes shares and paid \$10.08 in cash for approximately 3,763,800 shares of Washington Homes. These pro forma consolidated financial statements are based on the actual consideration as elected by Washington Homes' shareholders and in accordance with the agreement, of approximately 45% cash and 55% Hovnianian shares as noted above. The aggregate purchase price is estimated to be approximately \$11.7 million higher than the fair value of assets acquired less liabilities assumed at October 31, 2000. The 531,500 stock options held by employees of Washington Homes were converted to 738,785 Hovnianian options with a similar aggregate implied value. Of the Washington Homes stock options 390,000 employees' stock options were vested as of the balance sheet date and the fair value of these options are included as a component of purchase price. Additionally, the 109,000 vested stock options held by non-employees of Washington Homes were purchased by Hovnianian for the difference of \$10.08 and their respective exercise prices. Accordingly, the total purchase price was estimated to be approximately \$86.6 million, based on Hovnianian's closing share price of \$7 1/16 on August 25, 2000.

The following table summarizes the calculation of the purchase price at October 31, 2000:

(Dollars in thousands)

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| | | |
|----------------------|---|-----------|
| Merger consideration | - Cash (including non-employee stock options) | \$ 38,481 |
| | - Hovnanian Class A shares | 44,869 |
| | - Fair Value of Vested Hovnanian Options | 2,243 |
| Transaction costs | | 1,000 |
| | | ----- |
| Total purchase price | | \$ 86,593 |
| | | ===== |

(2) Adjustment reflects the following anticipated transactions:

| | | |
|--|--|-------------|
| . Draw on Hovnanian existing credit facility | | \$ 76,595 |
| | | ===== |
| . Anticipated funding of the cash portion of the purchase price (including transaction costs of \$1,000) | | \$ (39,481) |
| . Repayment of existing Washington Homes notes payable | | (37,114) |
| | | ----- |
| | | \$ 76,595 |
| | | ===== |

The net effect of the above transaction results in an increase in the notes payable of the combined company in the amount of \$39,481.

- (3) Adjustment reflects the write-off of approximately \$.1 million of financing costs in connection with the retirement of certain Washington Homes indebtedness, as described in Note (2) above.
- (4) Adjustment reflects the elimination of the Washington Homes stockholders' equity, the elimination of Washington Homes goodwill amounting to approximately \$8.2 million, and the accrual of approximately \$8.1 million Washington Homes related merger expenses.
- (5) As Washington Homes has a calendar year end of July 31, the pro forma results of operations for the year ended October 31, 2000 are based upon the quarterly historical results of operations of Washington Homes as previously filed, conformed to Hovnanian's fiscal year end and Hovnanian's financial statement presentation as follows:

Washington Homes, Inc.
Pro Forma Results of Operations for the Year Ended October 31, 2000
Previously Reported Periods

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| | Year Ended July 31, 2000 | Less:three months Ended October 31,1999 | Add: three Months Ended October 1, 2000 |
|------------------------------------|-----------------------------|---|---|
| Revenues: | | | |
| Homebuilding: | | | |
| Sale of Homes | \$459,278 | \$ 85,889 | \$102,201 |
| Land Sales & Other Revenues | 10,473 | 1,534 | 2,304 |
| Total Homebuilding | 469,751 | 87,423 | 104,505 |
| Financial Services | | | |
| Collateralized Mortgage Financing | | | |
| Total Revenues | 469,751 | 87,423 | 104,505 |
| Expenses: | | | |
| Homebuilding: | | | |
| Cost of Sales | 375,014 | 69,190 | 82,318 |
| Selling, General & Administration | 62,752 | 12,033 | 15,140 |
| Inventory Impairment Loss | | | |
| Total Homebuilding | 437,766 | 81,223 | 97,458 |
| Financial Services | | | |
| Collateralized Mortgage Financing | | | |
| Corporate General & Administration | | | |
| Interest | 7,224 | 1,752 | 1,848 |
| Other Operations | 751 | 166 | 199 |
| Total Expenses | 445,741 | 83,141 | 99,505 |
| Income Before Income Taxes | 24,010 | 4,282 | 5,000 |
| Income Taxes | 9,391 | 1,655 | 1,919 |
| Net Income | \$ 14,619 | \$ 2,627 | \$ 3,081 |

| | Year Ended October 31, 2000 | Reclassification Adjustments | Pro Forma Year Ended October 31, 2000 |
|-----------------------------------|--------------------------------|---------------------------------|---|
| Revenues: | | | |
| Homebuilding: | | | |
| Sale of Homes | \$475,590 | (8,066) | \$467,524 |
| Land Sales & Other Revenues | 11,243 | (6,450) | 4,793 |
| Total Homebuilding | 486,833 | (14,516) | 472,317 |
| Financial Services | | 9,285 | 9,285 |
| Collateralized Mortgage Financing | | | |

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| | | | |
|---|-----------|----------|-----------|
| Total Revenues | 486,833 | (5,231) | 481,602 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Expenses: | | | |
| Homebuilding: | | | |
| Cost of Sales | 338,142 | 12,858 | 401,000 |
| Selling, General & Administration | 65,859 | (25,294) | 40,565 |
| Inventory Impairment Loss | | | |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Total Homebuilding | 454,001 | (12,436) | 441,565 |
| Financial Services | | 5,369 | 5,369 |
| Collateralized Mortgage Financing | | | |
| Corporate General & Administration | | | |
| Interest | 7,320 | 2,101 | 9,421 |
| Other Operations | 784 | (265) | 519 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Total Expenses | 462,105 | (5,231) | 456,874 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Income Before Income Taxes | 24,728 | | 24,728 |
| Income Taxes | 9,655 | | 9,655 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Net Income | \$ 15,073 | | \$ 15,073 |
| <hr style="border-top: 3px double black;"/> | | | |

- (6) Adjustment reflects a reduction in cost of sales due to different procedures for estimating warranty accruals at Hovnanian. The change in procedures reduces Washington Homes cost of sales \$.2 million for the year ended October 31, 2000.
- (7) Adjustment reflects a reduction in general and administrative expenses. In connection with the merger, Hovnanian management believes that it will realize cost savings related to the elimination of professional fees and other costs associated with the operation of Washington Homes as a public independent company, including legal, audit and tax fees, annual report preparation and printing costs and stock registration and filing fees aggregating \$.9 million for the year ended October 31, 2000. In addition, Washington Homes had incurred \$.8 million of related merger costs which are also being eliminated from general and administrative expenses for the year ended October 31, 2000.
- (8) Represents additional goodwill expense for the allocation of the purchase price as if the merger occurred on November 1, 1999 aggregating approximately \$3.7 million for the year ended October 31, 2000.
- (9) Represents additional interest expense, including interest amortized as homes are delivered, on the draw on the Hovnanian existing credit facility at an interest rate of 8.32% aggregating approximately \$2.3 million for the year ended October 31, 2000.
- (10) Represents the net decrease to income tax expense for adjustments to amortization of certain deferred tax assets, reductions in costs of sales and general and administrative expenses, and for the additional interest expense incurred which is partially offset by the elimination of Washington Homes financing costs, the total of which aggregated approximately \$.8 million for the year ended October 31, 2000.
- (11) Stock options to purchase Washington Homes stock held by the employees of

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Washington Homes have been converted to Hovnanian options with a similar implied value. The fair value of vested options converted of approximately \$2.2 million at October 31, 2000 have been included as part of the purchase price. The unvested portion of converted options for which a post acquisition service period is required to vest has been valued at their intrinsic value of approximately \$.3 million at October 31, 2000 and included as a deferred compensation cost, a component of shareholder equity, and will be amortized over the remaining vesting period. Amortization expense was approximately \$.5 million for the year ended October 31, 2000.

- (12) Adjustment reflects the elimination of amortization of financing costs in conjunction with the retirement of certain Washington Homes indebtedness aggregating approximately \$.9 million for the year ended October 31, 2000.
- (13) Basic earnings per share are computed based upon the weighted average number of Common Stock Class A and Class B shares outstanding during the period. Diluted earnings per share are computed based upon the increased number of Common Stock Class A shares that would be outstanding assuming the exercise of dilutive Common Stock Class A stock options. The increase in Common Stock Class A shares issued in connection with the merger was 6,353,000 shares. The diluted shares include an additional 324,000 shares calculated under the treasury stock method.

(c) Exhibits.

Exhibit 2.1 Agreement and Plan of Merger, dated as of August 28, 2000, among Hovnanian Enterprises, Inc. ("Hovnanian"), WHI Holding Co., Inc. and Washington Homes, Inc. (included as Annex I to the Joint Proxy Statement/Prospectus contained in Hovnanian's Registration Statement on Form S-4 (File No. 333-52090)).

Exhibit 99.1 Press Release dated January 24, 2001.

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 7, 2001

INDEX TO EXHIBITS

| Exhibit Number | Exhibit |
|----------------|---|
| ----- | ----- |
| Exhibit 2.1 | Agreement and Plan of Merger, dated as of August 28, 2000, among Hovnanian Enterprises, |

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Inc. ("Hovnanian"), WHI Holding Co., Inc. and Washington Homes, Inc. (included as Annex I to the Joint Proxy Statement/Prospectus contained in Hovnanian's Registration Statement on Form S-4 (File No. 333-52090)).

Exhibit 99.1

Press Release dated January 24, 2001.